

MEETING: **CABINET**

DATE: **28 SEPTEMBER 2021**

TITLE: **2022/23 BUDGET STRATEGY**

PURPOSE: **FINANCIAL PLANNING**

AUTHOR: **DAFYDD L EDWARDS, HEAD OF FINANCE**

CABINET MEMBER: **COUNCILLOR IOAN THOMAS, FINANCE CABINET MEMBER**

Decisions sought:

- A. Approve the procedure and timetable to construct the 2022/23 Budget.**
 - B. Note that if there is a funding gap to balance the 2022/23 budget, the Council will use contingencies and reserves to mitigate resource losses in the short term, and carefully identify any additional savings required during the summer of 2022.**
 - C. Accept the contents of the report as the Council's Medium Term Financial Plan, whilst noting that, in the current context, financial planning is extremely challenging.**
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Background

1. The purpose of this report is to give an outline of the budget setting procedure for the year 2022/23, together with a Medium Term Financial Plan for the Council.

Council Expenditure

2. The Council's accountants are currently doing the budget preparation work in terms of 2022/23 spending requirements, by estimating the impact of pay agreements, other inflation, adjusting unavoidable contributions and other spending commitments.
3. Inevitably, several requests for additional resources will be submitted by Council services facing unavoidable pressure, and with the Chief Executive and Cabinet members, we will be assessing these 'bids' over the coming months.

Government Grant

4. The other side of the coin is the grant resources which will be available to the Council in order to fund these commitments. The Welsh Government have indicated their intention to issue their **2022/23 provisional local government settlement on 21st December 2021** (after publishing their 2022/23 Draft Budget on 20th December 2021) and the **final local government settlement on 2nd March 2022** (after publishing their final Budget on 1st March 2022). These dates may change, as they depend on the UK Government's spending round and the next phases of the pandemic.

5. This timetable will be challenging for local authorities, with an extended period of financial uncertainty following the impact of the Covid-19 crisis, but Gwynedd Council will commence from a relatively sound budgeting base with a healthy level of usable reserves. Members and officers will undertake further work over the coming months in order to meet the timetable to prepare a budget proposal for submission to full Council on 3rd March 2022.

Financial Uncertainties

6. In planning the Council's 2022/23 budget, we face financial uncertainties due to lack of information. This means we need to make a number of assumptions, while the financial and economic climate is changing, along with the Governments' responses. Current uncertainties include:
 - i. The pace of recovery from the Covid-19 pandemic, and its impact on spending, income, savings plans, etc.
 - ii. Continued Welsh Government support to offset the financial cost to the Council of the pandemic (to date, additional Government grants have mitigated additional costs, income losses and revenue deficits as a consequence of the pandemic, but additional 'Covid' funding has not yet been identified for 2022/23).
 - iii. A trend of recently increased prices, but expectations this may not continue.
 - iv. Delays in settling annual pay increases.
 - v. Delay with the UK Government's Comprehensive Spending Review intended to take place in 2020. Recently, the Government officials had referred to the 'spending round' for 2022/23, and suggested that the Comprehensive Spending Review will impact on core funding and grants in 2023/24 and beyond. However, the Chancellor of the Exchequer's launch letter published on 7 September 2021 noted that "Spending Review 2021 will set the devolved administrations' block grants from 2022-23 to 2024-25, and will conclude alongside an Autumn Budget on 27 October 2021".
 - vi. There was a Welsh Parliament election in May 2021, and the priorities of the new Welsh Government are not yet clear.
 - vii. Unconfirmed proposals from both Governments for sustainable long-term funding for adult social care.
 - viii. After real terms grant reductions in several previous years, the Council received fairer grant settlements for 2020/21 and 2021/22, which met inflation.
 - ix. As in 2020/21 and 2021/22, there is no confirmation of additional funding for new burdens and other demand pressures for 2022/23.

2022/23 Budget Assumptions

7. Despite the lack of information, the table below is an attempt to plan the 2022/23 budget for the Council. In view of the uncertainties outlined above, a number of broad assumptions are made about the main budgeting factors, such as inflation, demand for services, and grant funding from the Welsh Government, in order to identify the possible range of how much the 2022/23 Budget may need to be reduced.

2022/23	Best Case £m	Central Case £m	Reasonable Worst Case £m
Pay Inflation -			
- Local Authority	2.8	3.1	3.5
- Teachers	2.2	2.5	2.8
Price Inflation	2.5	3.0	3.5
Pressures / Demand -			
- Social Care	1.5	2.0	2.5
- Other	1.5	2.5	3.5
Total Pressures	10.5	13.1	15.8
Funding Changes -			
- Council Tax (2% / 3.5% / 4.5%)	1.5	2.6	3.3
- Grant Settlement (4.5%/3.5%/2.5%)	9.0	7.0	5.0
Total funding changes	10.5	9.6	8.3
Budget Reduction Requirement	0.0	3.5	7.5

Medium Term Financial Plan

8. Further, the table below is an attempt to produce a Medium Term Financial Plan for the Council, with a 'central case' of the possibility of needing to reduce Budget by 2022/23, 2023/24 and 2024/25.

Central Case	2022/23 £m	2023/24 £m	2024/25 £m
Pay Inflation -			
- Local Authority	3.1	3.1	3.1
- Teachers	2.5	2.5	2.5
Price Inflation	3.0	3.0	3.0
Pressures / Demand -			
- Social Care	2.0	1.0	1.0
- Other	2.5	2.0	2.0
Total Pressures	13.1	11.6	11.6
Funding Changes -			
- Council Tax (3.5%)	2.6	2.6	2.6
- AEF (RSG) (3.5%)	7.0	7.0	7.0
Total funding changes	9.6	9.6	9.6
Budget Reduction Requirement	3.5	2.0	2.0

9. Given the financial uncertainties already noted, it is not suggested that these broad figures are "correct answers", much more sophisticated budgeting will follow, but we believe these are fair estimates for planning purposes.

Conclusion

10. This year, **financial planning is extremely challenging**, with a range of potential scenarios suggesting a funding gap for 2022/23 which could be any sum between £0 and £7.5m, with the range of potential outcomes increasing widely for 2023/24 and beyond. **In planning for 2022/23, if there is a funding gap then Gwynedd Council's sound financial base will allow us to 'bridge' in the short term.**

Recommendation

11. We understand, of course, that the Council will want to avoid intensive and unnecessary consideration of listed potential savings and service cuts during the ongoing phase of the Covid-19 pandemic. Therefore, again as planned this time last year, **if there is a funding gap to balance the 2022/23 budget, we recommended that the Council should initially consider using contingencies and reserves to mitigate resource losses**, along with the Council Tax needing to increase.

Future Steps

12. It's really beneficial being able to draw on our very healthy Council reserves to mitigate immediate budget pressures now, rather than scaremongering because of the current uncertainty. In the longer-term, some of those reserves may need to be replenished, so that they're available when required in future.
 13. Cabinet members will receive further information between December 2021 and February 2022, after the local government grant settlement statement for 2022/23, and as budgeting plans develop. In January 2022, Cabinet members will consider the Council's unavoidable spending commitments in the context of the 2022/23 draft settlement, before the Finance Cabinet Member and the Head of Finance consult with all Council members in a series of seminars.
 14. The Council's budget timetable is in **Appendix A**. We will be adhering to the usual annual timetable of reporting to the Audit and Governance Committee (10 February, to offer comments on financial risks), the Cabinet (15 February, to recommend a budget and tax), and full Council (3 March, to set a budget and the Council Tax, which must be set by 11 March).
 15. When the Council faces fewer financial uncertainties, after the impact of the UK Government's Comprehensive Spending Review on future core funding and grants becomes clearer, the Statutory Finance Officer and the Finance Cabinet Member will look to establish a more detailed medium term financial plan for the new Council, reviewing any decisions previously taken.
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Views of the statutory officers

The Monitoring Officer:

The report sets the context for establishing the 2022/23 Budget. It is the role of the Cabinet to create a draft budget to be recommended to the Council and the proposed process is appropriate.

Head of Finance:

I have collaborated with the Cabinet Member in the preparation of this report and I confirm the content.

Local member's views

Not relevant
