

POLICY AND RESOURCES COMMITTEE**Wednesday, 7 October 2020**

REPORT TITLE:	2021/22 BUDGET TRANSITION PROCESS
REPORT OF:	DIRECTOR OF RESOURCES

REPORT SUMMARY

The report provides the process for budget setting as a transition year for 2021/22 in the Committee Process. The report describes the financial position for 2021/22 which as at Quarter 1 was deficit of £45m, and the actions being put in place to mitigate the gap.

These actions include a phased approach of 5 stages and includes the timeline for the 2021/22 budget setting process of when individual budget proposals are presented to the Policy and Services Committees to the recommendation for approval by the Policy and Resources Committee in February, to Full Council to set the 2021/22 budget.

RECOMMENDATION/S

That the Policy and Resources Committee note the transition process for the 2021/22 budget setting process.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

- 1.1 The Policy and Resources Committee have responsibility for approving budget options that will be recommended to Full Council to set the annual budget. To enable the Committee to understand those processes in the new Committee System in order to make informed decisions, the process is described in this report.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 A report does not have to be provided to the Committee to describe the process for the transition year of 2021/22 in order to set the annual budget. However, there is a risk that if this process is not described, Members of the Committee will not have the relevant information to make an informed decision.

3.0 BACKGROUND INFORMATION

- 3.1 The Council must set a balanced budget by 10 March by law and the Local Government Finance Act, 1988 places certain responsibilities on the Chief Finance Officer, namely Section 114 (3): *“The chief finance officer of a relevant authority shall make a report under this section if it appears to him that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure.”*
- 3.2 On 2 March 2020, Council approved a balanced budget for the 2020/21 financial year. At that time the Government had announced that austerity was over and in the preceding December, the Council received the best financial funding settlement for 10 years. As a result, there were minimal significant pressures assumed for future years in the Medium Term Financial Strategy with the exception of demographic and inflationary growth. During the 2019/20 financial year, a Financial Sustainability Programme was established, endorsed by the LGA, to ensure a medium to long term plan was in place to mitigate any future growth or pressures during the 2020 – 2024 timeframe.
- 3.3 This programme was progressing well until March 2020 when the Covid-19 global pandemic struck and work was halted to enable key staff to be seconded to support the emergency response. As a result, a new process has been put in place for the 2021/22 budget which will also be the first in the new Committee system. This will be a temporary process for one year to enable the transition through the Committee system.

4.0 CURRENT BUDGET POSITION

- 4.1 In resetting the Medium Term Financial Plan there is a forecast best case scenario budget gap in 2021/22 of £45m. This is made up of: (main items)
- £17m carried forward unachievable savings from 2020/21
 - £7m of existing pressures from contract, pay and levy increases

- £9m new pressures from Adult Social Care, Childrens Social Care and Homelessness
- £7m assumed reductions of funding from Public Health
- £5m assumed loss of income from Sales, Fees and Charges continuing as a result of Covid

4.2 The gap could increase to £67m if the 2020/21 budget gap cannot be mitigated in-year. Following an increase of restrictions as a result of rising Covid-19 infection numbers, this gap is expected to further increase and is currently being quantified.

4.3 To mitigate the gap, the Council has requested approval from the Committee for permission from MHCLG to apply to HM Treasury on the Council's behalf for a capitalisation directive. This means that the Council can charge any unmet 2020/21 and potentially 2021/22 deficits specifically incurred as a result of Covid to the capital programme. There would be a resulting revenue impact of this as the Council would need to borrow funds to pay for the capitalisation, which would need to eventually be repaid. As yet, however, it is not known how long the repayment would take place over so it is impossible to identify how much the cost of borrowing and the resulting revenue costs would be.

4.4 MHCLG have informed the Council that the process to agree a capitalisation directive will take some months from the date of application and there is no guarantee that HM Treasury will agree to the request. MHCLG have informed the Council that the process to agree a capitalisation directive will take some months from the date of application, and there is no guarantee that HM Treasury will agree to the request. The approval of a capitalisation directive from Government comes with certain conditions that the Council will be expected to fulfil first these are:

- A robust assessment of the current budget position and the direct and indirect financial impact of Covid-19
- A robust medium term financial recovery strategy to ensure the Council can secure a sound financial and sustainable footing
- Assurance that the Council has done everything it can in advance to mitigate the budget gap including:
 - Drawing down all useable reserves
 - Evidencing the requirement for all pressures and growth
 - Actioning and accelerating all the plans for savings to be achieved
 - Assessing all non-statutory services to determine why they are being provided and evidencing what beneficial outcomes they provide

4.5 MHCLG also require the Council to have these plans externally validated before the submission is provided and the Council has commissioned the Local Government Association (LGA) to carry out this work. Once completed, MHCLG will place reliance on the external validation from the LGA as to whether the submission for a capitalisation directive is robust.

4.6 The timing of government decisions will impact on the steps the Councils takes to set a balanced budget for 2021/22. The outcome of the capitalisation directive may not be known until November and the funding settlement from Government is not usually announced until the week before Christmas. Therefore, for prudence purposes,

options will be presented to Members on a worst case scenario basis until further information is known.

5.0 WAYS TO SET A BALANCED BUDGET

5.1 There are generally two ways that a Council can set a balanced budget: Increase its funding or reduce its costs

5.2 How the Council can increase its funding

5.3 The Council is funded in several ways:

- Council Tax
- Business Rates
- Grants
- Income from Sales, Fees and Charges
- Income from Investments

(a) Council Tax

The total income expected from Council Tax in 2021/22 is £153.04m. A current Council Tax referendum cap imposed by Government is in place meaning that Council Tax can only be increased by 1.99% in any one year. Any proposals to increase Council Tax above that limit, unless temporarily relaxed by Government, will be subject to a referendum. The current trajectory for Council Tax for 2021/22 is that the number of homes will not increase significantly from the previous year and an assumption has already been built into the 2021/21 budget for an increase in Council tax of £3m

An additional 1% increase in Council Tax generates approximately £1.5m per annum of additional income.

(b) Business Rates

The total income expected from Business Rates in 2021/22 is £138.89m. The actual income collected from Business Rate payers is assumed to be £73.2m with top up and rate relief grants of £48m and an assumed continuation of the Better Care Fund (which is included within the business rates figures) of £18.7m

The value of business rates is set by the Valuation Office which the Council has no influence over. The only way to increase business rates is for new businesses to register to pay business rates. For 2021/22 there is very little assumption for an increase in business rates (around £0.3m).

(c) Grants

The main grants the Council receives are the Dedicated Schools Grant £279.356m which is passported to individual schools with a small element retained and ringfenced for Education; the Social Care grant £11.26m which is ring-fenced to Adults' and Children's Social Care and the Public Health Grant £29.87 which is ring-fenced for Public Health activities. For 2021/22 it is assumed that these grants will continue and are not cut. The

Council also receives grants for capital which are ring-fenced for specific schemes. The Council still receives a grant from the Government which replaced the Revenue Support Grant. This is the Business Rates top up grant which is described above

(d) Sales, Fees & Charges

The Council generates income from sales, fees and charges at around £32m per annum. The main areas where this is generated is:

- Leisure and culture
- Car parking
- Green waste
- Environmental Health
- Statutory fees e.g. licencing, planning etc

Where possible the Council charges a market fee for sales and admissions for its services with concessions available where relevant. During the Covid-19 Pandemic in 2020/21 the income forecast was reduced by over 50% as a result of facilities being temporarily closed and public anxiety to return once re-opened.

The 2020/21 forecast reduction in income is £16m, however, the Government introduced a compensation scheme for Local Authorities to claim back a proportion of their lost income from sales, fees and charges. The estimate of this that could be claimed back for 2020/21 is around £9m.

As lockdown relaxes further and public confidence grows, the take up of council services will increase but it is assumed that this will not be at the pre-Covid levels in 2021/22. As a result, a forecast 30% drop in income is assumed throughout 2021/22. This is creating a new pressure on the 2021/22 budget and the Government have been clear that the compensation scheme will not continue past 2020/21.

No inflationary increases for income have been assumed in 2021/22 as this may have a detrimental impact on the level of income collected, especially as the public may still be financially impacted as a result of Covid-19

(e) Commercial and Investment Income

Commercial income is generated from assets the Council has purchased purely to collect rental income. The Council only has one asset in this category, the Vue Cinema which it purchased for regeneration purposes but is currently generating commercial income from rental. Investment Income is generated from investing surplus cash flow to generate interest. Interest rates are calculated by the market and the Council doesn't have any influence over this. Each time the Council choses to invest in a new area, due diligence must be carried out to minimise any risk. This can be a lengthy process

5.4 How the Council can reduce its expenditure

- 5.5 The Council should only be spending on areas that align with its strategic priorities of the 2025 Wirral Plan. The plan identifies the ambition for the Council in supporting the community by enabling:

- Safe and pleasant communities
- A sustainable environment
- An inclusive economy
- Brighter futures
- Active and healthy lives

- 5.6 In reducing its expenditure, Members must make decisions based on whether the Council's financial resources contribute to the five priorities of the Wirral Plan, and where there is not enough funding to provide all services, resources will be aligned to where the highest priority areas are. This may mean that not all the functions the Council currently provides will continue to be provided.
- 5.7 As part of the budget process for 2021/22, Officers are currently developing proposals to reduce expenditure in all areas across the Council for Members to debate in Service Committees.

Comprehensive Spending Review

- 5.8 The Government's Comprehensive Spending Review (CSR) is where the Government decide where to spend its resources in the following year. The outcome of this for Local Government is the funding settlement where Councils get to hear whether their funding has been increased, stays the same or is being reduced for the following year. The CSR was due to be take place ready for the 2020/21 budget planning process. As a result of Brexit this was postponed and a one year settlement was provided. This makes financial planning extremely difficult as temporary funding streams are uncertain and it is not known whether they will continue.
- 5.9 As a result of Covid-19, the Government have stated that they will 'do whatever it takes' to ensure Local Authorities are funded adequately to support the response, however no information or announcement has yet been provided about the indirect impact of Covid-19 e.g. an assumed ongoing reduction in sales, fees and charges and additional expenditure which are contributing to new pressures in 2021/22.
- 5.10 As the Local Authority funding settlement is not due to be announced until December 2020 it is very difficult to set the budget in advance. As a result, there is little choice at this stage to plan for a worst case scenario as statutory consultation needs to be considered within the budget setting timescale.
- 5.11 In the event of the award of a capitalisation directive and a more favourable settlement than planned for in the 2021/22 budget and beyond, the proposals put forward as part of the 2021/22 budget report can be adjusted after the settlement has been announced.

6.0 CONSULTATION

- 6.1 The Council is under a duty to consult non-domestic ratepayers about the authority's proposals for expenditure (including capital expenditure). It is normal, indeed expected under the Council's current and draft revised Constitution, that

engagement with the public over the development of the budget will go further than this and meet the standard of the Government Consultation Principles.

6.2 The consultation process, including the Council's consideration of the responses, is required to comply with the following overarching obligations (unless detailed statutory rules supplant these):

1. Consultation must be at a time when proposals are at a formative stage.
2. The proposer must give sufficient reasons for its proposals to allow consultees to understand them and respond to them properly.
3. Consulters must give sufficient time for responses to be made and considered.
4. Responses must be conscientiously taken into account in finalising the decision.

6.3 There is a particular requirement to take into consideration the Council's fiduciary duty and the public sector equality duty in coming to its decision.

6.4 The public sector equality duty is that a public authority must, in the exercise of its functions, have due regard to the need to:

- (1) eliminate discrimination, harassment, victimisation, and any other conduct that is prohibited by or under the Equality Act 2010
- (2) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it and
- (3) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

6.5 Any decision made in the exercise of any function is potentially open to challenge if this duty has been disregarded. The duty applies both to full Council when setting the budget and to Committee when considering decisions.

7.0 PLANNING FOR THE 2021/22 BUDGET

7.1 During October to December, reports will be presented to the Policy & Resources Committee that update Members on changes to the budget gap. The reports being presented to the Policy and Resources Committee up to the time the budget is set are:

- October: Covid-19 position statement
2021/22 Transitional budget process
- November: Budget update report
- December/January: Budget proposals to go out for public consultation
- January: Budget update report including the Government funding settlement

- February: 2021/22 Budget to be recommended to Full Council

7.2 Due to time constraints a new transitional process is being applied for the 2021/22 budget. This is described as follows:

Phase 1 – Immediate Actions. Status: Green - complete

- (a) Review of all 2020/21 unachievable savings to determine whether a proportion of these can be achieved
- (b) Review of 2020/21 growth/pressures to determine as a result of Covid, whether any assumptions have changed and if all the growth/pressures are required
- (c) Review of 2021/22 pressures to determine whether they are all still required and if so, at the same value
- (d) Review of earmarked reserves to determine whether any can be clawed back to be used to support the 2021/22 budget
- (e) Review of the 2020/21 budget forecasts to determine whether any savings as a result of Covid can be carried forward and used to contribute to the 2021/22 budget

Phase 2 – Directorate Proposals. Status: Amber – being finalised

- (a) The identification of short term options proposals for Members to balance the 2021/22 budget from Officers. This is a continuous process and Officers will continue to submit proposals up to and beyond December 2020
- (b) The identification of medium to long term proposals to ensure the Council can be financially sustainable for the future. This process is being twin tracked with (a) to ensure no duplication or contradiction. This is a continuous process and will carry on into the Financial Sustainability Programme once this is re-established

Phase 3 – Categorisation of Proposals. Status: Green - complete

An initial grouping of proposals into four themes to support evidence based decision making for Members:

- 1) An assessment of whether statutory services provided are efficient, and where they are not to submit efficiency proposals
- 2) An assessment of non-statutory services of whether they are providing beneficial outcomes that support cost avoidance and demand reduction in statutory services, and where they are not to submit proposals as to whether to continue with those services
- 3) An assessment of income generating services as to whether they can demonstrate a future return on investment, and where they cannot, to submit proposals as to whether to continue with those services
- 4) An assessment of all back office functions to identify whether they are providing a value added service to support statutory and beneficial non-statutory services, and where they do not to submit proposals as to whether to continue with those services

Phase 4 – Corporate Challenge. Status: Green - complete

A further breakdown of the four themes into 7 individual workstreams supported by a lead Officer to be accountable for ensuring progress against the workstreams. The themes are being led by a corporate challenge process to ensure all areas of the Council have been considered:

- 1) Service savings
- 2) Service effectiveness
- 3) Income & Traded Services
- 4) Contracts
- 5) Assets
- 6) Workforce
- 7) Prevention Strategy

As a result of this challenge a series of programmes have been identified to commence/have commenced with the aim of reducing costs across the Council in the immediate, medium and long term. These are:

- Review of effectiveness of specific back office services to ensure they are fit for purpose, adding value and taking full advantage of digitalisation
- A full Cost of Care exercise for Social Care commissioned services
- A whole Council Prevention Strategy to reduce future demand and reduce costs
- A Zero/Outcomes Based Budgeting exercise to ensure resources are aligned to outcomes and only provided where beneficial outcomes aligned to the Council's priorities can be evidenced
- A full establishment review to ensure staffing resources are aligned to the Council's priorities, especially in light of additional capacity required following Covid-19
- A review of Adult Social Care pathways to ensure they are as efficient as they can be and are optimising and outcomes based care approach
- A strategy for reducing the cost of Looked After Children in the short to medium term while the Prevention Strategy can be implemented
- A review of the Council's assets to ensure the Council is only holding assets that contribute to its priorities
- Return on Investment modelling on the Council's income generating activities to ensure investment is only provided where a future return can be demonstrated
- A review of all Council contracts and contract management functions to ensure services are only commissioned that contribute to the Council's priorities and once commissioned are being managed effectively.
- The implementation of a new combined finance/HR/procurement critical business system

Phase 5 – Contingency Plan. Status: Amber – being considered

In the event of proposals generated by the first 4 themes do not equal the value of the budget gap, a contingency process is being developed. Once all the proposals from the first four themes have been received and evaluated and the gap has not been met, other proposals need to be considered. The Council is not able to not set a balanced budget by law and where Members are not able to identify proposals to meet the gap, this would mean that the expenditure of the Council outweighs its

funding and the Section 151 Officer would be required to issue a Section 114 statement.

The contingency plan is to identify for all services, how each service could continue with a 5%, 10% or 15% reduction in those budgets. These proposals would indicate to Members what the reduced service would look like, what the implications would be and what the risks are likely to be. In the event of not being able to bridge the budget gap with proposals from the first 4 phases of the process, Members would need to choose what level of risk they would be comfortable to accept in deciding on these phase 5 proposals. This is a very high risk option and would require some further discussion.

This effective cut to services is high risk to the achievement of the Councils priorities and the Wirral 2025 plan as it will inevitably result in cuts in preventative services and in services and functions that will generate future savings and cost avoidance for the Council from additional income or reduced demand.

Longer term planning

- 7.3 In recognition of the changing landscape as a result of Covid, the Council is reviewing its 2025 Wirral Plan and priorities to ensure it is fit for its purpose in light of the immediate and longer term impact of Covid. This will drive the design and implementation of a new operating model for the Council and aligned to this, a programme of zero and outcomes based budgeting will see resources only provided where beneficial outcome can be demonstrated.
- 7.4 This programme of work will take around 12-18 months to complete and will result in significant future savings being released, a proportion of which can contribute to any ongoing future budget gap and a proportion can be reinvested into long term prevention to avoid future increases in cost. The programmes described in Phase 4 will form part of this longer term plan.

8.0 WHAT HAPPENS NEXT

- 8.1 Following the Policy and Resources Committee, Officers will present reports to the individual Service Committees during October and November with the budget proposals for 2021/22 for debate and discussion. These reports will include the Directorate proposals put forward to increase income or reduce expenditure to mitigate the budget gap and will include the proposals for what a 5%, 10% and 15% reduction in budgets would present for the service areas in 2021/22.
- 8.2 Committees will debate and discuss these proposals considering the factors that will be included within the reports:
- Impact on residents
 - Impact on the workforce
 - Impact on Wirral as a place
 - Level of risk
 - Impact on the future ability of the area to generate income or avoid future costs

- Whether the service is Statutory
- Where the service is non-statutory, what beneficial outcomes it generates

- 8.3 Committees are welcome and encouraged to identify and submit their own ideas for proposals for Officers to work up. The usual process for Committees would be to identify and submit their own ideas for budget savings during the year, however for this transition year, Officers will submit savings to Committees initially and Committee's will be asked for any proposals they also wish to consider.
- 8.4 The feedback from the individual committees will be provided to the Policy and Resources Committee at the December or January meeting, (depending on the date of the government funding announcement) where the Committee will be presented with a suite of proposals to go out for public consultation.
- 8.5 Where proposals are still being developed, they can be fed into the process at any time, through individual committees to Policy and Resources. Members must be mindful however, of the Council's obligation for public consultation where late proposals miss the December/January Policy and Resources deadline.
- 8.6 The consultation process will take around 4 weeks and the outcome will be presented to the Policy & Resources Committee in February 2021 with a full budget package to be recommended to Full Council to set the 2021/22 budget in March 2021.
- 8.7 Where the Policy and Resources Committee fails to identify sufficient proposals from the 5 phases described in section 7 that have been submitted by Officers, rejects any proposals for implementation, and fails to identify any alternative proposals to recommend a balanced budget to Full Council in March, this would result in the Section 151 Officer issuing a Section 114 notice. The implications of which would mean intervention by the Government and the appointment of external Commissioners to manage the Council's finances. As the proposals submitted to the Committees by the Officers as part of the 5 phases will be robust and achievable, it is likely that the external Commissioners would action the implementation of these.

9.0 FINANCIAL IMPLICATIONS

- 9.1 This is a financial report and therefore all the relevant financial information is contained within the main body of the report

10.0 LEGAL IMPLICATIONS

- 10.1 The entire report concerns the duty of the Council to avoid a budget shortfall. The Chief Finance Officer has a personal duty under the Local Government Finance Act 1988 Section 114 to make a report to the executive if it appears to them that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources available to it to meet that expenditure. The current financial situation is at a point in time and further funding and flexibilities is awaited from Government to offset the budget gap. If this is not sufficient to offset the forecast and no alternatives can be sound, this position will be revisited.

11.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

- 11.1 There are no specific implications from this update report however all of the proposals being developed will have implications for staffing, ICT and assets and these will be covered individually in the budget proposals that are presented to the Policy and Service Committees

12.0 RELEVANT RISKS

12. There is a risk that if the capitalisation directive is not approved by HM Treasury then an emergency budget will have to be set. However this will be presented to Policy and Resources Committee in November 2020.

13.0 ENGAGEMENT/CONSULTATION

- 13.1 Informal consultation has been carried out with Members who have been kept apprised of the Council's budget situation.

14.0 EQUALITY IMPLICATIONS

- 14.1 Wirral Council has a legal requirement to make sure its policies, and the way it carries out its work, do not discriminate against anyone. An Equality Impact Assessment is a tool to help council services identify steps they can take to ensure equality for anyone who might be affected by a particular policy, decision or activity.
- 14.2 Equality impact assessments where relevant will be provided for all of the individual budget proposals being presented to the Policy and Services Committees during October and November 2020. This report has no impact on equalities.

15.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

- 15.1 The content and/or recommendations contained within this report are not expected to have any impact on emissions of Greenhouse Gases

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APPENDICES

None

BACKGROUND PAPERS

Council's Constitution

Policy & Resources Committee Terms of Reference

Local Government Finance Act 1988

Quarter 1 Budget Monitoring Report

2020/21 Budget Report and Medium Term Financial Plan

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Full Council Cabinet	2 March 2020 27 July 2020