

Report of the Budget Scrutiny Task and Finish Group

January 2022

Introduction and background

The budget underpins all council activity so is fundamental to the Council's ambitions and operations. The Council Strategy specifically sets out a priority aim of becoming 'a financially secure council' reflecting the ongoing financial pressures facing local government.

Overview and Scrutiny Committee undertake a scrutiny role in relation to the budget throughout the year, the Committee receives the quarterly finance reports as well as considering specific budget implications as part of topic reviews.

Effective budget scrutiny arrangements are rightly expected as part of a robust budget setting process to provide an additional layer of challenge to ensure that budget setting processes and assumptions are robust. To achieve this over recent years the Overview and Scrutiny Committee have undertaken scrutiny of the annual budget setting process through the establishment of a Budget Task and Finish group that has followed the budget setting process.

Budget Task and Finish Group

In line with this established approach Overview and Scrutiny Committee agreed to set up a Budget Task and Finish Group at their meeting on 19 November 2021 and agreed the broad scope was to scrutinise the budget setting process for 2022/23. The Group met during December 2021 and January 2022.

In line with an established approach to involve the wider membership in tasks and finish group work, all non-executive members were given the opportunity to join this group along with some members from the Overview and Scrutiny Committee. Two non-Scrutiny members joined this Task and Finish Group.

The Task and Finish Group membership consisted of:

Cllr Markus Campbell-Savours
Cllr Patrick Gorrill
Cllr Hilary Harrington (Chair)
Cllr Michael Heaslip
Cllr Elaine Lynch
Cllr Carni McCarron-Holmes
Cllr Paul Scott
Cllr Alan Tyson

Review scope

The Overview and Scrutiny Committee set the scope of the review at their meeting 19 November 2021. The review was intended to scrutinise the budget setting process to establish if the process had been robust.

In particular the review aims were to:

- Examine the process for developing the council's budget for 2022/23 and establish if that process is robust. (what are the key stages?, is there adequate consultation and challenge?)
- Identify and consider the key budget pressures and strategic financial issues for the Council and how these are being considered and managed. (what are the particular

challenges/risks for the 2022/23 budget process?, how is LGR impacting on the process this year?)

- Consider the draft budget proposals for 2022-23, including the main areas of proposed growth and savings, key budgetary risks and the extent to which the budget proposals reflect the Council's priorities.

Members recognised that this piece of work had to be condensed into a short time frame. There was also an acknowledgement that as a very technical topic members would need to be provided with technical support from the Finance team to aid understanding.

The Review

Over the course of two meetings, members were given comprehensive presentations from members of the Finance Team and Policy leads setting out in the first instance the business planning and budget setting process that had been adopted for the 2022/23 budget and then leading on to consideration of funding bids (both growth and savings) for 2022/23.

The business planning and budget setting process for 2022/23

At their first meeting members of the group were given a detailed walk through of the budget setting process including:

- Definitions of revenue and capital budgets
- What the statutory requirements around the budget were, including the requirement to set a balanced budget
- The elements that make up the net revenue budget
- The elements that make up revenue funding into the Council

Members were also given details of the guidance and templates that had been provided for managers and budget holders to complete their business and budget planning for 2022/23.

Members of the group were provided with the Business Planning Principles that had been adopted for the 2022/23 business planning and budget setting process. These had been developed in light of the particular circumstances that the Council faces in planning for 2022/23, most notably the Local Government Reorganisation process that will see Allerdale Borough Council cease to exist at the end of 2022/23 (to be replaced by a new unitary council).

The business planning and budget setting process this year aimed to take the implications of LGR into account. Managers had been asked to limit any growth bids to contractual uplift or activity/costs related to any ongoing Covid-19 impact and response. They had also been asked to give serious consideration to any potential savings that could be made over 2022/23 whilst still making sure that the business was running effectively for residents and businesses.

The business planning template for 2022/23 had been designed to capture budget requirements alongside activity descriptions, and an assessment of risks facing each service area. These business planning documents were cross referenced by the Finance team against budget model submissions.

Departmental business planning sessions were held across the organisation in December with representatives from the Finance and Policy teams, which allowed officer scrutiny of savings and growth bids and an opportunity to discuss service activity and budget requirements in more detail.

As in previous years the budget setting process also included a public consultation on budget proposals. This year's consultation asked for views about whether or not the Council should increase the Council's share of Council Tax for 2022/23. The group was provided with the results of the consultation showing that there had been 830 responses with majority of respondents (72.89%) not supporting an increase in Council Tax.

Portfolio holders review and discuss budget proposals with their Chief Officers as part of the process. Executive informally consider and challenge draft budget proposals through discussions about benefits and risks with senior officers.

2022/23 draft budget proposals

The group were given the opportunity to review the draft budget proposals as they stood at 13/1/22.

Revenue budget

The net budget position was identified as a £15.6m revenue budget requirement.

In terms of funding through the local government settlement the Council had seen a slight increase on what had been expected with a small increase in the Lower Tier Services Grant from government and a new grant called the Services Grant giving us an additional £252k. The New Homes Bonus was also higher than was originally estimated.

Members of the group were informed that Executive had taken the decision to propose a freeze to the Allerdale BC share of Council Tax for 2022/23. That decision had been built into the draft budget proposals the group were looking at for 2022/23. Members were informed that there remained some elements relating to NNDR that were as yet to be fully finalised and there may be some minor tweaking to the figures required before the final draft figures were produced.

The group considered the draft growth and savings bids that had been put forward and looked at how these had been evaluated. The Finance team had developed a simple system that allocated colour coded decisions against savings and growth bids: blue – indicates that it should be included in the budget and would include non-negotiable things such as contractual uplift; amber indicates that further discussion or detail may be required; green – indicates an accepted bid; and red – a rejected bid.

Members noted that the message this year had been that there should be no speculative growth bids, just those relating to contractual uplift, statutory function requirements or Covid recovery. The list that members had sight of showed that that guidance had been followed and services had not submitted speculative growth bids. Growth bids included contractual uplift and other unavoidable cost increases, they also included reduction in income expected in some areas.

Members noted that the adverse impact of the pandemic on some income streams meant that there were some one-off reductions in income expected for 2022/23, in particular the Multi storey Car Park in Workington and rent from commercial units.

In terms of salary costs, members were informed that there was provision in the draft revenue budget for an estimated pay award, a rise in National Insurance contributions and incremental pay increases.

One-off growth also included the creation of a contingency budget for costs relating to the LGR process that may arise for the council during 2022/23.

Members noted recyclates as an example that demonstrated some of the complexities of budget setting. There has been a significant increase in the value of some recyclates and this was an area where the Council expected to see an increase in income over 2022/23. However, recyclates is a volatile market so there is some element of risk to building expected higher income into the budget. The approach taken has been to build in an amount based on commercial rates over the past year rather than the current very high rates in order to manage that risk.

Members had queries relating to some specific savings bids and asked for further details to be assured that budget reductions were not likely to lead to a fall in service quality, create future budgetary problems or limit the ability of the Council to support its communities. Further information was provided by officers to provide these assurances.

Capital budget

Similar to the process for the revenue budget the Council had not encouraged any new capital bids for 2022/23 unless absolutely essential, for example to protect an asset. There was therefore no real change to the capital programme that members saw in the revised budget report to Council in December, although there was some re-profiling of the funding.

Members noted though that there were some large capital schemes in the capital programme notably for the programmes in Maryport and Workington.

Budget pressures and risks

Members of the group asked a number of questions about budgetary pressures throughout the review process and identified some key issues that were having to be managed as part of budget setting process for 2022/23, these included:

- Ongoing effects of the pandemic – as the pandemic continues to affect businesses and society the council is still experiencing adverse impacts in terms of income streams such as commercial unit rent and some car parking.
- Inflation – the significant rises in inflation we are currently seeing are a concern given how low inflation has been for many years. Contractual uplifts were being built into the 2022/23 budget along with assumptions around inflationary increases on staffing costs.
- Uncertainty on revenue funding streams – the local government funding settlement was particularly late in December this year, meaning that not all revenue funding amounts into the Council are known as the council starts its budget setting process (and are in fact known very late in the process). This means that some assumptions do need to be made to build into the budget modelling.
- LGR process – a shared LGR fund had been created across all councils in Cumbria to support the LGR transition process and draft budget proposals for 2022/23 included a contingency fund for LGR related costs that the Council may face. The group explored the issue of staffing in particular with concerns that staff may chose to leave the organisation prior to LGR which may lead to higher spending on temporary staff. This had been recognised as a risk to the organisation and part of the mitigation in terms of potential increased costs was the creation of a contingency fund. The shared LGR fund that had been created across all councils would also cover backfilling costs for staff that are seconded to work on the LGR programme.

Contracts

The group also explored some issues around contracts. In light of LGR careful consideration was needed as to what contracts needed renewing, which could/should be extended and whether there were options to develop shared contracts across the new council areas. Procurement colleagues were now meeting regularly as part of the LGR contracts workstream (all districts and the county council). This workstream is compiling a database of all contracts across the board and identifying the largest, most significant contracts first as well as considering end dates of current contracts. Whilst extending contracts may be appropriate and necessary in some circumstances, it was not good practice to just extend all contracts by default. Each scenario was different (contract size, contract length etc.) and contracts were being considered on a case by case basis weighing up issues such as risk and value for money.

Issues of contractual uplift and how the significant rises in inflation were impacting on the budget were also discussed (as noted above).

Concluding comments

The Task and Finish Group have had the opportunity to review the process that has been followed to develop the draft budget proposals for 2022/23. They have been able to identify some of the key budget pressures and issues for the Council and consider how these are being managed.

In scrutinising the specific draft budget proposals for 2022/23 members have been able to query some perceived budgetary risks and the extent to which the budget proposals reflect the Council's priorities.

At this point in time, the Task and Finish Group are satisfied that the process to develop the draft budget proposals for 2022/23 has been robust and that many budget pressures and risks are being adequately identified and managed.

However, the group make the point that some aspects of the budget setting process for 2022/23 are unique. As the last budget that Allerdale Borough Council will set members suggest that this will in effect become a baseline for service provision as we move into the new Cumberland Council in 2023. The group would therefore like to ask Executive to reflect very carefully on any budgetary decisions taken in setting the 2022/23 budget that may be carried through to future budgets and impact on communities in Allerdale beyond 2023.

Members greatly appreciated the time and effort officers put into preparing presentations explaining some of the complex issues of local government finance and would like to thank the officers who supported this review.