

Manchester City Council Report for Information

Report to: Resource and Governance Scrutiny – 8 November 2022
Executive – 16 November 2022

Subject: Revenue Budget Update

Report of: Deputy Chief Executive and City Treasurer

Summary

The Council is forecasting an estimated budget shortfall of £44m in 2023/24, £85m in 2024/25, and £112m by 2025/26. After the use of c£16m smoothing reserves in each of the three years, this reduces to £28m in 2023/24, £69m in 2024/25 and £96m by 2025/26. Officers have identified potential savings options to reduce the budget gap totalling £42.3m over three years.

This report sets out the priorities for the services in the remit of this committee and details the initial revenue budget changes proposed by officers.

Even after these proposals there remains a budget gap of £7m to close to get to a balanced budget in 2023/24 and further savings and cuts options will be required to be worked between now and January and be reported back to Scrutiny committees in February. Each scrutiny committee is invited to consider the current proposed changes which are within its remit and to make recommendations to the Executive before it agrees to the final budget proposals in February 2023.

Recommendations

The Executive and Resources and Governance Committee are recommended to:

- (1) Consider and comment on the forecast medium term revenue budget and
 - (2) Consider the content of this report and comment on the proposed changes.
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Wards Affected: All

Environmental Impact Assessment - the impact of the issues addressed in this report on achieving the zero-carbon target for the city

The budget reflects the fact that the Council has declared a climate emergency by making carbon reduction a key consideration in the Council's planning and budget proposals.

Equality, Diversity and Inclusion - the impact of the issues addressed in this report in meeting our Public Sector Equality Duty and broader equality commitments

Consideration has been given to how the proposed savings could impact on different protected or disadvantaged groups. Where applicable proposals will be subject to completion of an Equality Impact Assessment (EqIA) and an Anti-Poverty Assessment.

Manchester Strategy outcomes	Summary of how this report aligns to the OMS/Contribution to the Strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	The effective use of resources underpins the Council’s activities in support of its strategic priorities as set out in the Corporate Plan which is underpinned by the Our Manchester Strategy.
A highly skilled city: world class and home-grown talent sustaining the city’s economic success	
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	
A liveable and low carbon city: a destination of choice to live, visit, work	
A connected city: world class infrastructure and connectivity to drive growth	

Full details are in the body of the report, along with any implications for:

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

The ongoing implications of the pandemic and record levels of inflation on the Council’s cost base will have a significant impact on the Council’s finances for a number of years. With the scale of funding pressures and future resource constraints, it is important that the Council takes action to ensure financial stability. This includes holding a robust position on reserves and maintaining the ability to deal with issues that arise during the financial year.

Financial Consequences – Capital

There are no capital consequences arising specifically from this report.

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

[Revenue Budget Report - Executive Meeting February 2022](#)

[Medium Term Financial Strategy 2022/23 to 2024/25 -Executive Meeting February 2022](#)

[Revenue Monitoring to the end of July 2022 and Budget update 2023/24 to 2025/26](#)

[Resource and Governance Scrutiny – 6 September 2022](#)

1. Context and Background

- 1.1. The Council's budget has seen considerable reductions since the programme of austerity started in 2010/11, which saw a significant reduction to central government support for local authorities, in which Manchester has been one of the hardest hit places in the country. Over the last 12 years the Council has had to make £428m of cuts and savings to cope with Government funding cuts and unavoidable cost pressures such as inflation and a growing population. Prior to 2015/16 reductions were made pro rata to government funding, without taking into account the size of the council tax base. This meant that the Council has had disproportionate budget reductions. Even if Manchester had received only the average cut to council funding between 2010/11 and 2022/23, we would still have £77m a year more to spend on services.
- 1.2. Nationally, the Institute of Fiscal Studies (IFS) has warned that public services face a shortfall of £18bn a year which is the amount needed to keep pace with inflation and demand pressures across public services. The Local Government share of this is estimated at £3.2bn.
- 1.3. The national funding outlook for Local Government is therefore volatile. The Chancellor, Jeremy Hunt MP, delivered an emergency financial statement on 17 October 2022 which reversed the majority of the tax changes announced on 23 September by the previous Chancellor. A further statement on government spending and tax rates was expected on 31 October 2022. Following the appointment of a new Prime Minister, on Monday 24 September, the date of the budget statement has been revised to 17 November 2022. This will now be a full Autumn statement, accompanied by an independent forecast from the Office of Budgetary Responsibility. The statement is expected to set out in detail plans to reduce debt and a medium-term plan to grow the economy.
- 1.4. Despite levels of inflation being significantly higher than forecast at the time of the Spending Review in October 2021, the government has communicated there will be no increase in the overall funding envelope over the spending review period. The Chancellor has committed to public debt falling as a share of the economy over the medium term which indicates that government departments are likely to have to find further efficiencies and cuts to some areas of spending to achieve this aim.

2. Executive Summary

- 2.1. The Council's 2023/24 funding from central government will be confirmed in the provisional finance settlement, expected late in December 2022, following the Autumn Statement.
- 2.2. The report sets out the scale of the budget challenge if, as expected, no further funding is received and:
 - Shows a budget gap of £43.4m in 2023/24 rising to £85.6m in 2024/25 and £111.9m by 2025/26 if no reserves are used to smooth the position

- Shows the use of reserves of £15.6m, £16.2m and £15.7m respectively across the three years helps to close the gap. This, along with the other planned uses of reserves, will reduce the council's ringfenced useable reserves from £482.9m in 2022/23 to £95m in 2026/27. It should be noted that the ongoing use of reserves is not sustainable, and the level of reserves will need to be replenished.
 - Presents the first round of budget cuts and savings of £42m over the three years as put forward by officers. The details are included in the individual reports to Scrutiny Committees and to the Executive.
 - Inflationary and pay award increases are estimated at a cumulative £58m for 2022/23 and 2023/24. This compares to a usual budget allowance of c£16m for that period, therefore resulting in an additional £42m of largely unavoidable costs to be funded.
 - The costs to meet rising demand for Children's and Adults social care adds a further £15m over the three years to 2025/26.
 - Whilst an increase in council tax is assumed, the majority of this is earmarked to fund £3.55m of additional investment to support residents during the cost-of-living crisis.
- 2.3. In addition to increasing inflationary pressures, increases in interest rates will have a significant impact on the cost of borrowing and the ability to support the future capital programme
- 2.4. Following the above a budget gap of £7m remains in 2023/24, rising to £36.7m in 2024/25 and £53.9m in 2025/26. Unless further funding is forthcoming additional and significant cuts to council services will be required to balance the budget. Therefore, a minimum of an additional savings target of £4m is required for 2023/24 (with a full year effect of £7m-£8m) alongside efforts to reduce the current 2022/23 overspend to free up extra capacity in the smoothing reserves to help balance the 2023/24 position.
- 2.5. The 2024/25 budget process needs to start immediately with further options to be explored following the Autumn Statement and Finance Settlement, to allow maximum time for the development and delivery of future budget cuts. There are likely to be very difficult decisions for the Council to make.
- 2.6. The latest position is shown in the table below.

Table One: Summary Budget position

	2023 / 24	2024 / 25	2025 / 26
	£'000	£'000	£'000
Resources Available			
Business Rates / Settlement Related Funding	348,497	344,090	346,503
Council Tax	211,450	219,348	228,187
Grants and other External Funding	101,872	89,374	80,461
Dividends	0	0	0
Use of Reserves	13,584	11,703	6,222
Total Resources Available	675,403	664,515	661,373
Resources Required			
<i>Corporate Costs</i>	111,763	116,403	113,122
<i>Directorate Costs</i>	599,302	625,959	651,406
Total Resources Required	711,065	742,362	764,528
Shortfall	35,662	77,847	103,155
New budget pressures	7,785	7,785	8,785
Shortfall including new budget pressures	43,447	85,632	111,940
Use of Smoothing and Airport Reserve	(15,641)	(16,177)	(15,738)
Gap after use of Smoothing Reserves and emerging pressures	27,806	69,455	96,202
Savings options identified to date	(21,135)	(32,738)	(42,320)
Remaining Shortfall	6,671	36,717	53,882

3. Key Assumptions to the Medium-Term Financial Plan (MTFP)

- 3.1. The final budget position for 2023/24 and future years will be confirmed at February 2023 Executive. This will be after the key decisions confirming the Council Tax and Business Rates tax base to be used to determine the collection fund position have been made and the Final Finance Settlement is received.
- 3.2. When the 2022/23 revenue budget was approved the medium-term position was forecast at a shortfall of £33.8m next year increasing to £77.3m by 2025/26. The medium-term financial plan is updated a number of times during the year as new information and intelligence of the funding and spending position become available.
- 3.3. Table Two list the changes since the 2022/23 budget was approved in February 2022 and the latest assumptions are highlighted in the following section.

Table Two: Summary of changes to Budget position since the original 2022/23 MTFP

	2023 / 24	2024 / 25	2025 / 26
	£'000	£'000	£'000
Forecast budget gap presented in 2022/23 MTFP	36,782	57,547	77,296
Changes to resources available:			
Revised assumption on Business Rates pilot	(12,000)	(2,250)	0
Forecast Business Rates surplus	(12,649)	0	0
Council Tax Base increase	(2,047)	(2,151)	(2,237)
Forecast Council Tax surplus	(2,783)	0	0
Updated rebate forecast from GMCA	(4,498)	0	0
Potential increases on BCF and IBCF	(2,000)	(2,000)	(2,000)
Slip risk of Fair Funding / BR reset a further year	(3,000)	(2,000)	0
Assume one further year of New Homes Bonus	(5,000)	0	0
Use of St Johns growth to support revenue budget	(1,156)	(830)	(830)
Reserve use to support cost of Anti-poverty measures	0	(2,000)	0
Use of reserves to fund New Care Models	(1,300)	(1,300)	(1,300)
Additional use of Smoothing reserve	4,741	(7,259)	(11,259)
Sub total changes to resources available	(41,692)	(19,790)	(19,426)
Changes to inflation requirements:			
Reversal of 1.25% National Insurance increase	(1,506)	(1,506)	(1,506)
Gas Inflation	2,000	0	0
Electricity Inflation	5,400	2,800	2,800
Price Inflation	6,100	6,100	6,100
Pay inflation	12,938	16,518	20,352
Sub total changes to inflation requirements	24,932	23,912	27,746
Changes to other pressures and adjustments pressures:			
Updated levy forecast from GMCA	1,534	1,536	1,536
Anti poverty measures	3,550	3,550	3,550
New Care Models	1,300	1,300	1,300
Children's reduced recharge to DSG	940	940	940
Town Hall pressures Increased from £1m in original MTFP to £2m)	0	0	1,000
ICT - Software Licenses	461	461	461
Sub total changes to other pressures and adjustments	7,785	7,787	10,587
Total changes since 2022/23 MTFP	(8,975)	11,909	18,907
Updated Budget Gap pre savings	27,806	69,455	96,202

Resources available

- 3.4. In the absence of any firm information, a rollover settlement has now been assumed for 2023/24 with the impact of 'fair funding' reforms being moved to

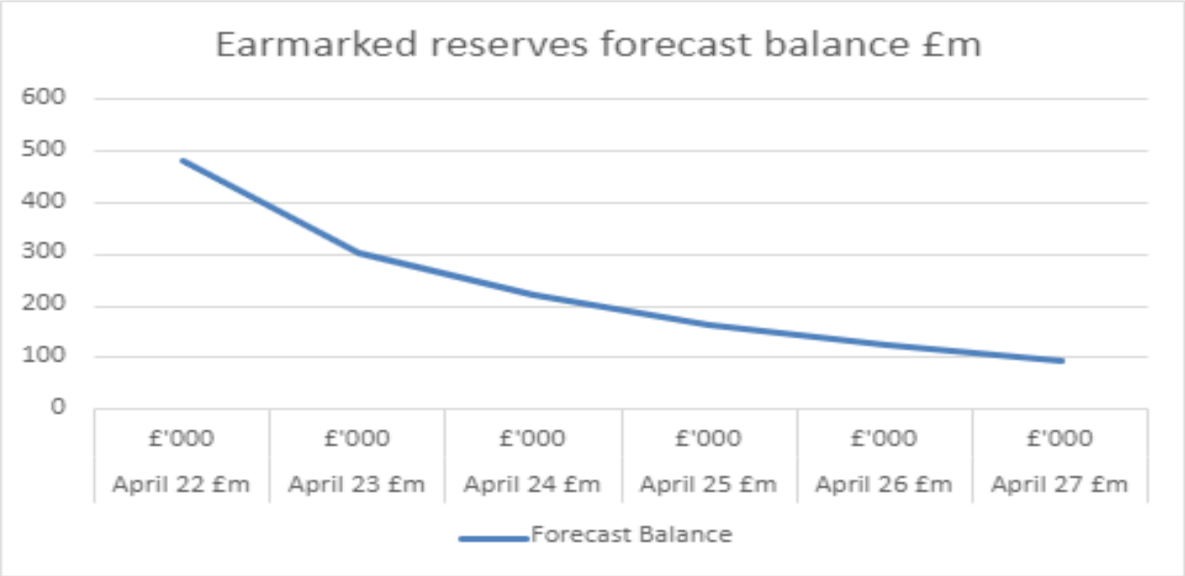
2024/25. The MTFS assumed that any redistribution of local government funding was likely to be detrimental to the Council. In addition, it is now assumed the current business rates regime and 100% retention pilot will continue for a further year which again means resources could be higher than budgeted for. This pushes the settlement risk in our financial plans from 2023/24 to 2024/25.

- 3.5. All budget proposals are subject to the political decision-making process, in summary the main working assumptions around income include:
- The Fairer Funding reforms are delayed to 2024/25 and all current government grants continue, including New Homes Bonus.
 - Business rates – continuation of 100% pilot for a further year, indexation of 2.6% and growth in the business rates base of £5m per annum.
 - Council tax – 2023/24 growth in base of 2.0% and increase in council tax of 2.99% in line with the current referendum limit, and Adult Social Care Precept. A 1% increase in council tax generates c£2m.
 - Collection Fund surpluses totalling £15.4m which will be available to support the 2023/24 position. This is linked to collection levels being higher than anticipated in 2021/22. Collection Fund accounting requires this to be recognised a year in arrears.
- 3.6. Each year the business rates income is uplifted by an inflationary uplift to the multiplier rate which is applied by the Government. This is usually linked to the September CPI increase. The Government has not yet committed to this and it seems unlikely that business rates will increase by this amount (10.1%). The Council's budget assumption is a 2.6% increase, which was the forecast CPI increase per the Office of Budgetary Responsibility at Spending Review 2021. Note, if the Government freezes the multiplier and does not compensate the Council for the resulting loss of income, this will result in a £6m reduction from the income levels currently assumed.
- 3.7. Whilst no decisions on the council tax precept have been made, this position assumes Council Tax increases of 1.99% a year and an Adult Social Care precept of 1% a year, with 1% of council tax generating c£2m of income. Without these increases the budget gap would be £6m per annum bigger. By 2025/26 the amount generated increases to £6.4m due to the growth in council tax base.
- 3.8. A **Rebate from GMCA** has been proposed relating to waste reserves of £25m. Manchester's indicative share of this is £4.498m which has been applied to reduce the gap in 2023/24.
- 3.9. **Grants and Other external funding** have been reviewed. The majority are assumed to continue at current rates. In relation to Better Care Fund (BCF) and Improved Better Care Fund (IBCF) it has been assumed that these funding streams will be uplifted in line with NHS funding, with £2m additional funding included in the MTFP to support the Adult Social Care budget in relation to demographic and Real Living Wage pressures.
- 3.10. **Reserves** - The St Johns business rates growth had been ringfenced into the St Johns Reserve and will continue until the business rates reset (date to be

confirmed). This funding has been released to support the revenue budget and help close the future budget gap. There is a forecast £1.156m available to support next year then £0.830m per annum.

- 3.11. The position also reflects the use of smoothing reserves of around £16m a year for the next three years. This is to reduce the budget gap and protect front-line services from higher cuts. Use of reserves cannot be viewed as a long-term strategy to balance the budget as this is unsustainable. They must be used in a planned way to avoid financial cliff edges while achievable long-term savings are developed and delivered, and whenever possible be replenished to enable greater resilience to absorb future risks.
- 3.12. Approximately £34m of reserves was already committed across 2023/24 and 2024/25 in line with the MTFP presented to February 2022 Executive. An unallocated reserve balance of £19m was created with £12m identified from existing reserves including the ASC reserve plus the £7m reported last year. Of the £19m, £10.8m will be required to meet the 2022/23 overspend, £3.9m of the ASC element has been used to support the continuing cost of the new care models (as outlined in paragraph 3.25), £1m is being used to fund future cost of living support to residents and the remaining balance of £3.3m has been used as part of closing the budget gap. In addition £10m risk based reserves have been released to support the 2025/26 position and reduce gap that year. This gives a total of £48m of support being applied to reduce the budget gap by c£16m a year for three years.
- 3.13. Airport Dividend Reserve – The current balance is £39m of which £24.9m is supporting the 2022/23 budget as planned, leaving a balance of £14.1m at the end of this financial year. This is being applied to close the budget gap in 2023/24 to 2025/26 at £4.7m, £4.9m and £4.5m respectively.
- 3.14. The Council's robust reserves strategy has proven successful in managing risk and timing differences to deliver balanced and sustainable budgets and provide the time necessary to deliver on its planned savings. Reserves should not be used to mitigate the requirement to make ongoing savings, they can only be a temporary support to enable permanent savings to be implemented effectively. However, over the next 4 years usable earmarked reserves are forecast to reduce to under £100m, as the Council seeks to protect residents from the worse of the cuts through the inflation and cost of living crisis. The following graph shows the expected reduction in earmarked reserves.

Forecast earmarked reserve balances



Resources required

- 3.15. As part of the budget process, it is important that, as well as identifying savings to balance the budget, service pressures are recognised and where unavoidable are correctly budgeted for. The budget assumptions that underpin 2023/24 to 2025/26 include the commitments made as part of the 2022/23 budget process to fund ongoing demand pressures. In addition, provision has been made to meet the ongoing effect of current year inflation and updated assumptions around future pay awards. Whilst this contributes to the scale of the budget gap it is important that a realistic budget is set which reflects ongoing cost and demand pressures.
- 3.16. **Inflationary pressures** - Budgets set aside for price inflation are held centrally and allocated in year once they materialise and are subject to consideration by the Deputy Chief Executive and City Treasurer, before being recommended to the Executive to be released to Directorates. The inflationary and pay award increases are estimated at a cumulative £58m for 2022/23 and 2023/24. This compares to a usual budget allowance of c£16m for that period, resulting in an additional £42m per year of unavoidable costs to be funded.
- 3.17. This reflects an additional £8.6m which has been made available for price inflation in 2023/24. This may be insufficient as the inflationary outlook continues to be volatile. Significant potential inflation requirements have already been highlighted for 2023/24. From 2024/25 it has been assumed price inflation reduces back to usual levels with £4m a year made available. It is also assumed electricity and gas prices will start to reduce. A pay award allowance of 4% has been made available for each of the following three years.

Table Three: Inflationary pressures

	Updated Forecast 2022 / 23	2023 / 24	2024 / 25	2025 / 26
	£'000	£'000	£'000	£'000
Non Pay Inflation	5,395	8,641	4,000	4,000
Gas Inflation	6,300	0	(2,000)	0
Electricity Inflation	6,684	4,216	(2,600)	0
Pay Inflation	15,900	11,131	11,532	12,033
Pension Contribution Increase 1% estimate	0	0	2,200	0
Change to annual allowance	34,279	23,988	13,132	16,033
Cumulative allowance	34,279	58,267	71,399	87,432

- 3.18. *Reversal of the 1.25% National Insurance increase* - The 1.25% increase to National insurance which was implemented in April 2022 has been cancelled from 6 November. This means the Council can remove the £1.506m which was added to directorate budgets to fund the employer contribution to National Insurance. There will also be a part year cost reduction in 2022/23 of £0.6m. This will help reduce the current year overspend.
- 3.19. It has been indicated that the government will revise funding allocations to remove funding that was allowed for the employers 1.25% NI increase. For Local Government this funding came via the 2022/23 Services Grant. This was allocated based on the Settlement Funding Assessment and is un-ringfenced.
- 3.20. The 2023/24 budget assumes a roll over settlement with funding in cash terms the same as 2022/23. A £3m reduction to the amount for the Services Grant has been included to recognise the risk of redistribution and / or a clawback of the NI budget allocation.
- 3.21. **Directorate pressures** - For completeness Appendix 1 lists the directorate savings and pressures which were reflected in the Medium-Term Financial position when the 2022/23 budget was set. The details are included in the relevant November 2022 scrutiny reports. The pressures over and above those in the original MTFP are shown in the table below:

Table Four: Pressures and growth added / increased since the 2022/23 MTFP

	2023 / 24	2024 / 25	2025 / 26
	£'000	£'000	£'000
Anti-poverty measures	3,550	0	0
Adults - New Care Models	1,300	0	0
Childrens reduced recharge to DSG	940	0	0
Town Hall pressures (Increased from £1m in original MTFP to £2m)	0	0	1,000
ICT - Software Licenses	461	0	0
Updated transport and waste levy forecast from GMCA	1,534	0	0
Total new pressures since 2022/23 MTFP	7,785	0	1,000
Cumulative new pressures since 22/23 MTFP	7,785	7,785	8,785

Investment in Anti-poverty measures

3.22. In response to the Cost-of-Living crisis, resources have been earmarked to provide £1.8m support in 2022/23 increasing to £3.55m in 2023/24 to residents who are most affected. This is in addition to Government support this year of £6.4m for the third round of the Household Support Fund. In addition, there has been a reallocation of existing staffing resources to prioritise this work.

3.23. The £3.5m in 2023/24 will enable the following:

- £1m will be used to increase the Discretionary Housing Payments budget and targeted to support people to remain in their accommodation to reduce homelessness. The budget had been reduced as part of the budget cuts in 2021/22 but it was recognised that it may need to be increased again if demand increased. In 2021/22 4,106 applications were received with a further 2,132 applications received between April and September 2022/23. DHP alongside the Prevention work in Homelessness are a key strand in the Prevention model to assist residents in maintaining their tenancy. As a result of the cost-of-living crisis it is expected that demand in this area will increase in the coming months.
- £1m to invest in food response infrastructure. Working with the Community Food Partnership the majority of this will be invested in longer life, non-perishable stock and storage which all food providers in the city can access. £150k of the total will be allocated to sustain food organisations in the 11 wards with the greatest % of households impacted by the cost-of-living crisis.
- £0.6m Increased funding to discretionary local welfare provision to meet increased demand, helping to cover essential costs of households in crisis
- £0.5m - support to voluntary and community organisation on the front line to help meet the increased demands from residents

- £200k - to invest in CHEM (COVID Health Equity Manchester) to support Communities Experiencing Racial Inequality and other inequalities, more likely to be impacted by the cost-of-living crisis.
- £200k - to expand the advice offer available to residents
- £50k for other welfare schemes, including S17 payments made to vulnerable families and to support care leavers living independently to help them deal with rising costs

3.24. Other measures underway include the following:

- Establishment of the Community Advice Hub – an online and freephone helpline service to connect Manchester residents to the support available, which has been up and running since 03 October 2022.
- Advice and information to schools to poverty proof the school day and help families to ameliorate costs e.g. school uniforms at key points in the school year
- Team Around the Neighbourhoods focusing on cost of living and poverty in the 11 priority wards to bring together the local advice and support offer
- Communications and Engagement campaign across multiple channels to promote the Advice Hub and wider support offer for Manchester residents.
- Work with partners – Registered Providers, VCSE and MLCO to provide a coordinated offer, align resources and extend reach and impact
- Creation of warm spaces through Neighbourhood Living Rooms in Libraries and in community and faith venues where people can access information and support in warm settings.

Other proposed increases to required spend

3.25. As part of the Adult Services transformation programme Manchester CCG funded a New Care model approach to better support residents to prevent admission to hospital and long-term care. This funding has ceased, however, in order to sustain the social work infrastructure and reablement capacity, it is recommended that this capacity is maintained at £1.3m per annum for 2023/24 to 2025/26. This is funded from the Adult Social Care reserve which had been increased to meet future demand.

3.26. The Dedicated Schools Grant (DSG) is significantly overspent and is subject to a recovery plan, following a line-by-line review of spend to ensure it fully reflects the spending guidance. In order to reduce pressures in the DSG it is proposed that £0.940m commissioned training in relation to early years high needs will no longer be charged to the high needs block and charged to the Early Years council budget instead. This represents a growth pressure, and it is requested that additional Council budget is allocated to accommodate this transfer.

3.27. Updated levy and rebate forecasts have been received from the Greater Manchester Combined Authority (GMCA). These are still subject to change as their budget goes through the approval process. The waste levy costs are driven by forecast tonnages of waste to be disposed of and the costs of disposal through the contract. Based on latest forecasts it is anticipated that this will increase by 6% overall in 2023/24, with the increase to Manchester being c£2.023m. This

increase is due to a large proportion of the costs in the contract being linked to CPI, this has been partially offset by a better outlook for income from energy and recyclates. A further increase of £0.959m has been assumed for 2024/25. These increases are reflected in the current budget proposals. The budget position also reflects a one-off return of waste reserves from GMCA of £25m, of which Manchester's share is £4.5m. This has also been built into the budget model.

- 3.28. The Transport levy is expected to increase by 4% overall, for Manchester this is an increase of £1.5m, following a levy reduction in 2015/16 and no increases since.
- 3.29. Compared to the original assumptions this is a net additional cost of £0.636m in 2023/24 increasing to £1.536m from 2024/25.

4. Progress on identifying savings and cuts options

- 4.1. Officers have identified options to reduce the budget gap which are subject to approval. The first round of officer proposals total £42.320m across all committees, over the next three years, and are illustrated in the table below. As far as possible these are aimed at protecting the delivery of council priorities and represent the least detrimental options. The detail is included in the budget reports to individual scrutiny committees.

Table Five: Savings Options identified to date

Directorate	Amount of Saving				Indicative FTE Impact
	2023/24	2024/25	2025/26	Total	
	£'000	£'000	£'000	£'000	
Adults Services	5,575	2,250	2,200	10,025	TBC
Public Health	1,000	-	-	1,000	3
Children's Services	5,297	3,320	3,108	11,725	-
Neighbourhoods	3,293	2,818	745	6,856	13
Homelessness	1,244	2,070	1,332	4,646	-
Corporate Core	3,667	975	1,382	6,024	53
Growth and Development	1,059	170	815	2,044	1
Total profiled savings options	21,135	11,603	9,582	42,320	70

- 4.2. Work is underway to identify further measures to bring forward in January to close the remaining gap and deal with any implications of the finance settlement or other government announcements.

Table Six: Revised gap following savings and pressures

	2023 / 24	2024 / 25	2025 / 26
	£'000	£'000	£'000
Gap after use of Smoothing Reserves and emerging pressures	27,806	69,455	96,202
Savings options identified to date	(21,135)	(32,738)	(42,320)
Shortfall	6,671	36,717	53,882

4.3. There remains a forecast shortfall of almost £7m next year increasing to £37m the year after. Officers are working to identify further measures to bring forward in January. The proposed approach is two-fold:

- a further £3m to £4m of savings targeted and deliverable in 2023/24 with a full-year effect of at least £8m.
- work to control expenditure in 2022/23 to reduce the in year overspend by a further £3-4m to free up reserves to further smooth the 2023/24 position.

4.4. This will help close the remaining gap and deal with any implications of the finance settlement or other government announcements. The updated position will be reported to Executive and RAGOS in January 2023 and the further savings considered by scrutiny committees in February. Work will continue throughout 2022/23 to focus on the delivery of the approved savings alongside work to close the 2024/25 gap.

5. Budget Consultation

5.1. There is a statutory requirement to consult with business rates payers. Public consultation on proposed Council Tax levels and the savings and cuts measures put forward by officers will open on Monday 7 November and run until 7 January 2023. The provisional results from the consultation will be reported to Executive in February. The full analysis and results, alongside comments from scrutiny committees, will be reported to the Budget Scrutiny meeting on 27 February to ensure they are fully considered before the final budget is set.

5.2. None of the budget options set out to date require formal statutory consultation.

6. Workforce Implications

6.1. The City Council continues a journey to achieving equality, diversity, and inclusion for its workforce. It is a long-term commitment that must be supported and regularly reviewed. To support this, an overarching Workforce Equalities Strategy was developed and considered by Resources and Governance Overview and Scrutiny Committee in October 2021. The strategy provides the framework for the actions agreed following the 2019 race review and those across all protected characteristics to be tracked and scrutinised. A separate report on the Resources and Governance Scrutiny Committee agenda sets out the progress over the last 12 months.

- 6.2. The indicative workforce reduction linked to the savings proposals is 70 Full-Time Equivalent (FTE) over the three years. Of these, 53 of these posts relate to the back office in the Corporate Core directorate. At this stage, it is anticipated that this will be managed via natural turnover and vacancies and that there will be no requirement for any formal voluntary early retirement or voluntary severance scheme.
- 6.3. The Council's establishment is fully budgeted for at the top of the grade. In reality there are vacancies caused by staff turnover, recruitment difficulties and staff employed throughout the grade scale. In order to avoid budgeting for costs that will not be required and making bigger cuts elsewhere, adjustments are being made to reflect these issues by applying a vacancy factor to recognise that vacancies will always exist. The continued challenges in filling posts also means that the Council is working hard on ensuring we are an employer of choice and can attract people and minimise the pressures on our existing workforce.

7. Equalities Impact and Anti-Poverty Assessments

- 7.1. Each saving proposal will be supported by robust business cases where consideration has been given to how the proposed savings could impact on different protected or disadvantaged groups. Where applicable proposals will be subject to completion of an Equality Impact Assessment (EqIA) and a Poverty Impact Assessment as part of the detailed planning and implementation. Work is also underway on the way in which equalities data is collected across the Council, supporting the ability to be better informed on the impact of changes being made to services.
- 7.2. The work that will be carried out on individual business cases will be complemented by work to consider the collective impact of the options proposed and how the overall budget changes will impact on equalities, poverty and ultimately our residents. Each Directorate will review how the use of their budget as a whole, not just that of budget savings/reductions, might mitigate or positively impact on equality, anti-poverty, and how social value can be maximised.
- 7.3. Council wide we will assess the overall impact of the collective savings proposals and the resulting baseline budget on delivery against our Equality priorities.

8. Scrutiny of the draft budget proposals and the budget reports

- 8.1. At the November meetings all scrutiny committees will receive a short update on the Council's budget and a high-level update on the three-year position. The reports have been tailored to the remit of each scrutiny as shown in the table below.
- 8.2. Each Committee is invited to consider the proposed changes which are within its remit and to make recommendations to the Executive before it agrees to the final budget proposals in February 2023.

Date	Meeting	Services Included
8 Nov 22	Resources and Governance Scrutiny Committee	Chief Exec Corporate Services Revenue and Benefits / Customer and Welfare Support Business Units
8 Nov 22	Communities and Equalities Scrutiny Committee	Sport, Leisure, Events Libraries Galleries and Culture Compliance and Community Safety Housing Operations including Homelessness Neighbourhood teams
9 Nov 22	Health Scrutiny Committee	Adult Social Care Public Health
9 Nov 22	Children and Young People Scrutiny Committee	Children and Education Services
10 Nov 22	Environment and Climate Change Scrutiny Committee	Waste and Recycling Parks Grounds maintenance
10 Nov 22	Economy Scrutiny Committee	City Centre Regeneration Strategic Development Housing and residential growth Planning, Building Control, and licensing Investment Estate Work and skills Highways

9. Proposed budget process for the update of the Capital Strategy

- 9.1. The current approved capital programme will deliver over c.£1bn of investment in the city over this and the next three financial years, in highway infrastructure, leisure facilities, zero carbon initiatives, schools, housing and regeneration. This commitment will be funded, in part, by a forecast over c. £500m of additional borrowing.
- 9.2. Whilst this commitment is fully funded, current market conditions are combining to place pressure on the Council's future borrowing capacity. There are inflationary pressures on scheme costs, both within the current approved programme but also for any future schemes. Further, the relatively high level of inflation has been one of the contributing factors to interest rates on debt rising, which means it is more expensive to borrow to fund capital expenditure.
- 9.3. Therefore there is a clear need to prioritise capital investment, and to review the process through which such prioritisation takes place. The Capital Strategy work is being developed and will include:
- A review of the approval process to ensure it remains fit for purpose and supports strong decision making for capital projects.

- Work on a new Strategic Asset Management Plan which provides a transparent methodology and approach to review all building assets across the operational and investment estates in terms of how the assets are being used, and opportunities for alternative use. This will also provide a more structured approach to identifying assets for disposal to generate capital receipts for reinvestment in the Council's assets.
- 9.4. Allowing continued investment in the Council's key assets such as highways and the corporate estate.
- 9.5. To support prioritisation the following key principles will be adhered to in terms of support:
- The project is externally funded and meets strategic objectives;
 - For development projects, the project can be funded through robust investment to save means and aligns with the Council's approach to place; or
 - For other projects, the investment is critical to the organisation.
- 9.6. Financing capacity will continue to be reviewed as the macroeconomic picture develops, and investment proposals will be brought forward within the Capital Strategy as part of the budget process.

10. Next Steps

- 10.1. The proposed next steps are as follows:
- 8-10 November - Scrutiny Committees
 - 7 November - Budget consultation launched to close 7 January
 - 6 December – RAGOS – Update on Autumn Statement (expected 17 November) and Council Tax and Business Rates Key Decisions report
 - Late December - The Local Government Finance Settlement expected
 - 10 January - Resources and Governance Scrutiny Committee -settlement outcome, update on the budget position and consultation responses.
 - 11-13 January - Further options to Scrutiny Committees.
 - 18 January - Executive -settlement outcome, update on the budget position and consultation responses
 - 7-9 February - Scrutiny Committees
 - 15 February - Executive receive proposed budget
 - 27 February - Resources and Governance Budget Scrutiny.
 - 3 March - Council approval of 2023/24 budget

11. Conclusion

- 11.1. The economic and government spending position is extremely uncertain, with a radical policy agenda and corresponding policy reversals having taken place since the "fiscal" event, making the predictions around the impact on Local Government finances even more complex than normal.
- 11.2. This report sets out the estimated budget position for the next three years and the potential scale of budget cuts required. The assumptions are based on a realistic view of the expected settlement announcements and a forecast of local tax

funding available. This results in forecast gap of £28m in 2023/24 increasing to £96m by 2025/26. To date saving options totalling £42m over three years have been brought forward by officers for member consideration. A significant shortfall remains which must be addressed.

- 11.3. This results in a shortfall to balancing the 2023/24 budget of almost £7m increasing to £37m the year after. Officers are working to identify further measures to bring forward in January. The proposed approach will include identifying a further £3m to £4m of savings targeted and deliverable in 2023/24 with a full-year effect of at least £8m, coupled with work to control expenditure in 2022/23 to reduce the in year overspend by a further £3-4m to free up reserves to further smooth the 2023/24 position.
- 11.4. The government's Autumn Statement is expected to be published 17 November 2022. This may provide more clarity on the direction of funding for Local Government. The provisional settlement expected late in late December will provide the funding allocations for 2023/24. The provisional settlement outcome and revised position will be reported to RAGOS and the Executive in January to consider the longer-term position. They will also consider the final cuts and savings proposals to ensure a balanced budget is set and the council remains financially stable