

**Questions from the Corporate Scrutiny Committee regarding the Draft Budget
Proposals 2023-24, and responses:**

Qu.1: Is the Leader confident that the Council can deliver a balanced budget for 2023-24?

The Council's Director of Finance has indicated that he believes that the Council will be able to deliver a balanced budget for 2023-24. He has cautioned that there remain many uncertainties relating to additional cost pressures and also the level of funding that will be received to offset those cost pressures. Whilst a balanced budget is achievable, it is by no means certain that the Council will be able to achieve "structural budget balance" (i.e. that in year spending matches in year funding) and the Council may have to rely on the use of non-recurring funding sources such as Reserves in order to balance the budget. This means that there is a realistic prospect that in order to balance the budget, the Council may have to reduce its overall level of financial resilience through the reduction in reserves set aside to provide cover for known and unknown risks.

Qu. 2: Given the uncertainty of the impact of the cost of living crisis and level of Government funding what changes will have to be made to the current Medium Term Financial Strategy?

The overall level of future savings may change that the Medium Term Financial Strategy will need to deliver but the strategy itself will maintain it's core aim as follows: *"In Year" expenditure matches "In Year" income over the medium term whilst regenerating the Island Economy and providing essential Value for Money services for our Businesses and Residents*". The 6 Core Themes embedded within the MTFs are:

<u>SHORT TERM</u>	
Theme 1	Create Financial and Operating Capacity to Transform
Theme 2	Increasing Efficiency and Effectiveness
<u>SHORT TO MEDIUM TERM</u>	
Theme 3	Entrepreneurial, Commercial and Collaborative Activities (with managed risk)
Theme 4	Withdraw from or offer Minimal Provision for Low Impact Services
Theme 5	Improving the Island Economy
<u>MEDIUM TO LONGER TERM</u>	
Theme 6	Public Service Transformation

As part of the forthcoming Budget for 2023/24 the Council has been advised by the Director of Finance that it will need to increase its planned savings from £2m to £3m. Additionally, the Council will need to mitigate and ration the amounts that have been requested by Services to meet additional cost pressures to the absolute minimum of unavoidable cost pressures. Services have requested increases of £20m but funding for cost increases of just £12m is available.

Qu. 3: What virements have had to be undertaken during 2022-23 between budget headings and how will this be taken into account for budget planning purposes for 2023-24?

During 2023/24 the following amounts have been transferred from the Council's contingency to deal with in year cost pressures:

- Children's Services, Education & Lifelong Skills - £2.0m
- Impact of the Pay Award being - £2.7m
- Adults Social Care - continued impact of Covid - £2.1m
- Leisure - continued impact of reduced income following Covid - £1.0m

All budget pressures relating to the current year and 2023/24 have been captured as part of the requests from services to increase their Budgets for next year by £20m

Qu. 4: The quarterly performance report shows that savings are being made in the year as a result of staff vacancies. Will the budget proposals for 2023-24 take into account a full staffing establishment to ensure that there is capacity to deliver services at the required level?

Budgets are prepared to deliver "steady state" service provision and Budgets are only reduced if savings proposals are accepted the budget process. Where appropriate and reliable, some services can operate with a "vacancy factor". A vacancy factor only exists where there is sustained historic evidence that full establishment is not achieved and any associated saving is not required for some form of backfill.

Qu. 5: A number of authorities have already indicated that they would need to issue a section 114 notice. Is this something that has been looked at by the Leader if there is no increase in the level of funding?

It is the Council's Director of Finance that has the statutory responsibility to issue a S.114 Notice to the Council. He has indicated that the Council will be able to deliver a balanced budget for 2023-24 although this may lead to an overall reduction in the Council's financial resilience. As set out in the response to Question 1, he has cautioned that there remain many uncertainties relating to additional cost pressures and also the level of funding that will be received to offset those cost pressures. Also that there is a realistic prospect that in order to balance the budget, the Council may have to reduce its overall level of financial resilience through the reduction in reserves set aside to provide cover for known and unknown risks.

Qu. 6: What is the level of reserves that the Council is expected to retain for 2023-24 in terms of revenue expenditure and what is the logic behind that level?

The Council's forecast estimated that General Reserves would reduce to £9m in 2023/24 (being just £2.0m above the minimum level). This year's budget process has been approached on the basis that the Council will deliver a "Balanced Budget" and maintain General Reserves at £9m. As set out in the response to Qu. 2, that will require the Council to make £3m of Budget Savings and to allocate additional funding to Services of circa £12m for unavoidable cost pressures versus the requested £20m of additional funding from Services. Even at this stage there remain a number of cost and funding uncertainties which is why the Council's Director of Finance has cautioned that there is a realistic prospect that in order to balance the budget, the Council may have to reduce its overall level of financial resilience through the reduction in reserves.

Qu. 7: Has the current budget enabled delivery of all the key priorities for 2022-23, shown in the Corporate Plan and is it expected that the draft budget proposals will also enable the continued delivery of all activities or will amendments be required?

The current budget has enabled the council to progress its key priorities shown for 2022/23. Whilst many have progressed and been delivered, the timescales for delivery of some priorities have changed due to both internal and external factors. Delivery of priorities has been tracked through the quarterly performance management report. It is good practice to review the corporate plan alongside developing budget proposals so that activities can be linked to both financial resource and capacity and given the savings and budget pressures discussed in response to earlier questions the level of activity and therefore the corporate plan is likely to require amending.

Qu. 8: What is the impact upon capital schemes as the result of increased rates of interest?

Many schemes within the Capital Programme are approved to be funded by Prudential Borrowing subject to the approval by the Council's Director of Finance following preparation of a financial appraisal that demonstrates that the scheme can deliver savings or additional income sufficient to cover the borrowing costs. The cost of borrowing has now increased which will require the necessary savings / income generated by the investment to be higher. Schemes within the Capital Programme are therefore likely to be stalled. Housing schemes in particular which were intended to be funded by part borrowing and part cash were already challenged even prior to the interest rate rise.

Qu. 9: Is there a current strategic plan for each service and will these have to be reviewed to reflect the financial situation?

Each Service prepares and maintains a Service Plan. Those Service Plans are generally prepared and budgeted for on the basis of providing "Steady State" levels of Service. Service improvement or transformation is general funded from additional funding allocated through the Budget Process via the Revenue Budget, Capital Programme or Transformation Fund. Consequently, Service plans will need to be re-considered in the context of the financial parameters set out at the Annual Budget Meeting in February.

Qu. 10: Is there a clear identification of risks and actions needed to minimise risks arising from budget or service reductions?

As is normal, any indicative savings proposals presented to full Council will include an impact statements, have regard to any necessary consultation as well as Equality Impact Assessment.

Qu.11: What are the key risk areas for the budget?

Section 25 of the Local Government Act 2003 ("the Act") requires the Chief Financial Officer to report to the Council on the following matters:

- The robustness of the estimates included in the Budget made for the purposes of setting the Council Tax; and
- The adequacy of proposed financial reserves.

This Statement sets out the key risks and routinely includes:

- Inflation

- The continuing impact of the Covid-19 pandemic, its impact on costs, Council Tax and Business Rate income levels
- The general uncertainty surrounding Business Rate income including "Material Change of Use" and the extent of successful appeals and mandatory reliefs, all of which affect Retained Business Rates
- Government Funding levels (including the outcome of the Fair Funding Review and the Business Rate Retention scheme review)
- The ability of the Council to continue to make the necessary savings at the required scale and pace
- The likely demographic cost pressures arising in demand driven services such as Adult Social Care, Children's Services and Housing
- The extent to which new policy changes will be funded (e.g. those arising from the Care Act).
- The Council's Reserves and the extent to which they are consistent with the Council's financial risks over the medium term

Qu.12: Will performance measures help influence budget allocation?

In general yes since the Council is obligated to provide services in accordance with statute and will endeavour to remain within statutory levels and budget accordingly.

Qu. 13: How can uncertainty be accounted for in the budget?

Budget Savings proposals are only included within the Budget if they have a reasonable expectation of delivery. Speculative proposals are not put forward for consideration. The Council maintains a Corporate Contingency for known liabilities of uncertain timing and uncertain amount as well as making some provision for "unknown unknowns"

General Reserves are available to be used as a last resort in the event of an unplanned "financial shock" where no other funding source would be available. In the event that the minimum level of General Reserves is breached, a plan must then be made and implemented to restore General Balances above the minimum requirement within the same financial year. The Council's overall financial forecasts and resulting savings requirements are prepared to take account of alternative scenarios (or "stress testing") such that the forecast future savings requirements are not the subject of significant variability in the event of a "financial shock". As an example, the exceptional inflationary environment and cost of living crisis currently being experienced has led to an increase in the savings requirement for 2023/24 from an originally planned £2m to a revised £3m.

Qu. 14: Do policies exist on such issues as savings, overspends or underspends, when were these last reviewed and are these widely known?

Financial Regulations form part of the Council's Constitution and tend to be reviewed on an annual rolling basis. The Council's Medium Term Financial Strategy sets out the broad financial framework within which the Council operates.

Qu. 15: How will any demographic changes be accounted for within the budget?

As set out in Qu. 3, all cost pressures, including those relating to demographic changes, have been captured as part of the requested £20m of additional funding requested from Services but for which just £12m of additional funding is available. Funding will be allocated to those cost pressures that are absolutely unavoidable and are unable to be mitigated or rationed in a responsible manner.