

Part A

**Report to:** Finance Scrutiny Committee

**Date of meeting:** Thursday, 10 September 2020

**Report author:** Section Head - Financial Planning

**Title:** Financial Planning - budget setting process

## 1.0 Summary

1.1 The purpose of this report is to notify the Committee of the process whereby the Council will determine its three-year medium-term financial strategy (MTFS) for 2021-2024, the related service plans, and the allocation of financial resources to achieve them.

## 2.0 Risks

### 2.1

<b>Nature of Risk</b>	<b>Consequence</b>	<b>Suggested Control Measures</b>	<b>Response</b> <i>(tolerate, treat, terminate, transfer)</i>	<b>Risk Rating</b> <i>(combination of likelihood and impact)</i>
Failure to agree the Council Plan and Service Plans for implementation from 1 April 2021 and failure to meet statutory deadline for setting a legal budget	The Council does not have a Council Plan for 2021/22 and does not legally set a budget	Revert to previous Corporate Plan and MTFS	Treat	4

## 3.0 Recommendations

3.1 To consider and note the 2020/21 financial planning - budget setting process as shown in Appendix 1.

### **Further information:**

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**Report approved by:** Alison Scott – Director of Finance

#### 4.0 **Detailed proposal**

4.1 Each year the Council is required to set a realistic, achievable in-year budget and indicative budgets for the following two years. Overall responsibility for the budget setting process is the responsibility of the Director of Finance. (Shared services)

##### ***Council Plan***

4.2 On 14 July 2020, Council adopted the new Council Plan 2020-24 and Delivery Plan 2020-22.

4.3 Our new Council Plan set out our aspirations for both the council and the town we serve. It is forward-looking, high level and outward facing, with an emphasis on outcome focused commitments. The plan demonstrates our role as leader of place and how we will continue to build on our strategic and operational excellence.

Council Plan themes are:

- A council that serves our residents
- A thriving, diverse and creative town
- A healthy and happy town

4.4 The delivery of these themes is underpinned by the proposed principles of: excellence; promotion; impact; enterprise; leadership and caring.

4.5 The Delivery Plan 2020-22 sets out how the council will focus our work to bring the Council Plan to life, making sure we deliver what we said we would over the next 18 months. Under each theme and commitment, we set out our key priority areas of actions, which we are focused on achieving by 2022. The Delivery Plan will be monitored and a report on progress will be reported to Cabinet quarterly, and, annually, we will prepare a report for residents, businesses and partners. The actions in the Delivery Plan will be cascaded through service plans, team business plans through to individual objectives.

##### ***Service Plans***

4.6 Officers will prepare service plans based on the Delivery Plan. The plans will include:-

- The purpose of the Service: its role within the organisation and how it contributes to the Council Plan
- Service delivery: an overview of the services they provide and how they will measure success for 2020-22
- Service resources: what the Service has to deliver its plan - staff structure and budget
- Delivery: Projects / key areas of work to be delivered across 2020-22 and how these contribute to delivery of the Council Plan

- Dependencies: Cross service projects / key areas of work Service is supporting

### ***Financial Plan - Revenue***

- 4.7 The Local Government and Finance Act 2012 brought in fundamental changes to the way in which local government is financed. These changes are designed to stimulate growth but they also transfer more financial risk from central government to local government.
- 4.8 With Government funding reduced and an increasing reliance on generating additional business rates income, then it becomes important for the Council to manage its budgets prudently and services need to continually investigate new initiatives to generate additional sustainable revenue income whilst also looking to realise opportunities to reduce costs.
- 4.9 The Council prepares and monitors a rolling three-year Medium Term Financial Strategy (MTFS) consisting of a working budget for the current year and indicative budgets for the following years. This contains budget estimates calculated at a detailed level. The latest budget monitoring report (at end of July – Period 4) is elsewhere on this agenda.
- 4.10 Officers will convert the previous indicative budget for 2021/22 into a detailed plan. They will also add a ‘new’ third year indicative budget to complete the three-year plan for 2021/22 to 2023/24. Current plans include annual council tax increases of 1.99% for a Band D equivalent in each year of the MTFS.

### ***Capital Investment Programme***

- 4.11 The finance digest’s provide the current position on progress against the 2020/21 capital investment programme and the resources available for future investment.
- 4.12 Officers will carry out option appraisals on the future capital investment schemes. Those schemes that are deemed to be as ‘invest to save’ are likely to be regarded more favourably than those requiring growth in revenue expenditure.

## **5.0 Implications**

### **5.1 Financial**

- 5.1.1 There are no changes to the budget already agreed by Members as a result of this report.

### **5.2 Legal Issues (Monitoring Officer)**

- 5.2.1 The Council must set its budget before 11 March 2021 in accordance with Section 32 (10) of the Local Government Finance Act 1992.

5.2.2 The Council's Chief Financial Officer (Shared Director of Finance) has a statutory duty to report to the Council if it is likely to incur expenditure that is unlawful or likely to exceed its resources.

5.2.3 The Localism Act includes powers to allow local residents to veto through a referendum council tax rises that propose to exceed the limit imposed by Central Government.

### 5.3 **Equalities, Human Rights and Data Protection**

5.3.1 Under s149 (1) of the Equality Act the council must have due regard, in the exercise of its functions, to the need to –

- eliminate discrimination, harassment, victimisation and any other conduct prohibited by the Act
- advance equality of opportunity between persons who share relevant protected characteristics and persons who do not share them
- foster good relations between persons who share relevant protected

5.3.2 Having had regard to the council's obligations under s149, it is considered that there are no equalities or Human Rights implications.

5.3.3 Having had regard to the council's obligations under the General Data Protection Regulation (GDPR) 2018, it is considered that officers are not required to undertake a Data Processing Impact Assessment (DPIA) for this report.

### 5.4 **Staffing**

5.4.1 There are no staffing implications arising from this report.

### 5.5 **Accommodation**

5.5.1 There are no accommodation implications arising from this report.

### 5.6 **Community Safety/Crime and Disorder**

5.6.1 There are no community safety/crime and disorder implications arising from this report.

### 5.7 **Sustainability**

5.7.1 There are no sustainability implications arising from this report.

## **Appendices**

- Appendix 1 – Financial Planning - Budget setting Process 2121- 2024
- Appendix 2 – Salary Build
- Appendix 3 - Budget responsibilities
- Appendix 4 - Timetable

## **Background papers**

- None

## **Watford Borough Council – Financial Planning - Budget Process 2021/22 to 2023/24 Medium Term Financial Strategy**

### **Background**

Each year the Council is required to set a realistic, achievable budget for the forthcoming year and indicative budgets for the following two years. The Director of Finance has the overall responsibility for the budget setting process.

These instructions, along with the timetable, are designed to be followed to ensure that the Director of Finance is able to present to Council at its meeting in January a sustainable budget.

The Director of Finance will also present a revised budget for the current year (2020/21) to Council for approval incorporating any changes made to the budgets since the latest budget was agreed in July following the previous outturn report and changes reflecting the financial impact of Covid 19.

With the risks associated with the income on property investments and delivery of the Mayor's priorities, it is extremely important for the Council to manage its budgets prudently with the emphasis on generating additional sustainable revenue income and reducing costs.

### **Revenue Budget Preparation**

Each year the council presents a budget. The first stage of preparation is to create the base budget (also known as the standstill budget) which represents the budget required for the Council to continue providing its services as previously agreed.

#### **Base budget 2021/22**

The base budget for council will be constructed as follows:

<b>Original base budget 2020/21</b>
<i>less (-) add (+)</i>
other opening budget adjustments
<i>add (+)</i>
inflation, salary increments, and other salary adjustments
<i>less (-)</i>
savings
<i>add (+)</i>
growth
=
<b>Base budget 2021/22</b>

## **Employees**

The process for the 2021/22 revenue budget preparation will commence with the compilation of the salary estimates. Budgets will be prepared for 3 years to cover the MTFs period.

HM Treasury are forecasting RPI to average at 2.7% over 2021 and remain over 3% to 2024. A 3% year on year increase has been assumed however, this is subject to change depending on inflation rates nearer the time for budget setting.

A 1% increase is approx. equivalent to an additional budget pressure of £110k.

The employer's pension contributions from April 2020 of 18.2% will be built into the financial projections The National Insurance contributions from April 2020 of 13.8% will be built into the financial projections.

To start the process an establishment spreadsheet detailing all posts in service areas will be compiled by Finance & HR and will then be distributed to all Heads of Service.

**Appendix 2** shows the guidance on salary budget build.

**Group Heads & Service Heads will be responsible for ensuring the establishment sheets are correct. To do this they must;**

1. Confirm posts are in the correct cost centre.
2. Confirm the hours for each post are correct.
3. Confirm any posts that are subject to deletion.
4. Confirm that posts are on the correct pay banding.
5. Any posts that need to be added.(This must be supported by the relevant democratic process)

Note: these will be certified as correct as at 1 October 2020, but Heads of Service should also inform Finance and HR of any known changes between 1 October 2020 and 31 March 2021 (eg: retirements, new starters).

## **Other Expenditure/Income**

Finance staff will assist in preparing other direct income and expenditure in consultation with Service Heads. As in past years, a cash freeze will be applied to detailed budgets unless there is a contractual agreement (e.g. in fuel prices) to the contrary or there are known increases or demographic pressures – i.e.: unavoidable growth.

## **Growth & Savings and New Capital Bids**

Forms will be sent out and once completed these need to be returned to Finance, in order to be considered for inclusion in the MTFs. Services should ensure that their Portfolio Holder is aware of any proposed growth bids and any savings that would result in a cessation of or a reduction in provision of services.

### **Fees and Charges**

To keep pace with inflation, it is anticipated that a **3%** increase for 2021/22 will be factored into the budgets for all discretionary fees and charges; i.e.: those that are not set by statute.

Group/Heads of Service are to review these increases in the light of their effect on demand, affordability and vulnerability and are to inform Finance if this is considered an unreasonable uplift – this is to be supported by a reasoned argument.

Note any reduced uplift will result in a pressure elsewhere and the Council's stated policy is extra income before service cuts. If services are seeking a reduction to the existing income budget from fees and charges, then they are to submit a growth bid in the normal manner. Services are also required to inform Finance if the volume of transactions is likely to change.

Finance will collate all fees and charges and produce a report to Leadership Board November. All fees and charges should be discussed with the relevant portfolio holder prior to final submission.

### **Capital Programme**

The Council does not have sufficient funding in place to fund the current capital programme, therefore the Council will need to borrow, either internally from its cash reserves or from external sources to fund any cash flow gap – this would only be until the anticipated returns are realised on the major investment projects. This will become clearer as the budget process progresses. Any capital bid should demonstrate how it will benefit the council financially and therefore should include a cost of capital (borrowing) in its appraisal.

### **Capital Budget Preparation**

Forms requesting new capital schemes will be sent out by Finance and once completed these need to be returned; the prioritising of schemes against available capital resources will be undertaken by the Leadership Board.

**Appendix 3** shows the budget responsibilities during the budget setting process and the key dates are shown at **Appendix 4**.

**Establishments and salary build spreadsheets**The process for 2021/22 budget build

1. The salary build spreadsheet is based on an agreed establishment for the Council.
2. This spreadsheet will be initiated by Finance and then cross-checked with HR, and the structure charts to ensure all systems are linked and using a common set of establishment data. Finally the HR/Finance version will be sent to Group /Heads of Service for them to firstly agree the data and secondly for them to 'take ownership' of the establishments in their own area. This will be 'as at 1 October 2020'.
3. Once the establishment is agreed and confirmed by the services as correct, Finance will commence the salary build based on this establishment. The salary build process is detailed below.
4. HR will endeavour to ensure that the establishment and incumbents are kept up to date through use of the request-to-fill (rtf) and request-to-vary (rtv) forms.

Detailed Process

Activity	Completed by
Development of the base establishment spreadsheet. To include: <ul style="list-style-type: none"> <li>• Established post number</li> <li>• FTE</li> <li>• name, employee number, Grade and SCP</li> </ul>	FM's
Review of base establishment including comparison with structure charts	HR BP's/FM's
Review of establishment base data with services. Services to agree establishment, grades and SCPs. Also to inform of any known changes to occur between 1 Oct 20 and 31 Mar 21 (e.g.: retirements, staff joining or leaving)	GHoS/HoS/HR BP's/FMs
Sign off of establishment by GHoS	GHoS
Salary build based on actual data for filled posts, mid-point for vacant posts, known allowances and MFS. Will also use agreed cost of living uplift (1%), incremental drift and statutory on-costs (superannuation and ERNIC).	FM's
Salary spreadsheets sent out to GHoS for checking and confirmation.	GHoS
Salaries incorporated into the base budget.	FM's

Budget Responsibilities

Services will provide

**Other Employee Costs**

**Premises (not BR)**

**Transport (not lump sums)**

**Supplies and Services**

**Agency, Contracted and Transfer Payments**

**External Income**

**Capital Bids**

Finance will provide

**Salaries (including**

**National Insurance**

**Local Weighting**

**Business Rates**

**Essential Car Lump Sum**

**Capital Charges**

**Timetable - Key dates**

w/c 14 September	Growth, savings and capital projects forms are sent to services
w/c 21 September	Employee spreadsheets sent to services, who are to confirm posts/fte's/ hours/SCPs Fees & Charges forms sent to services
By nlt 12 October	Return of growth/ savings/ new capital projects to finance Return of employee spreadsheets to finance
By nlt 19 October	Return of completed fees & charges
23 November	LB considers growth, savings and new/updated capital projects. LB considers detailed fees & charges proposals
9 December	LB to consider and sign off_detailed revenue/capital estimates and fees & charges
Prior to Christmas break	Portfolio Holders to agree revenue & capital estimates: fees & charges; use of reserves for sustainable budget
12 January 2021	Finance Scrutiny Committee consider detailed revenue and capital estimates including growth/ savings; fees & charges; Government funding, available reserves & inviting the Finance scrutiny Committee's recommendation on Council Tax
<b>23 January 2021</b>	<b>Council consider/approve Budgets and Council Tax</b>
23 February	Functions Committee sets 2021/22 Council Tax and precepts

*LB = Leadership Board*