

Customer and Corporate Services Scrutiny Management Committee

7 November 2022

Report of the Chief Finance Officer

Budget Setting Overview

Summary

1. This report outlines the Council's approach to budget setting and provides an update on some of the current financial challenges.

Recommendations

2. Members are asked to note the information in this report

Reason: To keep the Committee informed of any financial issues.

Finance Update 2022/23

3. The gross financial pressures facing the council are projected at c£8m. This is a significant overspend, and a great deal of work is ongoing to identify mitigation and the further actions needed to bring current spending under control. Finance & Performance Monitor 2 is currently being prepared and will be presented to Executive in late November.
4. Since the budget was set in February 2022 a number of new financial pressures have emerged. The ongoing cost of living crisis, inflationary pressures and significant increase in energy prices have added c£5m to the overall overspend. The 2022/23 pay award, although not yet confirmed, is expected to cost £2.5m more than was originally estimated.
5. The regular finance and performance update reports to Executive identify the various pressures that need to be actively monitored and managed, with mitigating actions agreed and regularly monitored across all directorates. Through ongoing monitoring, identification of mitigation and a review of reserves, the Council will continue to make every effort to reduce this forecast position, but it remains a possibility that it will not be reduced to the point that the outturn will be within the approved budget. The Council has £6.9m of general reserves that would need to be called on if this were the case.

6. A number of measures have been introduced to ensure that there are additional expenditure controls in place, particularly around vacancy management and the use of temporary staff. In addition, measures are being introduced to reduce any non-essential expenditure.
7. All areas of the Council are currently considering where further efficiencies and reductions in spend can be achieved in order to support the overall financial position.
8. Whilst the Council's track record of delivering savings and robust financial management provides a sound platform to continue to be able to deal with these future challenges there remains a significant risk to ongoing service delivery and achievement of Council priorities that needs to be managed effectively.

Annual Budget Setting Process

9. The following paragraphs outline the annual budget setting process in terms of the legislative requirements, decision making and outline timetable.
10. Every council must have a balanced and robust budget for the forthcoming financial year and also a Medium Term Financial Strategy (MTFS) which projects forward likely income and expenditure over the next 3 years. Due to income constraints and the pressure on service expenditure through increased demand and inflation, projected expenditure is usually higher than projected income.
11. Whilst such budget gaps are common in years two and three of the MTFS, the requirement to approve a balanced and robust budget for the immediate forthcoming year means that efforts need to be made to ensure that any budget gap in the next financial year is closed. This is achieved by making proposals to reduce expenditure and/or increase income. Clearly all stakeholders will be concerned with any potential effect that these financial decisions have on service delivery.
12. The annual budget report outlines the proposals that will be taken forward and includes an overarching Equalities Impact Assessment that attempts to look at the cumulative impact of the budget. A number of the individual proposals will also require their own assessments and consultation with service users which will be undertaken separately at the appropriate time.
13. There is a significant amount of legislation around local authority financial planning and budgeting.

14. The Local Government Act 2000 states that it is the responsibility of the full council, on the recommendation of the Executive, to approve the budget and related council tax demand.
15. The Local Government Act 2003, section 25 requires the council's Section 151 officer to report to the council on the robustness of the estimates made and the adequacy of the proposed financial reserves assumed in the budget calculations.
16. The Local Government Finance Act 1988, section 114 requires the Section 151 officer to report to all of the authority's councillors if there is or is likely to be unlawful expenditure or an unbalanced budget. The council must meet within 21 days to consider the report and during that period the authority is prohibited from entering into new arrangements that will cause money to be spent.
17. Failure to set a legal budget may lead to intervention from the Secretary of State under section 15 of the Local Government Act 1999.
18. The following paragraphs outline the usual annual budget setting process. Due to the pandemic and ongoing financial uncertainty at a national level, the timings have been slightly different over recent years but the principles remain the same.

April to July

- Estimate revenue income and expenditure over at the next 3 years, updating for previous years outturn position and any other information available.

July to September

- Identify any new budget pressures
- Calculate forecast budget gap (difference between forecast expenditure and forecast income)
- Chief Officers and Heads of Service start detailed work to identify new efficiencies and savings proposals
- Consider any capital projects needed
- Begin discussions with Executive Members as to the level and type of savings required

October to December

- Finalise budget proposals with the Executive, including potential impacts and risks

- Review budget in light of spending review and Local Government Provisional Settlement and update budget assumptions for any Govt announcements

December

- Executive Member Decision Sessions publish budget proposals and allow for wider discussion with residents and other stakeholders, including local businesses

February

- Revenue and capital budgets considered by Executive and debated at Full Council. Council Tax is set.

19. Once the year starts, actual spending and income will be monitored against the approved budgets with regular reports to Executive highlighting any variations.

Summary / Medium Term Financial Outlook

20. Ordinarily, we would be able to use information provided by Government to forecast our funding streams over a 4 year period. Whilst there would sometimes be changes at the draft settlement in December, these would usually be minor adjustments and we could plan with a reasonable amount of certainty.
21. However, following the pandemic, cost of living crisis and changes in leadership at a national level there is an unprecedented level of uncertainty in terms of financial planning for local government. Given the reversal of the Health & Social Care Levy it is expected that Adult Social Care reform and the care cap will be deferred by at least one year. It is also assumed that funding for 2023/24 will be another “rollover” year. However, it is also understood that all Government departments have been asked to identify spending cuts for next year and it is likely that this again will have a negative impact on local government funding.
22. At the time of writing the UK had just appointed its 3rd Prime Minister of 2022 and its 4th Chancellor of the last 4 months. This inevitably leads to uncertainty and delay. The next budget is due to be announced on the 31 October, which is after the publication of this report. Therefore, any further emerging issues will be reported verbally at the meeting.
23. The ongoing inflationary pressures and impact of rising prices on the Council is, of course, a significant concern. There is clearly also a significant impact on the financial health of key providers and partners as well as that of individual residents.

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Wards Affected:

All

For further information please contact the author of the report

Abbreviations

MTFS Medium Term Financial Strategy