

Report To: Corporate Governance Committee

Date of Meeting: 26th September 2018

Lead Members / Officers: Julian Thompson-Hill

Report Author: Richard Weigh

Title: Budget Process 2019/20

1. **What is the report about?**

To provide an overview on the process to set the budget for 2019/20.

2. **What is the reason for making this report?**

The Corporate Governance Committee has an oversight role in respect of the council's budget process. To explain the process underway and the key medium term financial planning assumptions informing it.

3. **What are the Recommendations?**

To consider the process and comment as appropriate.

4. **Report details**

Over the last twelve months, four sessions have been held with elected members outlining the medium term financial position, as set out in the Medium Term Financial Plan (MTFP). The most recent session (in June) highlighted some of the following key points:

- Negative budget settlements in real terms for the last seven years and in cash terms for four out of those last seven years
- Savings and other measures over the same period amount to £35m
- Between 2009 and 2016, with Education and Housing Benefit expenditure removed, the council's overall expenditure reduced by 23%
- Council Tax rises since 2013 have been below the Welsh average
- Analysis and explanation of the central case planning assumptions and key pressures
- A resulting estimated budget gap of £6.4m for 2019/20

In recent years, various approaches have been applied to budget setting, from a form of zero based budgeting underpinning the Freedom and Flexibilities process, to equalised efficiency targets across services in the last two years. Both approaches were supported by corporate financing savings and the prudent use of cash. However, within the context of ongoing funding reductions, external cost pressures and

increasing demand in key areas, the process to set the council's budgets and to determine the medium term financial strategy has been revised.

In January 2018, an internal board was established to:

- Define and deliver a Medium Term Financial Strategy to the end of 2022/23
- Ensure a balanced budget can be set each financial year within the programme
- Support the delivery of Corporate Priorities
- Provide a managed approach to becoming a smaller, well-run council

The Terms of Reference of the board are attached as Appendix 1. In recent months, it was decided to refer to it as the Reshaping the Council Board.

It is important to note that the Board is not a decision making body. Any proposals arising from the work of the Board will follow existing approval routes and will need to comply with existing consultation and wellbeing assessment requirements, etc.

The Board meets regularly and considers the immediate requirements to deliver a budget annually but in the context of a wider strategic view. In addition, the Chief Executive and the council's SLT have developed a set of principles to support the strategic budget process. These will be reflected in the next published Medium Term Financial Strategy document but encompass an evidence and outcome based process with an emphasis on the Council taking an enterprising and pro-active an approach as possible, to help limit the impact of funding cuts on frontline services and priorities.

The approach taken to begin the process for 2019/20 initially involved services modelling the impact of a funding cut. This, along with detailed analysis of service budgets and strategic consideration by the Board, has resulted in a number of proposals being developed in a phased approach. The phases, of which so far there have been four, reflect the timing of the work the Board has so far completed – i.e. working through different service areas or corporate themes.

The Board has so far identified proposals to be developed, across all service areas, totalling over £4m. Services are now developing these proposals so that those that are ultimately necessary as part of the 2019/20 budget can be taken forward.

The Board also considers key assumptions underpinning the MTFP. The assumptions and risks change throughout the year. Significant changes are highlighted and if necessary the MTFP assumptions are updated: positive or negative. The overall impact of changes, including assumed savings noted above is as follows:

	£k
Opening budget gap	6,472
Positive impact changes	(7,505)
Negative impact changes	3,094
Latest budget gap	2,061

Further phases will continue until sufficient proposals have been identified to address the budget gap.

The key element now to be determined is the level of financial settlement from the Welsh Government. The planning assumption is a reduction of -1% (£1.4m) in cash terms. However, with other assumptions in the MTFP, the impact of such a reduction in settlement results in a budget gap of 5%. This is because the pressures the council has to fund next year are over £8m. The pressures are predominantly outside of the council's control and include pay awards, demand pressure, demography and inflation.

Key dates in the process to note are as follows:

- | | |
|---|---------------------------|
| • Welsh Government Draft Outline Budget | 2 nd October |
| • Provisional Local Government settlement | 9 th October |
| • Welsh Government Detailed Draft Budget | 23 rd October |
| • UK Budget (date to be confirmed) | 21 st November |
| • Welsh Government Final Budget | 18 th December |
| • LG Final Settlement | 19 th December |

If the provisional settlement announced in October is different from the planning assumption, then the Board will consider further options. It is prudent to be mindful that the headline figure announced on 9th October, particularly if it is better than the planning assumption announced may come with caveats or is better simply to recognise some of the unavoidable costs the council has to fund (pay awards for example). Previous draft settlements have also been light on detail regarding specific grants, so this is also something to be mindful of.

At the last budget briefing to elected members in June, it was proposed that a further session be arranged following the provisional settlement announcement. The proposed date for this session will be confirmed shortly. Further sessions will be arranged if required.

5. How does the decision contribute to the Corporate Priorities?

Effective management of the council's budgets and delivery of the agreed budget strategy underpins activity in all areas, including corporate priorities.

6. What will it cost and how will it affect other services?

Based on current assumptions, the council is facing a potential budget gap of over £6m for each of the next three years.

7. What are the main conclusions of the Well-being Impact Assessment?

Not applicable for this report. The budget process involves an assessment to inform whether individual budget proposals require an impact assessment. It is for Heads of

Service to make this determination initially with further examination by the Budget Board to ensure consistency and appropriateness.

8. What consultations have been carried out with Scrutiny and others?

Regular reports to CET, SLT and Cabinet Briefing. A budget briefing for all elected members took place in June. Further workshops or briefings will take place in the autumn. Trade unions will be consulted via the Corporate Joint Meetings. Public engagement will be supported by general information on the council's website and there will be specific engagement where appropriate or required on proposals affecting service delivery.

9. Chief Finance Officer Statement

A revised approach to the budget process was necessary to recognise the ongoing financial pressure the council is facing. The requirement to set a balanced budget annually must be framed within a wider strategic direction and the new Board is the vehicle to provide this.

The financial pressures the council is facing are driven mainly by external factors. While the uncertainty over the level of funding from the Welsh Government from year to year is problematic from a financial planning perspective, it is hoped there will be scope to recognise of the scale of the pressures facing councils in the financial settlement or 2019/20 and beyond.

10. What risks are there and is there anything we can do to reduce them?

The budget process itself is a risk management measure with the aim of identifying, assessing and agreeing budget proposals in a planned and timely way. The process allows some flexibility in response to the funding settlement.

11. Power to make the Decision

Section 151 of the Local Government Finance Act 1972.