

REPORT OF DIRECTOR OF CORPORATE SERVICES

Executive Board

30th July 2018

REVENUE BUDGET OUTLOOK 2019/20 to 2021/22

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1. PURPOSE OF REPORT

The purpose of this report is to:

- 1.1. Appraise members on the current financial outlook
- 1.2. Update our current financial model covering the next three years;
- 1.3. Outline proposals for taking forward the budget preparation for the three year period.

2. BACKGROUND

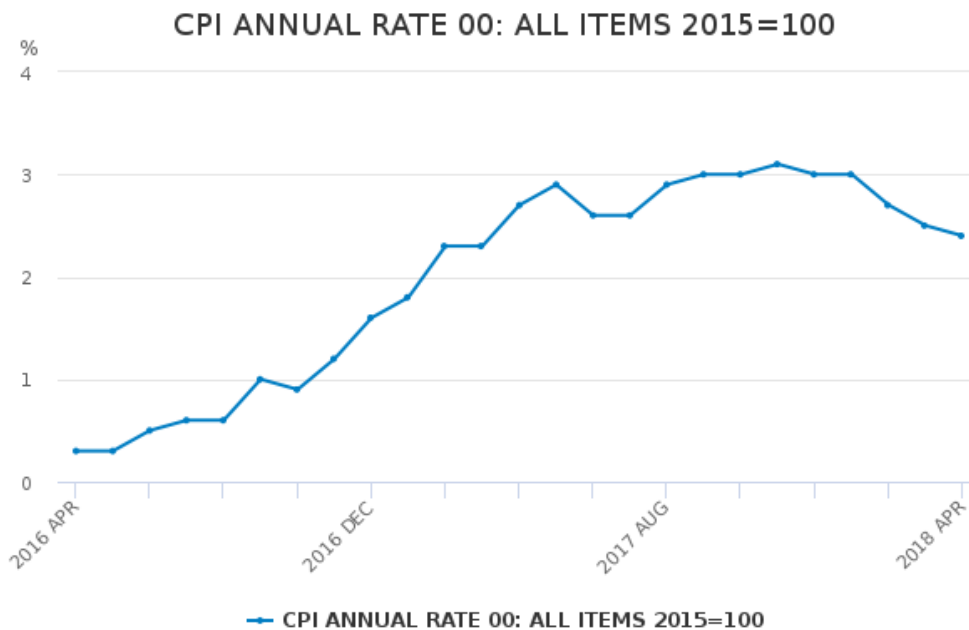
- 2.1. The current three year Medium Term Financial Plan (MTFP) was agreed by Council in February 2018 and was based on estimates of known commitments at that time, and formulated in the context of the Welsh Government (WG) financial settlement for 2018/19 with an indicative reduction of 1.5% being outlined in the provisional settlement for 2019/20, later revised to 1%.
- 2.2. Since the General Election of 2010, there has been continued pressure on spending across the public sector as the policy of Austerity has been applied. Successive Welsh Government budgets have either cut Local Authority funding or failed to meet unavoidable inflationary pressures. Over the last eight annual budgets, this Authority has made budget reductions totalling nearly £80 million, or a quarter of the annual net budget.

- 2.3.** At the same time as managing reducing settlements and the growth in demand, the Authority has also had to absorb substantial cost increases. These include items such as the introduction of Single Tier Pensions, the introduction of the Apprenticeship levy, and the additional cost of the National Living Wage both in respect of the Authorities own direct pay costs and indirectly through increased charges from service providers.
- 2.4.** The overall financial standing of the Authority has been maintained at a prudent level. Most of our reserves are earmarked for specific purposes – whether this is to address liabilities now or in the future e.g. Insurance reserves, or for financing specific capital schemes. Our Council Fund balance currently stands at 2.8% of our net budget and in recent years we have made limited use of such reserves to support ongoing expenditure.

3. OTHER CONSIDERATIONS

NATIONAL CONTEXT

- 3.1.** From a UK Government perspective, the last 12 months have seen an apparent move away from Austerity and previously imposed pay restraint. According to the Office for National Statistics (ONS), new UK government borrowing in 2017/18 fell to £43 billion, eliminating the current budget deficit for the first time since 2001-2. In his spring 2018 statement, the Chancellor of the Exchequer said that if borrowing forecasts continued to beat previous forecasts, he “would have capacity to enable further increases in public spending and investment in the years ahead”. Prime Minister Theresa May announced on 17 June that the NHS in England would get an extra £20 billion a year by 2023. The benefit to Welsh Government is estimated at potentially £1.2 billion, though the impact on Welsh budgets will depend on decisions taken in Cardiff Bay.
- 3.2.** Recent ONS figures on inflation suggest that whilst CPI remains above the Bank of England target of 2%, the recent rise to over 3% has abated.



Source:

- 3.3.** There remains considerable uncertainty regarding the future trade relationship between the UK and the European Union. This will have a significant impact on the UK economy in future years, and consequently the tax revenues that fund public sector spending. Additionally, there is a particularly acute risk for Local Authorities in respect of EU grant funding streams. To give a sense of scale, on behalf of both Carmarthenshire as well as schemes which benefit the wider South West Wales area, European grants totalling nearly £100 million have been approved between 2007-2020. Regeneration projects in particular have benefitted, including for example the LEADER programme (£4 million grant) the LINC programme (£1.8 million grant) and Pendine complex (£3 million grant).

WELSH GOVERNMENT FUNDING

- 3.4.** In addition to the future decisions regarding public spending to be taken by the Westminster Government, as outlined above, there remains a lack of clarity from WG as to future settlements. The provisional settlement announced in October 2017 included an indicative reduction of 1.5% for 2019/20. Speaking just the following month at the WLGA conference, Mark Drakeford subsequently revised this to a reduction of 1%. There has been no updated information since then, with a change in Ministerial portfolios creating further uncertainty.
- 3.5.** The Welsh Government picture is further complicated by First Minister’s announcement of his intention to step down later this year. This will undoubtedly have a bearing both on the direction of the Administration going forward and the nature of any continuing alliance in the Senedd.

It is worth highlighting two particular WG budget trends over recent years:

- 1) The share consumed by health has increased considerably, and now consumes 49% of WG's budget, implying that even with "flat cash" or growth WG budgets, Local Authority funding may continue to be at risk.
- 2) Headline figures in the main Revenue Support Grant have masked a larger reduction in specific grants. For example, in 2018/19 the Education Improvement Grant was cut by £15 million across Wales (with temporary funding for year only specific Gypsy Traveller/Minority Ethnic provision at less than 50% of previous years) as was the Single Revenue Grant by £5 million, which underpins funding for local waste and recycling services.

FUNDING PRIORITIES

- 3.6. In February 2018, County Council endorsed the Executive Board's plan for Moving Forward in Carmarthenshire over the next 5 years. This document sets strategic priorities and aspirations and will underpin the key policy decisions to be taken in the development of the Medium Term Financial Plan.
- 3.7. In line with previous work undertaken to strengthen the links between financial planning and corporate planning', The Corporate and Financial Planning timetable for 2019-20 (Appendix A) has been drafted to ensure that the Council's corporate and financial planning processes are properly aligned and interdependent.

4. CURRENT FINANCIAL OUTLOOK

- 4.1. The current MTFP was prepared with an assumed 1% reduction per annum in the WG settlement in 2019/20 and 1.5% reduction in 2020/21.
- 4.2. In the absence of any further information, and given the risks highlighted above, it is prudent that we continue with the assumption of a 1% reduction in 2019/20 and we have applied an annual reduction of 1.5% for each of the following 2 years. This will be reviewed as more information becomes available.

5. FINANCIAL MODEL

The revised financial model covers the three year period up to 2021/22. The most important part for any financial plan or model is the underlying assumptions, the current key assumptions being:

- 5.1.** For the purposes of our financial outlook, the base model reflects the Aggregate External Finance (AEF) reducing by 1.0% in 2019/20 and 1.5% per annum thereafter. Service specific grants currently account for around £100 million and it is assumed that EITHER any further reductions are contained within the AEF reduction above OR that activity/expenditure is reduced in line with grant funding.

Of particular note is a planned further reduction of £9 million in the Education Improvement Grant (EIG) across Wales – this follows a £15 million reduction in 2018/19, notionally transferred into the settlement, but called out by the WLGA as essentially just a cut.

- 5.2.** As for all councils, the treatment of delegated school budgets has a significant impact on the scale of savings proposals across every other service area. In the previous two years, the planning assumption has been for schools' delegated budgets to face the same level of reductions as other services, which has then been ameliorated by a more favourable WG final settlement. Reflecting this, it is proposed to maintain the previous year's approach of cash neutral funding for the delegated school budget. As a consequence of validation, it is recognised this will require savings to be made. It is expected that this is deliverable through a combination of efficiency measures implemented by individual schools (supported by the Council's TIC programme) as well as efficiencies in the overall schools estate.
- 5.3.** The current pay settlement for NJC staff was for a two year period encompassing the 2018-20 financial years, The financial model reflects future pay awards at 2% per annum, together with additional increases for the lower scales in April 2019, in advance of the anticipated increases in the National Living Wage.

Significant increases to the lower scales have driven a need to review and negotiate a new pay spine. National negotiations are ongoing, and in the absence of any greater clarity, the model is based on the

changes proposed nationally in December 2017. This has been calculated at £1.8 million in 2019-20 and a further £600k in 2020-21.

- 5.4.** The 5 year capital plan was approved by Council in February 2018, however it is recognised that there may be further schemes the council wishes to pursue for which additional funding would be required. A “gap analysis” is currently being undertaken.

Council on the 26th April 2017 approved changes to the Authority’s Treasury Management Policy, Strategy and Minimum Revenue Provision Policy, which changed the basis of the repayment of the Council’s borrowing which reflected the estimated “Asset Life” of the Authority’s fixed assets. This change provided a sum of £448k in last year’s budget and provides a further sum of £221k for one-off items in 2019/20.

- 5.5.** Validation assumptions for the three years have been revisited and are currently:

	Financial Model		
	2019-20 %	2020-21 %	2021-22 %
Expenditure Inflation	2.3	2.0	2.0
Income Inflation	2.5	2.0	2.0
Pay Awards	3.0	2.0	2.0
Employers Pension Rates	0.2	0.2	0.2
Fuel	5.0	5.0	5.0
Energy Costs	5.0	5.0	5.0
Capital charges	£250k	£250k	£250k

- 5.6.** Service Pressures:

The financial model assumes growth pressures of £3m per annum for each of the three years. The initial growth bids submitted by departments for 2019-20 amount to £7.4m and are attached at Appendix B.

No account has been taken of any new legislative pressures, with the exception of the Additional Learning Needs and Education Tribunal (Wales) Act. A bid has been made for £400k in 2019-20, which will be further refined as the true costs and any additional funding become clearer.

Over the MTFP period, there are likely to be additional funding requirements in respect of the City Deal projects. These include both interest costs (as it is forecast they will exceed the business rates retention deal agreed with WG) and additional staffing costs. These

will need to be addressed within the individual business case appraisals before their commencement, and as such it is not anticipated these will impact upon 2019-20 budgets.

- 5.7. The modelling is based on Council Tax increases of 3.78% and 3.67% for 2019-20 and 2020-21 respectively in line with the MTFP indicative figure approved in February 2018 and an assumption of 4% for 2021-22, purely for planning purposes.
- 5.8. Based upon the above assumptions a financial model has been constructed (see table below) which highlights the impact of the proposed changes, and identifies the likely budget shortfall. Comparative figures from the current MTFP are included for information

Summary of Financial Model

	Current MTFP		Financial Model		
	2019/20 £'000	2020/21 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Previous Year's Budget	345,778	346,988	345,778	346,988	347,065
General Inflation	2,367	2,526	2,669	2,526	2,576
Pay Inflation	6,019	4,840	6,019	4,840	4,324
Other	1,052	713	994	952	965
Growth	3,000	3,000	3,000	3,000	3,000
Original & approved PBB Proposals	-8,812	-8,209	-8,812	-8,209	0
Net Expenditure	346,988	347,065	346,988	347,065	347,582
Revenue Settlement	-256,793	-252,941	-256,793	-252,941	-249,147
Council Tax Receipts	-90,194	-94,124	-90,194	-94,124	98,535
Shortfall	2,417	2,791	2,661	2,412	10,249

5.9. Key points:

5.9.1. We are looking at requiring cumulative reductions of £33m over the three years.

5.9.2. Our budget, in common with all authorities will contain a number of expenditure items that are essentially 'fixed' such as our debt costs, payments to those in receipt of council tax reduction support, the cost of levies, insurance costs, external audit fees, etc. In terms of managing and addressing any reductions we need to exclude these budgets. The net controllable budget of the authority is therefore £289 million.

5.9.3. It is proposed that the savings requirements for each of the financial years be allocated between departments as follows:

	2019/20	2020/21	2021/22
	£'000	£'000	£'000
Chief Executive	668	654	590
Schools Delegated Budget	2,642	2,593	2,452
Education & Children	1,535	1,503	1,356
Communities	4,234	4,145	3,738
Corporate Services	303	297	268
Environment	2,090	2,047	1,846
	11,473	11,240	10,249

5.9.4. The above model, as stated above, is based upon reductions to the AEF of in 1% in 2019/20 and 1.5% per annum thereafter and council tax increases as set out in paragraph 5.7.

6. SENSITIVITY ANALYSIS

- 6.1. Any budget forecast has an element of risk and a large degree of uncertainty when planning over the medium term, and this is particularly so in with the current outlook.
- 6.2. Any changes to the assumptions will inevitably be the result of a number of factors. The following table identifies the individual impact of the main components of the budget:

Budget element	Movement	Annual Impact
Pay inflation	1%	£2.1m
General inflation	1% (expenditure only)	£2.1m
General inflation	1% (income only)	-£1.3m
WG Settlement	1%	£2.5m
Specific Grants	1%	£1.0m
Council Tax	1%	£0.9m

- 6.3. The following table illustrates the scale of the impact on departmental savings targets in 2019/2020 if some of the movements outlined above materialised (Tables do not reflect a cumulative effect) :

Department	1% change in WG settlement	1% change in Council Tax Increase	No schools protection – i.e. increased schools efficiencies
	£'000s	£'000s	£'000s
Chief Executive	+/-194	+/-68	-123
Schools Delegated Budget	0**	0**	1,628
Education & Children	+/-446	+/-157	-283
Communities	+/-1,231	+/-432	-781
Corporate Services	+/-88	+/-31	-56
Environment	+/-608	+/-214	-385
	+/-2,568	902	0

** Based on assumption that “cash neutral” approach is maintained

- 6.4. The Budget modelling will be monitored and refined as the likely position becomes clearer.

7. TAKING THE WORK FORWARD

There are a number of strands to develop in bringing about change to ensure we achieve balanced budgets:

- 7.1. A continued real and focused drive to achieve efficiency in what we do – including business processes, taking advantage of technology and reviewing non-employee spend.
- 7.2. Establishing what is important to members (and other stakeholders) in terms of what they wish to prioritise and importantly what is not and can be ‘given up’/or reduced, recognising that prioritising in one area unavoidably leads to difficult choices elsewhere;
- 7.3. Demand management which explores all the drivers of demand for our services and asks whether we can reduce or manage that demand by other methods and/or by doing things differently – e.g. earlier intervention in a cycle; changing user expectations of services; use of the third sector/other organisations or alternative delivery models etc;
- 7.4. Innovation and alternative funding sources – whilst innovation will be evident in all the other strands it is felt useful to also have it as standalone to allow some free thinking to emerge and understand

whether that free thinking leads to approaches that may generate further avenues for attracting revenue support or generating income.

7.5. All of the above will involve:

- 7.5.1. Consideration of alternative delivery models/providers;
- 7.5.2. Acceptance of lower performance/reduction/cessation in some areas as an acceptable price to prioritise/protect others;
- 7.5.3. Consideration of alternative and perhaps as yet untapped sources of finance;
- 7.5.4. Some analysis of the cost/benefit equation of what we currently do and what we would propose to do.
- 7.5.5. Council will need to implement measures in 2018/19 to increase as far as possible its options in respect of the 2019-20 budget setting process. The aims of these measures would be to partially mitigate the risk of the council not achieving a balanced budget for 2019-20 and would need to be undertaken following consultation with members.

7.6. In considering the budget proposals, members need to take into consideration the requirements of the Wellbeing of Future Generations (Wales) Act 2015. The Act requires that we must carry out sustainable development, improving the economic, social environmental and cultural well-being of Wales.

8. BUDGET PREPARATION FOR 2019/20

- 8.1.** The financial model tabled above will be updated as and when more information becomes available, key amongst which will be the provisional settlement expected from WG in the autumn of 2018.
- 8.2.** As part of the current Medium Term Financial Plan, Departments are requested to update their efficiency/service rationalisation proposals for 2019/20 and 2020/21 and to bring forward their proposals for 2021/22. To support the process, the Departmental service Director will challenge/draw up the cost reduction proposals in conjunction with :
 - Executive Board portfolio member, plus
 - Executive Board Portfolio Holder for Resources and/or Deputy Leader.

- 8.3.** Officers will continue to refine the budget projections taking account of inflation factors, the collection rate and reviewing the potential for the use of reserves etc.
- 8.4.** Member seminar on budget proposals to be convened in November 2018.
- 8.5.** Public consultation on the budget proposals to commence in November 2018, encompassing a variety of means including on-line surveys, Town & Community Councils, and digital communications with residents, businesses and staff who live and work within the County.
- 8.6.** Scrutiny Committee consultation in December 2018/January 2019

9. RECOMMENDATION(S)

It is recommended that:

- 9.1.** The Executive Board receives the initial budget outlook and considers the level of Council Tax rises and the level of school efficiencies that it considers appropriate for developing the Medium Term Financial Plan;
- 9.2.** Executive Board endorse the proposed approach to identifying the required savings
- 9.3.** Executive Board note the proposed approach to the budget consultation