

Report to Cabinet

15 December 2021

Subject:	Draft General Fund Budget 2022/23
Cabinet Member:	Cllr Crompton – Cabinet Member for Finance & Resources
Director:	Simone Hines - Director of Finance
Key Decision:	Yes
Contact Officer:	Rebecca Maher (Head of Finance) Rebecca_Maher@sandwell.gov.uk

1 Recommendations

That Cabinet:

- 1.1 Note the draft budget position for 2022/23 and the savings required.
- 1.2 Approve the savings identified in para 4.13 onwards and Appendix B in principle for consultation and an Equality Impact Assessment where required.
- 1.3 That the Director of Finance submit a further report in February 2022 setting out the results of the consultation referred to in 1.2 above for Cabinet to consider prior to final budget proposals being approved.
- 1.4 That the draft budget and savings options be considered by the Budget and Corporate Scrutiny Management Board in January 2022.



2 Reasons for Recommendations

2.1 The Local Government Finance Act 1972 requires the Council to set a balanced, risk assessed budget each year and approve a Council Tax precept by 11th March.

3. How does this deliver objectives of the Corporate Plan?

The Council's financial position helps to underpin the Council's Corporate Plan and the associated aspirations.

	Best start in life for children and young people
	People live well and age well
	Strong resilient communities
	Quality homes in thriving neighbourhoods
	A strong and inclusive economy
	A connected and accessible Sandwell

4 Context and Key Issues

4.1 The budget process for 2022/23 is particularly challenging due to the ongoing uncertainty around the long-term impact of the COVID-19 pandemic, as well as uncertainty around the Spending Review and Settlement 2021 and plans for local government funding reform.

4.2 The initial budget deficit for 2022/23 set out in the current Medium-Term Financial Plan was estimated to be in the region of £9m, but this has increased substantially to a gap of £25m, or £21m after applying COVID funding for appropriate cost and income pressures.



4.3 The increase in the deficit for 2022/23 is largely due to additional spend pressures and income losses. There are further inflationary pressures, especially as inflation has now hit a decade high of 4.2% in October and the Council is also seeing demand pressures from key services such as Adult Social Care and SEND transport.

4.4 A summary of the current draft budget position is shown in the table below. This is based on current assumptions and is subject to change as the budget process progresses:

	£m
Draft budget including inflationary assumptions	267.529
Spend Pressures	14.857
Growth Items	1.558
Total Net Budget	283.933
Funded by:	
Business Rates	101.451
Business Rates top-up	41.771
Collection Fund deficit	-1.900
Council Tax	116.844
Total Funding	258.592
Budget gap	25.341
One-off pressures funded from COVID grants	4.150
Ongoing Budget Gap after one-off pressures/savings	21.191
Ongoing Savings Identified	14.607
Ongoing Budget Gap	6.583
One-off funding 2022/23	5.126
Remaining Ongoing Budget Gap after savings	1.457

4.5 A summary of the spend pressures and growth items per Directorate are shown at Appendix A to the report.



- 4.6 The assumptions that have been applied when preparing the draft budget are:
- Inflation where contractual and unavoidable
 - Provision for an annual pay award
 - Pension contributions in line with the current triennial valuation
 - Business Rates income based on current trends and assuming there is not a re-set of business rates baselines or any change to the 100% pilot arrangements
 - 0.6% increase in the Council Tax Base, which is slightly lower than the 1% increase assumed in the Medium-Term Financial Plan.
 - 3.99% increase in Council Tax, made up of 1.99% 'core' increase and 2% Adult Social Care precept unused from 2021/22
- 4.7 The draft budget position does not yet include an estimate of the cost of the employers National Insurance Contribution rate which takes effect from April 2022. The government has confirmed that the cost for local government will be funded, and this is likely to come from the £1.6bn p.a. announced as part of the Spending Review (section 4.12 below) but there is no information on how this will be allocated. Further work is being carried out to understand what these costs are, but the government funding is only likely to extend to the Council's own pay bill and not that of its key contractors.
- 4.8 The spend pressure in relation to SEND Transport is partly due to increased demand and partly due to cost pressures linked to the extension of the current procurement arrangements. The Council is also seeing an increased demand for Adult Social Care, particularly in relation to Domiciliary Care. There are also some exceptionally high costs placements for specialist support. This is being monitored closely to identify mitigating actions to reduce the pressure or prevent any further increases.



- 4.9 The COVID-19 pandemic is still having an impact on Council finances, particularly in relation to income streams and levels of reserves and it is difficult to predict the speed of recovery at this stage. Income from services such as car parking and markets has not yet returned to pre-COVID levels and we are not anticipating any dividend from Birmingham airport for 2022/23. As these are short-term pressures as a result of the pandemic, these have been funded from COVID emergency grant funding carried forward from 2021/22. However, a longer-term view of these pressures will need to be considered in the Council's Medium Term Financial Plan as the COVID grant funding is limited and it may be that some of these pressures are reflective of more permanent changes in people's behaviour.
- 4.10 The Council Tax Base has not increased as much as in previous years, largely due to increased take up of Local Council Tax Support (LCTS). As this is linked to the economic impact of COVID, this gap will be funded by government funding aimed to support the increased cost of providing LCTS.
- 4.11 The funding assumptions are dependent on the announcement of the Local Government Finance Settlement. At the time of writing the report this was not available, but a verbal update will be given to Cabinet at the meeting.
- 4.12 **Spending Review 2021 – key points**
- 4.13 The Spending Review 2021 was announced on 27th October. The key points for Local Government were:
- Core referendum principle of 2%, a 1% Adult Social Care (ASC) precept, and a £10 Police precept.
 - confirms an additional £4.7 billion by 2024-25 for the core schools' budget in England. This is broadly equivalent to a cash increase of over £1,500 per pupil by 2024-25
 - Additional £1.6bn per year of funding through the Local Government Settlement for 'social care and other services'. We won't know how much Sandwell will receive until the Settlement in December.



- £3.6 billion will go directly to local government over the SR21 period to implement the cap on personal care costs and changes to the means test.
- To support businesses in the near term, the government has decided to freeze the business rates multiplier in 2022-23. Local authorities will be fully compensated for all measures announced in the review
- Business Rate Retention pilots will continue into 2022-23 and 2024-25. This means Sandwell will not lose any business rates growth in 22/23.
- Retail, hospitality and leisure properties will be eligible for a new, temporary £1.7 billion of business rates relief next year (funded by government).
- Government will maintain the Public Health Grant in real terms over the SR21 and it would continue to be ringfenced
- Business Rates and Fair Funding Reform – further information due in the settlement
- New Homes Bonus reform – further information due in the settlement
- No further COVID funding for local authorities

4.11 The reform to Fair Funding and Business Rates mentioned above refers to a national review of the way that funding is distributed across local government and the level of business rates that local government is able to keep. These reforms were due to be implemented in 2019 and are not likely to be implemented now until at least 2023, although this is still to be confirmed. This makes longer term financial planning very difficult.

4.12 Whilst the Spending Review sets out national government policy and the quantum of funding available for local government, the actual impact on Sandwell will not be known until the Local Government Finance Settlement is announced, which is usually in mid-December.

4.13 Savings options

4.14 Cabinet and Leadership Team have been working closely on the draft budget for 2022/23 and have undertaken a Star Chamber exercise with all Directorates to challenge existing budgets and identify savings options. The Council has also made use of benchmarking data to compare our current costs against our nearest neighbours.



- 4.15 Given the extent of the budget challenge and the need to ensure a balanced and sustainable budget is set in March while maintaining an adequate level of reserves, Directorates were set a 10% target to either achieve savings or increase income in their services.
- 4.16 The initial savings proposals following this exercise are attached at Appendix B. These total £14.6m.
- 4.17 Some of the savings require consultation, either with employees or service users and this will be carried out early in 2022 subject to Cabinet approval and in line with Council policies on consultation.
- 4.18 Where required, Equality Impact Assessments will be as part of consultation processes.
- 4.19 The Council currently makes grants and contributions to various third sector organisations and has not currently applied any savings target to those budgets. The Council plans to undertake a comprehensive review of these arrangements to ensure that they are achieving outcomes in line with the Council's corporate priorities. The Council will follow the Voluntary Sector Compact to do this and will consult and carry out Equality Impact Assessments before any changes are made. A progress update on this will be included in the final budget report to Cabinet in February.
- 4.20 The Local Government Finance Act also requires Councils to consult with Business Ratepayers in its area. It is proposed that this report and the savings proposals are shared with the Black Country Chamber of Commerce and Business Ambassadors Group.
- 4.21 As mentioned at section 4.6 above, the draft budget currently assumes a 3.99% Council Tax increase, of which 2% is the Adult Social Care precept which wasn't applied in 2021/22 and can be carried forward. The Council could also apply a further 1% increase to the Adult Social Care precept, in line with the SR21 announcement. This would increase council tax income by approx. £1.1m compared to the current draft budget forecast. A 3.99% increase on a Band C property is £53.36 per year and a 4.99% increase on a Band C is £66.57 per year.
- 4.22 Subject to Cabinet agreeing the savings proposals at Appendix B in principle, officers will carry out the appropriate consultation and Equality Impact Assessments and report these back to Cabinet in February so final budget decisions can be made.



4.23 If all savings at Appendix B are approved following consultation, there would still be a gap of approx. £1.5m remaining for 2022/23, dependent on the Local Government Finance Settlement announcements. There is a Fees and Charges review underway which may give additional income generation options, and Cabinet and Leadership Team will need to give consideration to other options available to ensure a sustainable budget can be set for 2022/23.

4.24 Reserves Position

4.25 The Council has two types of reserves – earmarked reserves which are for specific future projects, commitments or risks, and an unallocated reserve, which is to ensure the Council can manage unexpected financial challenges.

4.26 As part of the budget setting process the Council's earmarked and unallocated reserves position has been reviewed to ensure they are of a sufficient level to meet the financial commitments and risks that the authority is facing. The level of reserves the Council held at 31st March 2021 was £134m but this is projected to fall to £70m once COVID related funding has been used during this financial year.

4.27 The level of unallocated balances at the end of March 2022 was £8.4m, which is the lower end of a prudent level. Part of the budget strategy for 2022/23 is to restructure reserves to increase the level of unallocated balances and also create an Invest to Save reserve. This will allow transformational projects to be carried out to both improve the way the Council delivers services to its customers but also enable service to delivery to be done in a more efficient and effective way.

4.28 Next Steps

4.29 The assumptions and estimates currently being used in the draft budget will be constantly monitored and the funding position will be revised if necessary once the Local Government Finance Settlement has been announced.

4.30 The review of Fees and Charges will be completed before Christmas and any options for income generation will be considered by Leadership Team and Cabinet in early January.



4.31 The Council's Medium-Term Financial Plan will be refreshed early in 2022 and work will begin on developing a Three-Year savings plan. This will be reported to Cabinet in February alongside the final budget report. Key to this will be any further announcements about government plans to progress with Fair Funding Reform and 75% Business Rates Retention as this may have significant impact for the Council and at this stage gives huge uncertainty about the Council's financial position in the medium term.

5 Alternative Options

5.1 Cabinet could request that alternative savings options be proposed and agreed, although there is limited time to do this and still be able to carry out the appropriate consultation on alternative savings.

6 Implications

Resources:	Resource implications are contained within the main body of the report.
Legal and Governance:	No direct implications arising from the recommendations.
Risk:	This information is contained within the main body of this report.
Equality:	No direct implications arising from the recommendations.
Health and Wellbeing:	No direct implications arising from the recommendations.
Social Value	No direct implications arising from the recommendations.

7. Appendices

- A.) Spend Pressures and Growth items
- B.) Savings Options

8. Background Papers

None

