

## Wiltshire Council

### Cabinet

14 September 2021

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**Subject:** Update on the Medium Term Financial Strategy 2022/23

**Cabinet Member:** Cllr Pauline Church - Cabinet Member for Finance & Procurement, Commissioning, IT, Digital and Commercialisation

**Key Decision:** Non-Key

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#### **Executive Summary**

This report outlines to members the latest position in respect to the Budget 2022/23 and the Medium-Term Financial Strategy following the setting of the 2021/22 budget in February 2021.

It builds in the ongoing amendments as reported in the Budget Monitoring report that impact on later financial years as well as the changes in assumptions and funding since the budget was set. It will also set out the high level timescales and key dates that will be required to set a balanced budget for the 2022/23 financial year.

#### **Proposal(s)**

Cabinet is asked to note:

- a) The updated position in respect of the current estimated financial gap for 2022/23.
- b) The key dates and timescales that are required to set a balanced budget.

#### **Reason for Proposal(s)**

To inform effective decision making and ensure sound financial management as part of the Councils overall control environment.

To inform Cabinet on the current position for the setting of the 2022/23 budget, even given the current levels of uncertainty, it begins the process and focus for setting plans and resources for providing the services and support that will be essential for delivering on Wiltshire's recovery from COVID-19.

**Terence Herbert**  
**Chief Executive**

## **Wiltshire Council**

### **Cabinet**

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### **Purpose of Report**

1. To inform Members of the latest assumptions for the 2022/23 budget and the updating of the Medium-Term Financial Strategy (MTFS) since the budget was set back at Full Council in February 2021.
2. To inform Members of the latest financial position leading in to the setting of the 2022/23 budget and the key dates in that will ultimately lead to the proposal of a balanced budget for 2022/23.

### **Relevance to the Council's Business Plan**

3. Providing updates on the medium term financial strategy and budget for future years supports effective decision making and the alignment of resources to the Council's priorities and objectives as laid down in the Business Plan.

### **Background**

#### **Budget 2022/23 Approved in February 2021**

4. The budget set in February 2021 balanced the current 2021/22 financial year against the backdrop of uncertainty and at the height of the third lockdown. It was acknowledged then that this was based on best estimates and assumptions at the time about what lay ahead for 2021/22 and would almost certainly need to be reviewed moving forward into 2022/23.
5. Even before the COVID-19 pandemic the Council was forecasting a significant budget gap. In February 2020 when the 2020/21 budget was balanced the Council estimated a gap of £24.5m in 2021/22 rising to £38.2m in 2022/23.
6. With the onset of COVID-19, plans that would have normally been made to bridge this gap were, quite rightly, put into place as the Council responded to the challenge of keeping services to Wiltshire residents, communities and businesses running during the pandemic.

7. Emergency funding from Government supported the Council during 2020/21, and with the pandemic continuing further emergency funding and support was provided to Councils in the Government's one year budget announcement at the end of 2020. This, together with tight financial controls, enabled the Council to balance the budget for 2021/22.
8. However, the level of savings put into place for the 2021/22 budget was significantly smaller than the original £24.5m expected, with only £2.6m of savings being proposed actually delivered.
9. Therefore, the level of current spending on services is effectively being supported by one off Government funding of £20.3m, as well as the one off use of reserves of £8.4m; a total of £28.7m that will no longer be available to help continue to fund services going into 2022/23. This would be offset by additional income gained through council tax, either from additional properties or an increase in price. It has been assumed at this stage, for financial planning purposes, that council tax increases would continue at the current rate.
10. In addition, the Council will also face additional demand for services, some of which maybe latent demand now coming through that was delayed, suppressed or is new as a result of the pandemic and therefore is greater and potentially more complex than expected, as well as inflation on pay and third party contracts.
11. The 2022/23 estimates were built on the base assumptions that made up the 2021/22 budget. As we are seeing in the current financial year, these assumptions, as well as continuing with ongoing financial controls, are having a positive impact on the Council's current financial position, with a £1.762m underspend being forecast for 2021/22 as at quarter one.
12. The table below provides the MTFs position that was reported to Council in February 2021 when the budget was approved. It shows the budget gap at the time estimated at £45.5m and rising to £71.1m by the end of the MTFs period in 2024/25.

**MTFS 2021/22 to 2024/25 - Total Service Spend v Funding Analysis**

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Total Service Net Spend	412.561	445.468	465.760	488.564
Income / Funding -				
Council Tax Requirement	(265.850)	(274.546)	(283.520)	(292.782)
Social Care Levy	(32.415)	(32.416)	(32.416)	(32.416)
Rates Retention	(58.500)	(58.500)	(58.500)	(58.500)
Rates Retention Levy	-	-	-	-
Collection Fund (surplus) / deficit	1.250	1.250	1.250	-
Specific Grants	(36.744)	(35.744)	(34.744)	(33.744)
Hardship & Emergency Funding	(20.302)	-	-	-
Income / Funding Total	(412.561)	(399.956)	(407.930)	(417.442)
<b>Funding GAP</b>	<b>(0.000)</b>	<b>45.512</b>	<b>57.830</b>	<b>71.122</b>

13. In 2022/23 the table shows that the estimated net spending on services was to increase above their current level by a further £32.9m to £445.5m, but that the overall funding available to fund those services would decrease by £12.6m to £399.9m.
14. The £45.5m funding can therefore be further analysed out into its component parts as detailed in the table below.

<b>Breakdown of the £45.5m Budget Gap as at Feb 2021</b>	<b>£m</b>
Planned Savings	(0.6)
Demand for Services	16.8
Contract Inflation	7.7
Pay Inflation	4.3
Return of income streams to pre-covid levels	(3.9)
Removal of one off Government funding in 2021/22	21.3
Additional council tax raised	(8.7)
Removal of one off use of reserves in 2021/22	8.6
<b>Total Estimated Budget Gap for 2022/23 as at Feb 2021</b>	<b>45.5</b>

## **Main Considerations for the Council**

### **Base Budget 2022/23 Review**

15. Whilst the Council is used to planning financially with a degree of uncertainty, the impact of COVID-19 has and will continue to have an uncertain impact on the core funding resources, namely the collection fund (council tax and business rates) as well as income from sales, fees and charges e.g. car parking, leisure.
16. In addition, the financial pressures that normally present during the setting of the budget e.g. demand for services, inflation are a further unknown quantity and potentially far reaching than normal e.g. social care, given the far reaching impacts and consequences of the COVID-19 pandemic.
17. To add to the uncertainty the Government will be undertaking a comprehensive spending review (CSR) which is expected to be announced in the Autumn. However, the Councils projection for 2022/23 is a return to a pre-covid funding regime whereby council tax and business rates are the main sources of funding of services in Wiltshire i.e. no general revenue support funding from Government.
18. Given the budget was set on the assumptions and metrics at the height of the pandemic, and that the 2020/21 outturn and current 2021/22 forecast suggest that there is potential flex in those estimates that were used when the budget was set, a base budget review for 2022/23 has been undertaken.
19. The review has looked at all aspects of the Councils current base budget for spending on services, as well as income generated for services and income from council tax and business rates.

20. A significant change since February 2021 has been the confirmation of the Councils likely funding from the New Homes Bonus, originally anticipated to reduce by £1m in 2022/23 to £7.1m, the reductions in the scheme have been confirmed that Wiltshire will receive £2.4m in 2022/23; a £5.7m reduction and a £4.7m shift from the previous position.
21. Demand and growth in net spending on services have been reviewed and has seen a significant reduction, with over a £14m adjustment downwards on the latest assumptions, most notably a £3.8m reduction in the amount of revenue budget required to finance the Councils capital programme. Further detail on changes in demand for services are explained below.
22. Contractual inflation has been assumed at a CPI level of 2%, but where this is known to be under pressure, either through the market or contractual arrangements, these have been amended. Contractual inflation assumptions have increased since February 2021 by a further £0.3m.
23. Pay inflation has increased by over £2m on the top of the existing £4.3m assumption as a result of the ongoing negotiations on pay. The current pay negotiations for 2021/22 have yet to be concluded, but with a rejected offer from the employers of 1.5% this puts pressure in the current and future financial years.
24. Assumptions around the impacts of COVID-19 have also been amended, principally those which affect the ongoing cleaning regimes and supplies that are likely to continue into 2022/23. This has increased the assumption by a further £0.3m.
25. Overall, these amendments to base budget assumptions have seen the budget gap reduce from £45.5m to £39.2m.
26. Cabinet approved at their meeting in July an investment in Special Educational Needs and Inclusion to increase capacity to ensure caseloads are managed at a sustainable level and preventative services increase so that the Council can manage the increase in service demand. For 2022/23 this investment would be £1.742m, and consequently revises the budget gap to £40.9m, as detailed in the table below.

<b>Revised Budget Gap as at Sept 2021</b>	<b>£m</b>
Planned Savings	(0.6)
Demand for Services	4.9
Contract Inflation	8.0
Pay Inflation	6.4
Return of income streams to pre-covid levels	(3.7)
Removal of one off Government funding in 2021/22	20.3
Reduction in funding from New Homes Bonus	5.7
Additional council tax raised	(8.7)
Removal of one off use of reserves in 2021/22	8.6
<b>Estimated Budget Gap for 2022/23 as at Sept 2021</b>	<b>40.9</b>

## Revised Assumptions for Demand in Services

27. As stated, the metrics and assumptions used for demand on Council services were based on those available in February 2021, at the height of the pandemic. It was reported that these would be reviewed and revised to reflect the latest evidenced position moving forward.
28. As can be seen in the current financial year, the latest forecast would indicate that assumptions were largely accurate, but that the estimate for further growth and demand can then be revised for 2022/23 based on the current trends and estimated trajectories.
29. Capital Financing is the largest movement with a £3.8m reduction on the £8.8m growth assumption made back in February 2021. This is largely as a result of the deferral of over £100m in schemes back in June 2020 from 2020/21 into later years and following the further reprofiling of schemes into later financial years. There will still be a £5m uplift of financing costs to fund the remaining capital programme and historical commitments in 2022/23.
30. Overall Children's Services have reduced their estimate for demand growth in 2022/23 by £6.5m. This is a combination of £2.1m; a reduction in the amount of uplift required to deal with latent demand for social care for children in care and those with SEN & disability; a demand reduction of £3.8m in relation to SEN transport – this is because the upward trend in applications for EHCPs and therefore eligibility for transport assistance slowed considerably during 2020-21 and a revision downwards of £0.7m in associated inflation across these and other budgets.
31. These revisions to the assumptions should also be viewed with the context of the £1.7m investment decision by Cabinet on SEND & Inclusion. There is additional growth of £0.2m for the fostering service, to align the number of social workers required to support the increasing numbers of in-house foster carers recruited through the Fostering Excellence project and growth of £0.3m for rates for allowances for connected persons following recent case law. Pressure on the Children's services budget when including contractual inflation will still mean an increase of over £2m is required.
32. Within Adult Social Care, revisions on assumptions have been made across the services. These reflect the latest estimated for Learning Disability, Adult Care Packages and activities managed through the pooled Better Care Fund. Overall, there is a reduction in the amount of growth required of over £6m which is mainly due to a reduction in the forecast of increased new demand and growth included for clients transitioning from Children's Services, both elements which were included within the general demand increases.
33. As we have seen during the response to COVID-19, and as we are experiencing in this current financial year, there is pressure related to additional costs arising from hospital discharges estimated at £2m, and this is likely to continue into 2022/23.
34. Overall Adult Social Care budget will still increase by over £4m when including contractual inflation.

## **Business Plan and Next Steps**

35. The Council should be thinking about its future service delivery and beginning to plan for that now, ensuring resources are closely aligned to the forthcoming business plan priorities that will be published at the end of the month.
36. During the Autumn assumptions on core funding will continue to be reviewed and updated, this will also take a view on the any assumptions around on-going financial support from Government that may come forward or continue because of COVID-19, or as a result of any announcements around the CSR.
37. It will also take into account future planning around increases in funding bases going forward, most notably council tax increases in terms of price as well as housing growth, which will be a key part of the Cabinet's consideration when putting forward proposals.
38. The Capital Programme is planned to be reviewed in October and November 2021, following the publication of the Business Plan and critically the CSR announcement and the levels of funding anticipated from Government on Capital investment. The Council can then begin to align its capital investment required to deliver on its priorities.
39. At present there are no new saving proposals that have been factored into the budget and MTFS. Critically over the coming weeks and months Cabinet will be formulating proposals around how the budget gap will be bridged and ultimately closed. This will look at all avenues open to the Council and will inevitably look at the services the Council provides from a statutory and discretionary level as well the costs that fall within those services most notably third party spend and staffing.
40. In addition, transformation programmes that ensure the Council is run in an effective and controlled manner will also assist in delivering cashable efficiencies that will help towards the budget gap. The savings outlined in the confidential report on Evolve transformation programme will be factored into the MTFS over the coming months.
41. It will also look at efficiency gains from transformation programmes and opportunities for commercial income generation. As yet none of these options have been captured in the figures within this report.

## **Key Dates and Timescales**

42. Although this report marks the start of the process, there are some key dates, activities and decisions that will need to be made over the course of the next five months, ultimately setting a balanced budget in February 2022.
43. The key date above all else is the Council Meeting on 15 February 2022, and prior to that the Cabinet meeting on 1 February 2022 which will set out the Cabinet's final budget proposals.
44. However crucial to all of this will be the announcement of the CSR by HM Treasury (HMT) and then the subsequent detail on the Local Government

settlement by the Ministry of Housing, Communities and Local Government (MHCLG).

45. Details on HMTs plans and timescales for the CSR have yet to be announced, but as in previous round they will be requesting to receive representations and it is expected that the outcome for Government department spending will be announced in the Autumn, however we are not expecting details on any Local Government funding to be announced until December 2021.
46. It is expected that the CSR will cover Government departmental spending for the years 2022/23 to 2024/25. It is intended that the MTFs will cover a period of 4 years up to 2025/26 in line with good practice.
47. Any consultations and scrutiny will take place as statutorily required during the annual budget setting process.
48. A high level summary of the 2022/23 timetable is provided below.

#### **Budget 2022/23 Key Timescales:**

<b>Activity / Meeting</b>	<b>Date</b>
Ongoing base review of assumptions covering: Council Tax / Business Rates Government Funding Pressures / Savings	September 2021
Submit representations to HM Treasury on CSR	September 2021
New Business Plan published	September 2021
High level mapping resources to Business Plan priorities	October 2021
HM Treasury announce outcome of CSR for Government Departments	Autumn 2021 (assumed October 2021)
Set council tax base and notify Town & Parish Councils	31 October 2021
Cabinet develop options and proposals to close budget gap	October – November 2021
Capital Programme reviewed and reset	October - November 2021
Review of Earmarked Reserves	November 2021
MHCLG announce settlement for Local Government	Expected December 2021
Cabinet – Update on Budget Proposals	14 December 2021
Cabinet – Draft Budget Proposals	11 January 2022
Overview & Scrutiny Management Committee	25 January 2022
Statutory consultation with Businesses	January 2022
Cabinet – Final Budget Proposals	1 February 2022
Overview & Scrutiny Management Committee	8 February 2022
Full Council Budget & Council Tax setting	15 February 2022

## General Fund and Earmarked Reserves

49. In the setting of the 2021/22 budget the Council made steps to set out a strategy to build the general fund reserve up over the course of the MTFS to cover the financial risks the Council was exposed to. In addition, prudent action in setting aside earmarked reserves to help mitigate costs around expected latent demand, collection fund deficits and to help equalise the budget were also created.

50. The financial risk assessment that was undertaken in the setting of the budget stated a risk assessed balance to be held of £22.760m. At the end of 2021/22 the following general fund and earmarked reserves related to this activity are expected to still be held and are therefore available to help deal with either the budget gap or specific pressures identified in 2022/23.

	£m	£m
General Fund Reserve		16.8
Earmarked Reserves:		
Budget Equalisation	3.7	
Collection Fund Volatility	6.4	
Latent Demand	7.9	
Total Earmarked Reserves		18.0
Closing Balance of Reserves held against assessed risk		34.8

51. The level of financial risk will need to be reassessed as part of the budget setting process for 2022/23 and will reflect the latest risks and exposures being faced by the Council.

52. A review of all other earmarked reserves that are currently held by the Council will also be undertaken over the Autumn, ensuring that the reasons that the earmarked reserve was originally created are still present and also that intended spend rationale is still a priority for the Cabinet and aligns with business plan priorities.

53. The use of reserves played a key part in helping to balance the 2021/22 budget and used prudently, can play a key part in helping to balance the 2022/23 budget as a tool in giving more time for savings to be delivered and reducing the immediate impact of potential reduction to service spend. However ongoing reductions in service spend will need to be found to deliver a balanced budget by a financially sustainable Council that can fund services within the financial envelope available to it.

## Overview and Scrutiny Engagement

53. Regular reports are taken to Overview & Scrutiny relating to the Council's financial position.

### **Safeguarding Implications**

54. None have been identified as arising directly from this report.

### **Public Health Implications**

55. None have been identified as arising directly from this report.

### **Procurement Implications**

56. None have been identified as arising directly from this report.

### **Equalities Impact of the Proposal**

57. None have been identified as arising directly from this report.

### **Environmental and Climate Change Considerations**

58. None have been identified as arising directly from this report.

### **Risks that may arise if the proposed decision and related work is not taken**

59. There is a statutory requirement to set a balanced budget. To delay this update report would introduce additional risk to the ability to delivery to this requirement.

### **Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks**

60. The risks around the financial implications of COVID-19 on the Council have been well documented and reported on a regularly basis and this will continue for the remainder of the current financial year.

61. This marks the start of the setting of the next financial year budget, part of that process will set out the risks facing the Council, quantify them financially and then also advise on the level of reserves that should be held to deal with those risks.

62. Risks associated with service delivery will be raised as and when proposals are brought forward.

### **Financial Implications**

63. The financial implications are set out and implicit throughout the report.

### **Legal Implications**

64. None have been identified as arising directly from this report.

## **Workforce Implications**

65. Proposals around how the budget gap will be bridged and ultimately closed will be formulated over the coming weeks and months and reported back to Cabinet. These proposals will look at all avenues open to the Council and will inevitably look at the service the Council provides from a statutory and discretionary level as well the costs that fall within those services most notably third party spend and staffing. Changes to workforce will be minimised in so far as they can be with mitigations such as holding vacancies where possible. Any impact on the workforce will follow the council policies and will include union consultation when appropriate.

## **Options Considered**

66. There is a statutory requirement to set a balanced budget. This report is an update report that outlines to members the latest position in respect to the Budget 2022/23 and the Medium-Term Financial Strategy following the setting of the 2021/22 budget in February 2021.

## **Conclusions**

63. The report supports effective decision making and ensures that members are informed of the proposed budget setting process timetable and an update on the latest position for the budget for 2022/23.

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## **Background Papers**

None