

**SUBJECT: BUDGET PROCESS AND TIMETABLE 2022/23**

**MEETING: CABINET**

**DATE: 1<sup>ST</sup> December 2021**

**DIVISION/WARDS AFFECTED: WHOLE AUTHORITY**

**1. PURPOSE:**

1.1 To agree the process and timetable for developing the budget for 2022/23.

**2. RECOMMENDATIONS:**

2.1 That the budget process and timetable as outlined in paragraph 3.21 is adopted and that includes member budget scrutiny and consultation conducted through all-member seminars, Member and Officer Working Groups, Community Engagement, Select, and Consultation meetings (for Business Rate purposes).

**3. KEY ISSUES:**

**Background**

3.1 Members will know that the budget and Medium-Term Financial planning process has had a consistent theme over recent years. Since the financial crisis in 2008 the level of resources available to public services has been under pressure and the Council had to absorb and manage significant pressures as well as adopted significant savings proposals.

3.2 The process that has been adopted has sought to maintain a medium-term view on the financial position and plan savings targets over a 4-year period. This is essential given the lead in time for making some of the changes required.

3.3 Since entering 2020 the Council has faced significant and unprecedented challenges notably flood response and recovery and the subsequently and most significantly the impact and effects of the COVID-19 pandemic.

3.4 Each of these draws significantly on the Council's resources, both in terms capacity and finances and continues to place an unprecedented strain on the Council. Furthermore, it has introduced greater uncertainty and unpredictability for financial planning purposes.

3.5 The Council has tactically generated reserve headroom of £5.8m, £1.8m in its Council Fund balance as part of the outturn strategy for 2019/20 and a further £4m in its earmarked reserves as a result of significant late grant awards from Welsh Government in 2020/21. This will at least enable the Authority to mitigate in part the potential significant financial pressures brought about by the pandemic or otherwise in the current year or over the medium term. However, this only provides a finite and limited level of reserve cover.

- 3.6 The Council continues to deal with unprecedented amounts of uncertainty with its finances, both in terms of the current year as the consequences of the pandemic unravel, as well as next year and over the medium term where there remains continued uncertainty as to the funding outlook for local authorities in Wales.
- 3.7 The month 6 forecast separately reported on this agenda displays a forecast deficit at month 6 of £1.94m with the Council's core service delivery, with a further £3.97m deficit directly associated with the extraordinary financial pressures attached to COVID-19. Based on commitments from Welsh Government, it can be reasonably assured that all Covid-19 associated cost pressures and income losses that are eligible to be met by the Welsh Government Covid-19 Hardship fund will be funded to the end of March 2022.
- 3.8 Whilst the Council is taking recovery action and bearing down on non-essential expenditure in the current year the inherent pressures will clearly have a bearing on the budget for 2022/23 and over the medium term unless suitably mitigated through much needed additional funding from Welsh Government.

### **Funding context**

- 3.9 The overall picture in public sector resourcing remains an uncertain one. The Chancellor of the Exchequer presented his Autumn budget and Spending Review to Parliament on 27<sup>th</sup> October 2021. On the face of it this presented a more optimistic funding outlook for public services for 2022/23 and beyond what many commentators had predicated. However, the Chancellor is seen to be drawing back increases in public finances from 2023/24.
- 3.10 The UK Government's Comprehensive Spending Review provides an opportunity for Welsh Government to provide a fairer settlement for local government in Wales and one which enables the Council to have greater certainty on its modelling assumptions for the next three years.
- 3.11 The Council hopes that the significant pressures on local government services in Wales will be considered on an equal footing to those of the NHS in Wales. Local authorities continue to lobby Welsh Government directly and through the WLGA to ensure that there is a strong body of evidence to support the need for funding at a level that allows Council services to be sustained and at the level of increased demand being experienced.
- 3.12 As things stand and until the provisional settlement is published by Welsh Government it leaves it very difficult to accurately make settlement predictions for next year. A 3% increase is currently being used as a sensible and prudent modelling assumption for Aggregate External Financing (AEF). AEF represents the core funding that Local Authorities receive from Welsh Government every year. In addition, it is as yet unclear as to the continued impact of the pandemic beyond this financial year and the level of any additional funding that Welsh Government might provide to local authorities to mitigate such additional costs or continued income losses. And given the COVID Hardship Fund is due to cease on 31<sup>st</sup> March 2021.
- 3.13 The further challenge amidst this uncertainty is one of timing. The provisional settlement is expected on 21<sup>st</sup> December 2021. Cabinet have delayed their consideration of the draft budget proposals until January in order that the most up to date funding announcement can be included. Welsh Government's final local government settlement is due to be published on the 1<sup>st</sup> March, the day before Cabinet will be considering the final budget proposals on 2<sup>nd</sup> March and ahead of Council setting the budget for 2022/23 on 3<sup>rd</sup> March.

- 3.14 The Council also receives specific grant funding beyond the core funding it receives from Welsh Government via the local government settlement. The level of these can be difficult to predict, and are not always even available/apparent by the start of the forthcoming financial year, which will always tend to undermine accurate financial planning and therefore presents a further ongoing financial and budgetary risk.
- 3.15 Additionally, Welsh Government also considers at times the transfer of specific grants into core settlement funding. Core funding via the settlement is traditionally unencumbered meaning that it is allocated without restrictions on how it should be spent.

### **Financial Planning Methodology**

- 3.14 Pragmatically in terms of financial planning, the basic premise is to assume that existing grants will continue at levels as currently, unless notified explicitly otherwise. If grants are transferred into core funding and Aggregate External Financing (AEF) then these will not be automatically encumbered to the purpose for which the grant was given. If specific grants cease, it is expected that the activity will cease. Continuance of an activity following grant funding ceasing, would require the service providing a business case to assess each case on its merits.
- 3.15 As highlighted above there are significant and ongoing financial challenges facing the Council in the current year, next year and over the medium term. There is also an additional level of complexity brought about by the pandemic and its continued impact as well as the resultant uncertainty that this has on Welsh Government funding for local authorities in Wales.
- 3.16 It is anticipated given the level of both the challenge and uncertainty that the budgets for 2022/23 and over the medium term may need to draw on a planned and managed contribution from reserves and capital receipts. As mentioned the Council has tactically generated reserve headroom of £5.8m, £1.8m in its Council Fund balance as part of the outturn strategy for 2019/20 and a further £4m in its earmarked reserves as a result of significant late grant awards from Welsh Government in 2020/21. However, this only provides a finite and limited level of reserve cover.
- 3.17 It is planned for a revised reserves and capital receipts protocol to be produced as part of the MTFP process and to ensure that earmarked reserves and capital receipts can also adequately support financial planning over the medium and long term.
- 3.18 Services are expected to manage their own pressures in the first instance, ensuring that any significant impact on the public, council policy or performance is explicitly identified and approved. Pressures that are introduced into the budget process will undergo a rigorous challenge process consistent with that for any savings proposals introduced.
- 3.19 Budget assumptions are based on the best information available at the current time and will be subject to variation as new information comes to light, notably upon receipt of the funding settlement from Welsh Government.

### **Process**

- 3.20 Setting a sustainable path for the Council into the future will need to be identified, with significant budget pressures outstripping even the most optimistic assumptions around Welsh Government funding via the settlement and specific grant funding awards. This is

not going to be an easy task over the medium term and will involve difficult decisions that allows Cabinet to continue to deliver the aims and aspirations set out in the Corporate Plan whilst ensuring that services can sustain themselves into the future. The work required needs to involve Members and Monmouthshire communities as early in the process as possible.

3.21 It is therefore suggested that the process for developing proposals for the MTFP run in parallel to budget proposals for 2022/23, and would follow the steps outlined below:

- The MTFP model and underlying budget assumptions have been updated based on most up to date information and estimates.
- A full assessment is being undertaken of budget pressures that services will be required to manage next year and over the medium term and that draws on:
  - Most up to date budget monitoring information, and most recently the month 6 budget monitoring report.
  - Pressures and income losses continuing to impact as a result of the COVID pandemic and in the absence of Welsh Government's COVID Hardship Fund that is due to end on 31<sup>st</sup> March 2022.
  - Consequences of legislative changes that impact on service delivery
  - Demand projections based on trend analysis and data analysis
- Building upon the success of the most recent budget processes equal rigor and process will be applied to any new pressure that is added into the MTFP and budget process, as it is anticipated it may in fact be easier to avoid or mitigate a pressure than it is to find an equivalent saving.
- Initial modelling highlights budget shortfalls to be managed for 2022/23 and over the medium term. Efforts to identify savings continue to be made whether through service efficiencies or limited scope for increases in fees and charges.
- Welsh Government intends to publish the draft provisional funding settlement for local authorities on 21<sup>st</sup> December 2021. It is hoped that the settlement will provide both a level of certainty and a sufficiency of funding that in turn will result in the Council minimizing any need to draw on limited one-off reserves to assist the 2022/23 budget process.
- Where necessary up-front engagement with key stakeholders will take place ahead of draft budget proposals being released for consultation.
- Draft revenue and capital budget proposals for the 2022/23 budget will be presented to a Special Cabinet meeting on 19<sup>th</sup> January 2022.
- The underlying MTFP model will also be updated to include new information as it becomes available, specifically information from Welsh Government on the settlement. The modelling will inform a Medium Term Financial Strategy and Plan that will also be presented to Cabinet on 19<sup>th</sup> January 2022.
- Formal scrutiny of the draft budget proposals will then take place through the normal Select committee cycle in January and February, including as necessary one overall scrutiny meeting to consider the budget proposals as a whole.

- Public consultation will also take place subsequent to the Special Cabinet meeting on 19<sup>th</sup> January 2022 and will run until the 16<sup>th</sup> February 2022. The pandemic continues to present some unique challenges as it is unclear as to level of restrictions in place due to the pandemic and the extent of any social distancing requirements at that time. To that end more significant consideration is likely to be given to virtual and online consultation. Though accessibility options will again be explored to ensure that nobody is disproportionately disadvantaged in their ability to respond during the budget consultation period.
- Final budget proposals will be presented back to Cabinet on 2<sup>nd</sup> March 2022 after consideration of consultation feedback. The budget will then go to Council on March 3<sup>rd</sup> 2022 to meet the statutory requirement to set a Council Tax for the following year. This presents a challenge for setting next year's budget, as Welsh Government intends to only release final settlement information shortly before this date on 1<sup>st</sup> March 2022. As stated that may change, but where necessary may involve the final budget proposals containing potential options to mitigate the potential for any adverse final settlement revision.

#### **4. EQUALITY AND FUTURE GENERATIONS EVALUATION (INCLUDES SOCIAL JUSTICE, SAFEGUARDING AND CORPORATE PARENTING):**

- 4.1 There is a requirement placed on Local Authorities to comply with the general equality duties set out in the Equality Act 2010 and the specific equality duties such as the statutory responsibilities to assess the equality impacts of their budgetary decisions. The Equality Act 2010 places a General Duty on Monmouthshire County Council to eliminate discrimination according to nine "protected characteristics" (age, belief and non-belief, disability, gender, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, and sexual orientation). Also we need to comply with the Welsh Language Act 1993 and the Welsh Language Measure 2011 through which the Welsh Language Commissioner has shaped the Welsh Standards which will come into force from 30<sup>th</sup> March 2016.
- 4.2 The Wellbeing of Future Generations Act requires public bodies to improve social, economic, environmental and cultural wellbeing, by taking action in accordance with the sustainable development principle aimed at achieving the Wellbeing Goals. The authority was an early adopter of The Act and re-shaped its pre-decision evaluation tool to reflect the well-being goals and the principles which it sets out.
- 4.3 Whilst there are no significant impacts identified at this stage it is important to outline the process by which the Council intends to respond to these issues by building considerations of equality, diversity and sustainability into the planning and delivery of its budget process by:
- Requiring Chief Officers to undertake a Future Generation evaluation of all savings proposals that are offered for their service area to contribute towards the Council's overall savings target.
  - Producing an overall FGE assessment of the revenue budget proposals and publishing this as part of the revenue budget proposals for consultation.
  - Undertaking a FGE assessment of the capital budget proposals and publishing this as part of the capital budget proposals for consultation.

- Enabling the Council's Cabinet Members to consider initial savings proposals with the benefit of the FGEs, and to make initial decisions based on this information.
  - Deciding that once the final shape of the budget is agreed by Council in March 2021, Council service areas carry out continued detailed work to mitigate and manage any equalities or Future Generation issues that have been identified.
  - Including the FGEs as part of both draft and final budget proposal reports and published on the Council's website so that residents can understand the factors that went into the planning of the 2022/23 budget.
  - Ensuring that where proposals will be the subject of further reports it is expected that further FGEs will be undertaken at that time and where savings are being made from decisions already taken then those implementing those decisions should consider mitigating any negative impacts where necessary.
- 4.3 There is a continued intention to enhance the impact assessment process going forward with profiles of typical Monmouthshire residents being used to better anticipate the compounded effect of multiple proposals.

## **5. OPTIONS APPRAISAL**

- 5.1 This report looks to provide an overview of the process for the budget setting process. When budget proposals are developed and brought forward for consultation an option appraisal will be completed for each substantive saving and pressure.

## **6. EVALUATION CRITERIA**

- 6.1 Whilst the nature of this report does not require any evaluation, the annual budget process is reviewed on an ongoing basis and based on feedback received from the public, members and officers. Cabinet and the Strategic Leadership Team review the process and feedback and recommendations for improvement.
- 6.2 The changes incorporated as a result of this year's approach are referenced throughout the report.

## **7. REASONS:**

- 7.1 To provide the opportunity for full and informed engagement, consultation on and scrutiny of budget proposals and processes.

## **8. RESOURCE IMPLICATIONS:**

- 8.1 There are no resource implications arising directly from this report. Resource implications will subsequently arise from the draft revenue and capital budget proposals considered by Cabinet at its meeting in January.
- 8.2 The budget process will see draft budget proposals developed and brought forward to Cabinet for consideration and ahead of release on consultation and to ensure that feedback is sought and appropriately reflected in final budget proposals considered by Cabinet next February. Council tax and the final budget proposals will be approved by Council next March.

## **9. CONSULTEES:**

Strategic Leadership Team  
All Cabinet Members

**10. BACKGROUND PAPERS:**

Nil

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