Cabinet

25 January 2022

2022/23 Budget and 2022-27 Medium Term Financial Strategy – Updated Information

Members should note that at the time of publication not all the information on the local taxbases for 2022/23 has been received from the District/Borough Councils. If this information is received between the publication date and the date of the meeting on 25 January 2022 an updated report will be tabled.

Recommendations

Cabinet is recommended to:

1) Note the latest resource and spending information and the impact on the emerging budget proposals;

2) Note the Strategic Director for Resources' risk assessment on the level of general reserves, as detailed in Appendix A;

3) Publish, in light of the information provided, their 2022/23 budget resolutions for recommendation to Council on 8 February 2022; and

4) Authorise the Strategic Director for Resources to incorporate the outstanding resource information into the budget resolutions to be considered by Council on 8 February 2022.

1. Introduction and Background

1.1. The Cabinet meeting on 7 December 2021 considered a report outlining all the information underpinning the development of the 2022/23 budget and 2022-27 Medium Term Financial Strategy (MTFS) alongside options from Corporate Board as to what should/could be funded within a balanced budget.

1.2. The proposals focussed on ensuring the Authority remains robust, ambitious and resilient in setting the MTFS, given the economic uncertainties that will continue to exist. As at December this meant that the budget for 2022/23 was balanced with a 2% council tax increase plus a 2% adult social care levy and using some of the one-off resources available but that sustainability over the period of the MTFS required a material programme of budget reductions.

1.3. The budget for 2022/23 is a refresh of the five-year rolling MTFS approved in February 2021, with an additional year added, that will continue to align the resources of the Authority to the objectives and ambitions set out in the Council Plan. The use of a rolling MTFS ensures plans for the use of resources are responsive to changes in the context within which the Authority is operating, something that has been critical during 2021/22 as we continue to respond to the pandemic and growing inflationary pressures, whilst ensuring the Authority remains robust and resilient over the medium term. This will allow the Authority to plan to deliver on its ambitions with confidence.

1.4. The key assumptions underpinning the options presented to Cabinet on 7 December 2021, were:

- A 2% increase in the basic level of council tax for each of the five years of the MTFS;
- A 2% adult social care levy for 2022/23 and a further 1% levy in the following two financial years;
- A 3% provision for price inflation and a 4% provision for pay inflation in 2022/23 with both returning to a 2% annual uplift over the medium term plus a provision for contractual commitments above this level, collectively estimated to cost £21.258m in 2022/23 and £71.525m over the period of the MTFS;
- Unavoidable on-going allocations of £22.308m and time-limited allocations of £12.635m to meet growing demand pressures and pump prime investment to support the delivery of the Council’s objectives, with indicative further allocations in future years bringing the investment over the period of the MTFS to £88.707m and £22.120m respectively;
- Setting aside £7.972m in 2022/23, increasing to £32.397m by 2026/27 to provide financial cover for the gap between the Dedicated Schools Grant (DSG) funding for pupils with Special Educational Needs and Disabilities (SEND) and the estimated level of spend;
- Budget balancing options of £66.794m that will help ensure the Council remains financially sustainable and resilient over the medium term;
- An updated reserves strategy that balanced retaining sufficient resources to manage financial risk whilst identifying £45.217m of reserves that could be made available for investment and to support the MTFS, through

controlling the amount of the Council's scarce resources held in reserves; and

- A refreshed capital strategy that aims to optimise the way in which we generate, manage and allocate the capital funds at our disposal to continue to make Warwickshire an attractive place to live, work, visit and do business both in terms of the immediate recovery from the pandemic and over the medium to long-term.

1.5. These proposals were based on the best information available at the time. In a number of areas final information was either unknown or has changed over the intervening period. These areas are:

- The provisional Local Government Finance Settlement and other Government funding announcements;
- The impact in 2022/23 of the revised 2021/22 forecast outturn that has emerged as part of the quarterly budget monitoring and is reported elsewhere on today's agenda;
- The level of business rates expected to be generated locally in 2022/23;
- The council tax taxbase for 2022/23;
- The surplus/deficit on council tax collection from previous years;
- The sustainability of schools and the proposals for use of the Dedicated Schools Grant (DSG) in 2022/23; and
- The latest reserves forecasts and the impact of the Strategic Director for Resources' reserves risk assessment.

1.6. This report updates members on the latest information for each of these areas, and in doing so it also provides Cabinet with the opportunity to issue their 2022/23 revenue and capital budget resolutions. Where final information is not available in time for the publication of this report, an updated version will be tabled at Cabinet on 25 January 2022.

2. Impact of the Local Government Finance Settlement

2.1. The provisional Local Government Finance Settlement was announced on 16 December 2021, with all Members provided with a briefing the following day. There were three elements of the announcement that had an impact on the financial position reported to Members earlier in the month: New Homes Bonus; additional social care grant funding; and the allocation methodology for the additional funding announced for local authorities in the Chancellor's 2021 Spending Review.

2.2. Overall, much of the detail in the Settlement confirmed things already announced in the 2021 Spending Review in October. However, whilst three-year allocations were made to Government Departments, the Local Government Finance Settlement remains a one-year settlement. This means the authority is not benefitting from the additional financial certainty a multi-year settlement would have provided but it does provide Government with the ability to respond positively to pressures that emerge before the next Settlement.

2.3. The provisional Local Government Finance Settlement gave the Authority an additional £5.363m in government grants, above the level included in the December Cabinet report for 2022/23, comprised as follows:

- £0.545m additional New Homes Bonus;
- £0.464m increase in the Improved Better Care Fund (iBCF);
- £2.846m extra Social Care/Services Grants compared to the £6.750m estimated in the December Cabinet report; and
- £1.508m of new Market Sustainability and Fair Cost of Care Grant (MSFCCG) to help prepare for the introduction of the future reforms in adult social care.

2.4. However, not all of this funding is available to support the budget more widely. As a minimum the £1.508m MSFCCG and the £0.464m iBCF come with additional spending commitments. Therefore, the maximum additional funding available to support the budget in 2022/23 is **£3.391m**.

2.5. The final complication is the longevity of this funding beyond 2022/23. The Settlement also included an announcement of a consultation on a fair funding review early in 2022, for implementation in 2023/24. This review may result in the level of our government funding increasing or decreasing compared to 2022/23 levels for the remainder of the MTFS.

2.6. Previously we have worked on the assumption that the fair funding review would be at worst neutral for the Authority. Recent statements from the Secretary of State that the fair funding review will focus on levelling up and supporting those authorities/areas with less buoyant taxbases, suggest this assumption may be over-optimistic. To reflect this risk, a judgement has been made that the MTFS should only assume we retain 75% of the general on-going government grant funding from 2023/24 onwards.

2.7. This would equate to a £2.640m reduction in government grant funding compared to 2022/23 and a 2% reduction in the total funding that has the potential to be impacted by the fair funding review. This judgement, if it proved to be correct, would mean only **£0.206m** of the gain above the £6.750m in 2022/23 would be available in future years. If our losses as a result of the fair funding review are bigger than 2% there may be a need to identify additional savings in future years.

Market Sustainability and Fair Cost of Care Grant

2.8. In September 2021 the Government announced they would be supporting local authorities towards paying a fair rate of care. £162m will be distributed in 2022-23, followed by £600m in both 2023/24 and 2024/25. This is funded from the Health and Care Levy (the 1.25% increase in National Insurance), also announced in September. This new grant is called the Market Sustainability and Fair Cost of Care Grant.

2.9. Warwickshire will receive £1.508m MSFCCG in 2022/23. It is a ring-fenced grant with eligible spending being:

- Conducting a cost of care exercise to determine the sustainable rates and to identify how close our rates are to the sustainable rate;
- Engaging with local providers on the costs and numbers of self-funders covering both residential and domiciliary care;
- Strengthening capacity to plan for greater market oversight and improved market management; and
- Increasing fee rates as appropriate to local circumstances.

Further work is required to determine how this work will be taken forward and this will be reported to Cabinet once plans have been determined. The importance of this work cannot be understated as the Department for Health and Social Care is requiring local authorities to submit information on the cost of care exercise, a provisional market sustainability plan and how the funding in 2022/23 has been used to achieve a sustainable local market, by September 2022, in return for being able to access a share of the £600m funding in the following two financial years.

2.10. No additional Covid funding has been announced. However, the Settlement did say that this would be revisited in the New Year should restrictions and/or costs increase. Members will be kept informed is any announcement is made. Also, the Government has recently announced that the deadline for spending the two biggest ring-fenced Covid grants (Contain Outbreak Management Fund and Test and Trace grant) has been extended to the end of 2022/23. This provides additional flexibility in how we allocate resources in response to any covid-related unavoidable cost pressures in 2022/23.

3. Local Taxation

Council Tax

3.1. In the December Cabinet report the recommendations were based an increase in the taxbase of 1% in 2022/23. The districts/boroughs have now confirmed their council tax base for 2022/23 and these are showing a year-on-year increase of 0.2%. This will **generate additional on-going resource of**

£x.xxxm. The breakdown of the 2022/23 taxbase across the districts/boroughs is shown in Table 1.

Table 1: A Comparison of the 2021/22 and 2022/23 Council Tax Taxbase				
	2021/22 Taxbase Band D Properties	2022/23 Taxbase Band D Properties	Variation Band D Properties	Variation %
North Warwickshire	21,071.07			
Nuneaton and Bedworth	38,408.10			
Rugby	38,735.48	39,485.02	+749.54	+1.94%
Stratford-on-Avon	56,936.42	59,076.01	+2,139.59	+3.76%
Warwick	55,916.75			
Total	211,067.82			

Business Rates

3.2. The partial localisation of business rates is still volatile with annual changes to the schemes of discounts and allowances continuing to make it difficult to make any realistic assumption about the likely level of income. This continues to be exacerbated by the range of grants and reliefs provided temporarily to businesses to support them through the pandemic and the uncertain impact of the pandemic and recovery activity on the business rates taxbase.

3.3. In the December Cabinet report the options were based on a 2% uplift in income from business rates in 2022/23. We do know that for individual businesses the business rates multiplier (the provision for inflationary uplift) has been frozen for 2022/23 and that local authorities will be compensated for this loss of income through an additional grant. But the level of this grant is currently unknown as it will depend, in part, on the taxbase returns submitted by billing authorities at the end of January 2022.

3.4. The statutory deadline for the districts/boroughs providing details of our share of expected business rates in 2022/23 is 31 January 2022. Given the level of uncertainty within which they are operating no figures have been received to date. It is therefore recommended that the current estimates, as included in the December 2021 Cabinet report, are used for budget setting. Any variation will then be managed through the use of or a contribution to the provision set aside in reserves for this purpose. The final position will be reported to Cabinet in April as part of the Service Estimates report.

Surplus/Deficit on Collection

3.5. As part of setting the council tax we also have to take into account any surplus/deficit on collection of council tax from previous years. As a result of the impact of the pandemic on council tax collection the Government has legislated for local authorities to phase the recoupment of the 2020/21 loss over three years, with 2022/23 being the second year. Our share of any pre-pandemic surplus/deficit (i.e. 2019/20 and earlier) as well as any loss from 2021/22 must still be made good in 2022/23. The breakdown of the surplus/deficit across the districts is shown in Table 2 and shows a deficit to be funded in 2022/23 of £x.xxxm. The third year's share of the 2020/21 deficit of £1.459m remains to be made good in 2023/24 before any surplus/deficit from subsequent years is taken into account.

	Share of 2020/21 Deficit £m	New Deficit/ (Surplus) in 2022/23 £m	Total Deficit/ (Surplus) in 2022/23 £m
North Warwickshire	-		
Nuneaton and Bedworth	0.198		
Rugby	0.140		
Stratford-on-Avon	0.727		
Warwick	0.394		
Total	**1.459**		

3.6. As part of the provisional 2021/22 Settlement the Government committed to fund 75% of irrecoverable 2020/21 deficits. With this funding and the provision for deficits on collection set aside in previous years there is sufficient funding in reserves to meet any deficit in 2022/23. Any use of reserves to meet the collection fund deficit will be incorporated into the budget resolutions once the figure is known.

4. Reserves

4.1. When looking at short-term funding to support the 2022/23 budget we need to consider the known calls on reserves. The Quarter 3 forecast outturn position, reported elsewhere on today's agenda, is an overspend of £11.031m.

4.2. £10.480m of this underspend relates to earmarked/covid-related funding that cannot be used to support the budget more widely. The balance (an overspend of £0.551m) has been taken into account when determining the £45.217m reserves that could be released to support the 2022/23 budget in the report to Cabinet in December 2021.

4.3. The Quarter 3 forecast position was prepared in December 2021, just before current phase of restrictions was announced in response to the latest covid variant. As a result, the forecasts of spend to the end of the financial year are likely to continue to be volatile and uncertain. This means that, at this stage, the only additional reserves, beyond the £45.217m, available to fund the MTFS are the £15.782m Investment Funds. It is recommended that any use of these funds to fund the 2022/23 budget and the MTFS is kept to a minimum to ensure funds remain available to invest to support the delivery of the Council's priorities and further efficiencies over the medium term.

4.4. Legislation requires that the Chief Finance Officer makes an annual statement on the adequacy of general reserves and provisions. The risk assessment relates to the short-term financial risks that could impact on the authority in 2022/23 to deliver core services and drive forward the ambitions set out in the Council Plan. The Strategic Director for Resources has now completed the risk assessment for 2022/23. The risk assessment confirms that the minimum level of general reserves it is prudent to retain is £26.0m. A summary of the risk assessment is attached at **Appendix A**.

4.5. The minimum level of general reserves of £26.0m represents a £4.6m increase compared to the position at this time last year. The change reflects the high level of uncertainty around future inflationary impacts. Although the £4.6m increase in the overall provision is more than accounted for by the increased provision for inflationary risk (+£4.8m) there have been other changes to the specific reasons for the provision:

- Two new financial risks totalling £3.875m in respect of loans made to companies through the pandemic and recovery process not being repaid in full and the need for investment in response to the findings from inspection reports;
- Increased financial risks totalling £1.575m arising from unanticipated budget pressures, the sufficiency of resources in relation to early years and special educational needs and disabilities costs funded from the Dedicated Schools Grant and the failure of key social care providers;
- Reduced financial risks totalling £4.875m in respect of the cost of "Bellwin" type emergencies, such as flooding, before Government support kicks in, managing any in-year cuts in Government funding, the cost of the inability to agree inter-authority/organisation plans, the medium/long term financial impact of Covid-19, the loss of surplus as a result of reduced demand for Education traded services, overspending in centrally-held budgets where there is no directorate risk reserve and a reduced general contingency; and
- A reduction of £0.900m where separate provision for the financial risk is no longer required covering disruption as a result of EU exit and risks relating to employment terms and conditions.

4.6. The approved budget will be expected to reflect the minimum £26.0m General Reserves provision required as a result of the Strategic Director for Resources risk assessment. In his capacity as Chief Financial Officer's, his statement on the whether the budget is balanced and sustainable will include reference to whether the required General Reserves provision is maintained.

5. Changes to Proposed Allocations

5.1. Since the December 2021 Cabinet report was drafted additional information about the unavoidable cost increases and demand pressures facing the Authority has emerged. Four additional pressures totalling **£0.765m** have been identified. Members are required to resource these within their 2022/23 budget proposals or identify alternative ways in which the cost increases will be funded.

5.2. Table 3 lists the £0.765m of additional unavoidable spending proposals.

Table 3: Additional 2022/23 Unavoidable Spending Pressures		
Service	**Description**	**Cost £m**
Education	**Mainstream Home to School Transport** – an increase in the £1.000m allocation in the December Cabinet report to rightsize the budget based on the current level of overspending, as reported in the Quarter 3 Budget Monitoring report elsewhere on today's agenda.	0.500
	Education Leadership Capacity – an allocation to increase the senior leadership capacity in the Education Service.	0.100
Strategic Commissioning for Communities	**Coventry, Solihull and Warwickshire Resilience Team** – Growth in the Team has been previously approved by all three authorities. Permanent funding to meet our share of the cost is now required.	0.065
Strategic Commissioning for People	**Tackling Inequalities in Public Health Capacity** – Work has already started in 2021/22 funded from Covid grants. The additional capacity is critical to the implementation of the Authority's draft Council Plan and the need for permanent funding should have been included in the December report.	0.100
	Total	**0.765**

6. Dedicated Schools Grant

6.1. At the same time as the Local Government Finance Settlement was announced the Department for Education also announced a Dedicated Schools Grant of £518.6m for 2022/23 to provide funding for services to schools and pupils. A report seeking approval for the allocation of the Dedicated Schools Grant can be found elsewhere on today's agenda.

6.2. The Council's policy is to expect the cost of funding schools and relevant pupil-related services to be contained within the level of the Dedicated Schools Grant. However, meeting this policy aspiration in relation to high needs services and support could only be achieved over the medium term and at this stage our ability to do this is uncertain in the absence of additional Government funding or fundamental system change; given the nationally growing demand for services and the lack of capacity in the system. Any decisions to manage the deficit position on high needs will also need to be included as part of the budget resolution to be agreed by Council in February 2022.

7. Capital Strategy and Programme

7.1. There are no changes or proposed amendments to the draft capital strategy brought forward as part of the December Cabinet report, subject to updating the numbers for the latest monitoring information.

7.2. The strategy, alongside the capital programme itself will need to be included, subject to any changes proposed by Members, as part of the capital resolution to Council in February. If forms part of a suite of documents that set out:

- Our strategic intent – the aspiration and direction for our capital investment, defining the outcomes we are seeking to achieve through investment (why);
- The draft programme – the activity programmes and projects funded from our capital investment (what); and
- The governance framework – the way we will manage capital spend and the capital programme (how). It is this technical annex that ensures we meet with statutory guidance. It also sets out how we will optimise delivery by strengthening of performance, adopting commercial principles and practice and robust benefits realisation.

7.3. The draft technical annex, consistent with the capital strategy included in the December 2021 Cabinet report is attached at **Appendix B**. This will also need to be updated as part of the capital budget resolution to be consistent with the budget proposals being brought forward for consideration and the capital strategy. It also reflects the refreshed WRIF and WPDG business plans and the consideration of the draft Council Plan, elsewhere on today's agenda

7.4. The third document in the suite of capital documents is the capital programme. This will be updated following Members' consideration of the 2021/22 Quarter 3 Budget Monitoring Report.

8. Outstanding Issues for 2022/23

8.1. Section 3 of the report highlighted a number of areas where information is still outstanding on the final level of resources that will be available to the authority in 2022/23. Where this information is available before 25 January 2022 it will be included in a revised report and/or the 2022/23 budget resolutions. Where any information is not known when the papers for Council in February are published, any variation to the estimated figures will be managed through reserves for 2022/23 and picked up as part of the preparation for the 2023/24 refresh of the MTFS. Any areas of concern will be specifically reported to Members as part of the Service Estimates report to Cabinet in April 2022.

9. 2022/23 Budget Resolutions

9.1. In putting forward their proposals, Members are reminded that local authorities are required by law to set a balanced budget. An intention to set a deficit budget is not permitted. However, what is meant by ‘balanced’ is not defined in law. A prudent definition of a sustainable balanced budget is a financial plan based on sound assumptions which shows how income will equal expenditure over the short- and medium-term, acting in a way that considers both current and future local taxpayers.

9.2. If the budget is unbalanced then the Chief Finance Officer, supported by Corporate Board, would have to consider issuing a Section 114 notice. Such a notice is only given in the gravest of circumstances, as during that time the ability to incur new spending that isn't an existing contractual or salary commitment is suspended, the External Auditors would investigate and publicly report on the circumstances and the Ministry for Levelling Up, Housing and Communities (MLUHC) may take over the running of the Authority.

9.3. Because Members decide on the council tax before the year begins and cannot increase it during the year, there is a need to consider risks and uncertainties that might force them to spend more on their services than they planned. Allowance is made for these risks by making prudent allowance in the estimates for services and ensuring that there are adequate reserves to draw on if the service estimates turn out to be insufficient.

9.4. To avoid setting an unbalanced budget the Local Authority has to be financially resilient. Setting a clear MTFS helps clarify expected income and expenditure. Awareness of the funding available in the forthcoming years means the Council stands a better chance of balancing the budget. Reserves are a useful option for balancing the budget in the short-term. However, reserves should not be used to pay for day-to-day expenditure, and it is important that they are replaced when the short-term need has passed. Therefore, the MTFS needs to be fully balanced on an ongoing basis, with no ongoing spending funded from one off resources, meaning the next MTFS does not start from a deficit position.

9.5. It is important that the Authority complies with its obligations under the Equalities Act 2010 - the public sector equality duty (PSED) - to promote equality and to reduce discrimination in relation to any of the nine ‘protected characteristics’ (age; disability; gender reassignment; pregnancy and maternity; marriage and civil partnership; race; religion or belief; sex; and sexual orientation). The Council must have ‘due regard’ to the PSED when taking any decisions on service changes whilst recognising that local authorities have a legal duty to set a balanced budget. Similarly, if proposals are likely to have adverse impacts on customers, public consultation should be undertaken before any final decisions are made and consideration given to the outcomes of those consultations. This may mean that some proposals are not implemented, and alternative solutions may need to be sought. Legal challenges to local authority budget setting processes have tended to turn on whether the authority has complied with these duties. Where required Equality Impact Assessments have been prepared and made available to Members.

9.6. Using the information contained in this report, Cabinet is asked to approve their 2022/23 Budget resolutions for recommendation to Council on 8 February 2022. Cabinet is also asked to authorise the Strategic Director for Resources to update the budget resolutions to Council to reflect the final resource information.

10. Financial Implications

10.1. There are no direct financial implications for the Authority arising from this report. The report is part of a series of reports that will culminate in Council agreeing the 2022/23 budget and council tax at their meeting on 8 February 2022.

11. Environmental Implications

11.1. There are no immediate environmental implications for the Authority from this report. There will be environmental implications that flow from the individual allocations and proposals agreed as part of the Council’s approved budget and these should be considered by Members as part of reaching their decisions.

12. Background Papers

12.1. None.

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Elected Members have not been consulted in the preparation of this report.