

## **POLICY AND RESOURCES COMMITTEE**

**Wednesday, 5 October 2022**

<b>REPORT TITLE:</b>	<b>2023/24 BUDGET SETTING PROCESS</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF RESOURCES</b>

### **REPORT SUMMARY**

This report provides an update on the 2023/24 budget position following changes to the assumptions made and presented to the Committee in March 2022. These changes have arisen as a result of the national picture of high inflation and rising costs which are impacting on the budget gap, causing it to increase significantly for 2023/24. The report sets out the work already undertaken as well as the need for further work to develop the 2023/24 budget in order to urgently mitigate the gap.

The Policy and Resources Committee, in consultation with the respective Policy and Service Committees, is charged by Council to formulate a draft Medium Term Financial Plan (MTFP) and budget to recommend to the Council. The Policy and Service Committees are responsible for those services being delivered under their operational headings within their annual budget envelope.

The report supports the delivery of the Wirral Plan as part of the process of delivering a balanced budget for all Council activity, and therefore all Wirral Plan aims and objectives, for 2023/24.

This is not a key decision.

### **RECOMMENDATIONS**

The Policy & Resources Committee is recommended to:

1. Note the work undertaken to date to deliver the 2023/24 budget.
2. Note the revised 2023/24 budget gap and the factors contributing to this.
3. Note that officers will work up a further package of policy options to meet the revised budget gap, with Members engaged via the Group Leaders' Budget working group and a further round of budget workshops with Policy & Services Committees.
4. Authorise the Chief Executive, in consultation with the Chair and Group spokespersons, to undertake a pre-budget "have your say" consultation, setting out the scale of the Council's 2023/24 budget challenge and inviting residents to offer their views on the prioritisation of Council Services.
5. Approve that the outcomes of the pre-budget "have your say" consultation be reported back to a future meeting of the Policy & Resources Committee as part of the budget setting process.

## **SUPPORTING INFORMATION**

### **1.0 REASONS FOR RECOMMENDATIONS**

- 1.1 The Council has a legal responsibility to set a balanced budget, which sets out how financial resources are to be allocated and utilised. To do this effectively requires engagement with staff, elected members and residents. This report highlights the external challenges that are impacting on the 2023/24 budget setting process and highlights the urgent need for further work to ensure the necessary preparations towards a budget recommendation to Council on 28 February 2023.
- 1.2 The scale of the financial challenge that the Council faces cannot be overstated. Setting a budget, especially in the context of largely uncontrollable, macro-economic pressures, emerging at an unprecedented pace, requires difficult decisions to ensure that a balanced position can be presented. Regular Member engagement on the process, which this report forms part of, is considered essential for effective budget formulation.
- 1.3 Failure to set a balanced budget may lead to intervention from the Secretary of State under section 15 of the Local Government Act 1999. Failure to set a lawful budget by the required time may lead to a loss of revenue, significant additional costs and reputational damage.

### **2.0 OTHER OPTIONS CONSIDERED**

- 2.1 There is a need to identify a package of policy options that exceeds the anticipated 2023/24 budget gap to enable Members to make a decision in respect of setting a balanced budget. There are no other options open to the Council that effectively mitigate the risk of issuing a section 114 notice.

### **3.0 BACKGROUND INFORMATION**

- 3.1 The budget setting process for 2023/24 commenced much earlier than in previous years in order to put the Council in a strong position in terms of its continued improvement and financial recovery, set against the backdrop of the key principles from the Council's Medium Term Financial Strategy (Appendix 1). Directors were asked by the Chief Executive in May to work up and present to the Strategic Leadership Team viable budget policy options in order to meet the then forecast budget gap of £14.1m. Proposals were brought forward against defined Directorate savings targets and shared with Policy and Service committees through a series of budget workshops during the summer.
- 3.2 As a result of this work, a suite of proposals totalling £13.2m were brought forward to the relevant Policy and Services Committees for comment. These proposals have also been stress-tested to ensure they are realistic and achievable. The early start to the budget setting process put the Council in a strong position in its 2023/24 budget preparation with the anticipated gap almost balanced with the proposals brought forward. This early start demonstrated that the Council had regained a positive position of sound financial sustainability with robust practices in place that evidenced

a culture of good financial management. This progress was also shared with the Independent Assurance Panel, which endorsed the approach that had been taken.

- 3.3 In June, financial monitoring highlighted a range of in-year (2022/23) financial pressures resulting from emerging external, national and global circumstances. These financial challenges are having a significant impact on:
- Contract inflation
  - Reduced income
  - Energy price increases
  - Pay inflation.
- 3.4 Mitigation was identified against the in-year pressures to make it possible to report a balanced budget at financial year end. However, there quickly became a need to review and continuously re-assess the 2022/23 impact, 2023/24 baseline gap and wider MTFP considerations.
- 3.5 Over the summer, further modelling of increasing pressures was undertaken as the national economic picture worsened at an unprecedented rate with record high inflation and rising energy costs. During August, a review was conducted to re-assess the scale of pressures in 2023/24 across all Council Directorates and to re-set the MTFP against worse/mid-range/best case scenarios. It should be noted that these financial challenges are facing the whole country and Wirral, like most other Council's, is now facing a significantly worsened assumed budget gap for 2023/24, which currently stands at £49m.
- 3.6 Contained within the net budget gap of £49m, are five main items, which constitute approximately £42.3m of all pressures:
- Adult Social care - £12.9m
  - Utility costs - £10.5m
  - Pay award impact estimate - £9.9m
  - Children's residential placements - £5.5m
  - Reduced income - £3.5m
- 3.7 The Senior Leadership Team has been meeting regularly to formulate a revised approach to meeting the budget gap in the context of this worsening financial picture. This includes:
- Completing a detailed review of all forecast 2023/24 assumed pressures,
  - Completing a review of earmarked reserves,
  - Identifying a second Tranche of budget policy options for 2023/24 to be brought forward at pace.
- 3.8 In terms of the final bullet point above, given the scale of the budget challenge, an approach of salami-slicing all budgets is not considered sustainable and more radical approaches will need to be considered. Specifically, there will be a need to re-visit the Council's core purpose and statutory duties and responsibilities for providing essential services to those with the greatest needs, over those services which are discretionary and have been delivered by choice rather than legal or statutory duty.
- 3.9 A package of Tranche 2 savings will be brought forward and a further round of budget workshops will be scheduled with Policy Committees during

October/November. The outcomes from these workshops will be combined with the first round of budget workshops delivered over the summer to review Tranche 1 policy options and will be presented to Policy & Resources Committee in December.

- 3.10 Given the scale of the revised 2023/24 budget challenge, it is also proposed that a high-level, pre-budget consultation is initiated as early as possible, that seeks to harness the views of Wirral residents in relation to the prioritisation of Council services. The outcomes of this consultation will inform one of a number of the Policy and Resources committee's considerations when formulating its final budget recommendation, alongside the outcomes from the committee budget workshops and the level of funding available once the government's Comprehensive Spending Review (CSR) is completed and the financial settlement for 2023/24 is clear.
- 3.11 This high-level approach should be seen as an opportunity to set out to residents the scale of the budget challenge the Council faces and the reasons behind this, in line with other authorities across the country. It should also be used as an opportunity to remind residents how the Council's budget is made up and how it is spent, highlighting the distinction between statutory services which the Council has a legal duty to provide and additional discretionary services which are delivered out of choice.
- 3.12 Officers will continue to monitor the financial situation closely given the level of volatility in the external environment and factors that have led to the worsened budget position set out in this report. It is only once the government's financial settlement is made clear, that a robust and final budget position can be presented. It is the responsibility of officers to ensure there is a sufficient package of policy options for members to decide upon as a gap position for the forthcoming budget year emerges.

#### **4.0 FINANCIAL IMPLICATIONS**

- 4.1 This report provides the Committee with an update on 2023/24 budget preparation, how external factors are impacting on this and how the assumed gap has significantly worsened from £14.1m to £49m over the past three months due to major changes in the financial landscape. Work is now under way to address the increased gap and bring forward a package of policy options to inform the final budget recommendation in February 2023.

#### **5.0 LEGAL IMPLICATIONS**

- 5.1 The Policy and Resources Committee, in consultation with the respective Policy and Service Committees, has been charged by Council to formulate a draft Medium Term Financial Plan (MTFP) and budget to recommend to the Council.
- 5.2 The Council must set the budget in accordance with the provisions of the Local Government Finance Act 1992 and approval of a balanced budget each year is a statutory responsibility of the Council. Sections 25 to 29 of the Local Government Act 2003 impose duties on the Council in relation to how it sets and monitors its budget. These provisions require the Council to make prudent allowance for the risk and uncertainties in its budget and regularly monitor its finances during the

year. The legislation leaves discretion to the Council about the allowances to be made and action to be taken.

- 5.3 Section 30(6) of the Local Government Finance Act 1992 provides that the Council has to set its budget before 11<sup>th</sup> March in the financial year preceding the one in respect of which the budget is set.
- 5.4 The provisions of section 25, Local Government Act 2003 require that, when the Council is making the calculation of its budget requirement, it must have regard to the report of the chief finance (s.151) officer as to the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves.
- 5.5 When considering options, Members must bear in mind their fiduciary duty to the council taxpayers of Wirral. Members must have adequate evidence on which to base their decisions on the level of quality at which services should be provided.
- 5.6 Where a service is provided pursuant to a statutory duty, it would not be lawful to fail to discharge it properly or abandon it, and where there is discretion as to how it is to be discharged, that discretion should be exercised reasonably.
- 5.7 The report sets out the relevant considerations for Members to consider during their deliberations and Members are reminded of the need to ignore irrelevant considerations. Members have a duty to seek to ensure that the Council acts lawfully. Members must not come to a decision which no reasonable authority could come to; balancing the nature, quality and level of services which they consider should be provided, against the costs of providing such services.
- 5.8 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.
- 5.9 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.
- 5.10 Any decision made in the exercise of any function is potentially open to challenge if the duty has been disregarded. The duty applies both to Full Council when setting the budget and to the Policy and Services Committees when considering decisions.
- 5.11 Once a budget is in place, Council has delegated responsibility to the Policy and Services Committees to implement it. The Committees may not act contrary to the Budget without consent of Council other than in accordance with the Procedure Rules set out at Part 4(3) of the Constitution.
- 5.12 It is essential, as a matter of prudence that the financial position continues to be closely monitored. In particular, Members must satisfy themselves that sufficient

mechanisms are in place to ensure both that agreed savings are delivered and that new expenditure is contained within the available resources. Accordingly, any proposals put forward must identify the realistic measures and mechanisms to produce those savings.

## **6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS**

6.1 The budget process for 2023/24 will have a direct impact on resources. For all individual budget policy options brought forward, an impact assessment will be completed setting out their impact on staffing, assets and other resource requirements.

## **7.0 RELEVANT RISKS**

7.1 The Council's ability to maintain a balanced budget is dependent on a proactive approach due to estimated figures being provided in the calculation for the budget, albeit the best estimates available at the time, plus any amount of internal and external factors that could impact on the budget position. Examples of which are the significant emerging inflationary and cost of living pressures, new legislation, increased demand, loss of income, increased funding, decreased funding, inability to recruit to posts, ongoing impact of the pandemic, etc.

7.2 A robust monitoring and management process for the budget is in place. If at any time during the year an adverse position is forecast, remedial action must be agreed and implemented immediately to ensure the budget can be brought back to balanced position.

7.3 The risk of this not being able to be achieved could mean that the Council does not have enough funding to offset its expenditure commitments for the year and therefore not be able report a balanced budget at the end of the year. This could result in the Section 151 Officer issuing a Section 114 notice.

7.4 A key risk to the Council's financial plans is that funding and demand assumptions in particular can change as more information becomes available. As such, the MTFP is regularly reviewed and updated as part of routine financial management.

7.5 A balanced MTFP is fundamental in demonstrating robust and secure financial management. Delivering a balanced position requires continual review and revision of plans to allow alternative financial proposals to be developed and embedded in plans as situations change. A delay in agreeing these may put the timetable for setting the 2023/24 budget at risk and may result in a balanced budget not being identified in time ahead of the deadline of 11 March 2023.

7.6 Assumptions have been made in the current budget outlook for income and funding from business rates and council tax and social care grants as the main sources of funding. If there is an adverse change to these assumptions as a result of the CSR, additional savings proposals or reduced expenditure would need to be identified as soon as possible to ensure a balanced five-year MTFP can be achieved. Committees will be kept updated with any announcements regarding the CSR through the year.

7.7 Sections 25 to 29 of the Local Government Act 2003 impose duties on the Council in relation to how it sets and monitors its budget. These provisions require the Council to make prudent allowance for the risk and uncertainties in its budget and regularly monitor its finances during the year. The legislation leaves discretion to the Council about the allowances to be made and action to be taken.

## **8.0 ENGAGEMENT/CONSULTATION**

8.1 The preparation of the annual budget requires engagement of all key stakeholders. Senior Leadership Team (SLT) has been engaged in the 2023/24 budget setting process since May. Elected Members have been engaged through Policy and Resources Committee Finance Working Group and all Policy Committees have been engaged in the process through the budget workshops delivered over the summer. A further round of budget workshops will be scheduled to enable members to review further budget policy options brought forward as part of Tranche 2 savings.

8.2 The budget development process creates a requirement for consultation on a number of different levels including:

- Pre-budget consultation (as proposed in this report),
- Service impact consultations,
- Statutory budget consultation (with members of the business community),
- Staff impact consultation where staff are directly impacted by proposals.

As budget policy options are brought forward, they will be assessed to determine any specific consultation requirements.

## **9.0 EQUALITY IMPLICATIONS**

9.1 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 (EIA) 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.

9.2 For all budget policy options included as part of the final budget recommendation, and EIA will be completed.

## **10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS**

10.1 There are no Environment and Climate Emergency implications arising as a direct result of this report. All budget policy options brought forward, will need to consider any associated implications as part of their implementation.

## **11.0 COMMUNITY WEALTH IMPLICATIONS**

11.1 This report has no direct community wealth implications however the budget proposals under consideration should take account of related matters across headings such as the following:

- **Progressive Procurement and Social Value**  
How we commission and procure goods and services. Encouraging contractors to deliver more benefits for the local area, such as good jobs, apprenticeship, training & skills opportunities, real living wage, minimising their environmental impact, and greater wellbeing.
- **More local & community ownership of the economy**  
Supporting more cooperatives and community businesses.  
Enabling greater opportunities for local businesses.  
Building on the experience of partnership working with voluntary, community and faith groups during the pandemic to further develop this sector.
- **Decent and Fair Employment**  
Paying all employees a fair and reasonable wage.
- **Making wealth work for local places**

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## APPENDICES

### APPENDIX 1 – KEY PRINCIPLES OF THE MEDIUM-TERM FINANCIAL STRATEGY

#### BACKGROUND PAPERS

CIPFA's Financial Management Code  
Medium Term Financial Strategy 2022-27 Wirral Council

#### SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Policy and Resources Committee	13 July 2022
Policy and Resources Committee	16 March 2022
Full Council	28 February 2022
Policy and Resources Committee	15 February 2022

## **APPENDIX 1 – KEY PRINCIPLES OF THE MEDIUM-TERM FINANCIAL STRATEGY**

The Council will:

1. Set fees and charges commensurate with a going market rate for the services we provide and make concessions available for vulnerable groups.
2. Set spending levels for services not higher than the Metropolitan average to ensure we can demonstrate value for money for resident funding, unless there are exceptional circumstances.
3. Ensure a digital first approach and review all services to ensure we are making full and immediate use of digital capacity and automation.
4. Ensure that our non-statutory services are not subsidised at the detriment of statutory services unless an evidenced return on investment is demonstrated.
5. Ensure our establishment is at the required level for the services we need to provide and where it needs to be reduced, we will attempt to redeploy staff or provide opportunities for staff to exit the organisation voluntarily before making any compulsory redundancies.
6. Only allocate resources to the themes in the Wirral Plan and where beneficial outcomes can be evidenced.
7. Provide opportunities for communities to engage in where we allocate our resources whilst being clear and realistic about affordability.
8. Consider a range of delivery mechanisms for providing services appropriate to the most beneficial outcomes for communities.
9. Aim to promote and stimulate strong and sustainable growth to generate future income flows.
10. Support trusted partners by leveraging external funding and, within risk-based controls, use the council's covenant strength to enable regeneration.
11. Within 2 years build up and maintain its general fund balances at 5% of its net revenue budget and will maintain a suite of earmarked reserves that will be used for specific projects to support the key priorities and safeguard against financial risk.
12. Not use any one-off Council funding to underpin the revenue budget.
13. Recognise the impact of council tax increases on the public and consider this alongside the annual budget setting process.
14. Ensure that expenditure is contained within the budget envelope and where unforeseen circumstances result in a risk that expenditure will exceed the budget envelope, produce immediate plans to bring it back in line.