

Report To: Corporate Governance Committee

Date of Meeting: 6th March 2019

Lead Members / Officers: Julian Thompson-Hill

Report Author: Richard Weigh

Title: Budget Process 2019/20 and Preparations for 2020/21

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

To provide an overview on the process to set the budget for 2019/20 and preparations for the 2020/21 budget.

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. The report explains the process that delivered the 2019/20 budget and gives an update on progress for 2020/21.

3. **What are the Recommendations?**

To consider the process and comment as appropriate.

4. **Report details**

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 budget and to determine the medium term financial strategy has been revised.

In January 2018, an internal board called the Reshaping the Council 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 have been previously circulated to the Corporate Governance Committee.

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 approach as possible, to help limit the impact of funding cuts on frontline services and priorities.

The budget process and strategic direction is informed and influenced by the Medium Term Financial Plan. This quantifies key assumptions underpinning funding and costs over three/four years and identifies the potential budget gap in each year. The Board considers the key assumptions underpinning the MTFP and endorses amendments if circumstances or risks change throughout the year.

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, income and reserves and strategic consideration by the Board, resulted in a number of proposals being developed in a phased approach throughout the year. The aim was to ensure a range of options were available when the level of funding from Welsh Government was confirmed in the autumn.

The level of financial settlement from the Welsh Government has the most significant impact on funding as it accounts for around 75% of the council's net budget. As there are generally no forward planning or indicative figures for future years, the council has to assess what the central case settlement might be and build plans around it. Provisional notification of the settlement is provided in October and gives more certainty of the position for the following year. At this point in the year, the budget process will have already identified and developed a range of saving proposals that can be taken forward if required.

The budget process for 2019/20 followed this approach. The council's assessment of the level of settlement was correct and so in October, saving proposals of £5.7m had been identified and could be taken forward. During the year, pressures grew significantly in children's services and school transport and these were recognised in the MTFP, as were additional funding pressures in other areas such as teachers' pay and pensions, waste and the increase Fire & Rescue levy.

The resulting position meant that a budget package was ready for recommendation to Cabinet on 22nd January which was then approved by the full council the following week.

During the year, elected members were briefed at three budget workshop sessions, including one early in January where the final package proposed was explained in detail.

Planning for the 2020/21 process has already begun with the Board considering an outline timetable and detailed approach. A copy of the draft timetable is attached – but must be emphasised it is a draft still to be finalised. It does, however, give an idea of the dates and milestones.

The same approach to managing the MTFP assumptions will continue and thus far, the Board has endorsed amendments to funding assumptions so that the level of funding settlement is 0% and the planning assumption for Council Tax is 3.8%. This results in a potential budget gap of £5.4m but is indicative insofar as a number of cost pressure assumptions have yet to be updated. It is likely the budget gap will increase unless the funding position improves.

Key to the funding position in the medium term is the Comprehensive Spending Review at a UK level. This will take place during 2019 but a date is not yet set. This will determine how much is allocated to government departments for the forthcoming three/four years, including the devolved administrations. This will confirm the level of funding to the Welsh Government, who in turn will set its budget plans, including the level of funding to local government.

The council's budget process must be flexible enough to deal with a range of eventualities and will therefore continue to develop the approach that successfully delivered the 2019/20 budget.

The budget process timetable attached includes provision for a number of member engagement sessions throughout the year. Feedback from the 2019/20 process indicates that members wish to include in these sessions further analysis and details of key service pressure areas and this will be factored into the programme. Members also highlighted the potential for wider public engagement and consultation and an approach to this is currently being developed.

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 briefings for all elected are planned. 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. Corporate Governance Committee have an oversight role with regard to the budget process.

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 process worked well for the 2019/20 budget.

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 more recognition of the scale of the pressures facing councils going forward.

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.