

# REPORT OF DIRECTOR OF CORPORATE SERVICES

## Environmental & Public Protection Scrutiny Committee

10<sup>th</sup> December 2018

### REVENUE BUDGET STRATEGY 2019/20 to 2021/22

(Copy of Executive Board report 19/11/18)

<b>HEAD OF SERVICE &amp; DESIGNATION.</b>	<b>DIRECTORATE</b>	<b>TELEPHONE NO.</b>
<b>C Moore, Director of Corporate Services</b>	<b>Corporate Services</b>	<b>01267 224121</b>
<b>AUTHOR &amp; DESIGNATION</b>	<b>DIRECTORATE</b>	<b>TELEPHONE NO</b>
<b>R Hemingway, Head of Financial Services Officer</b>	<b>Corporate Services</b>	<b>01267 224886</b>

## 1. INTRODUCTION

- 1.1. Executive Board in July 2018 received a report on the Revenue Budget Outlook for 2019/2020 to 2021/2022 which appraised Members of the financial outlook and the proposals for taking forward the budget preparation for the three year period.
- 1.2. This report provides Members with the current view of the Revenue Budget for 2019/2020 together with indicative figures for the 2020/2021 and 2021/2022 financial years. The report is based on officers' projections of spending requirements and takes account of the provisional settlement issued by Welsh Government on 9<sup>th</sup> October 2018. It also reflects the current departmental submissions for savings proposals.
- 1.3. Whilst significant work has already been undertaken in preparing the budget, this is only an initial position statement which will be updated over the coming months as the budget is further developed, council members are engaged, public consultation takes place, and the final settlement is received from Welsh Government.
- 1.4. The report is broken down into 5 parts:
  - Funding Projections
  - Budget Requirement
  - Impact on the Authority's budget requirement
  - Consultation
  - Conclusion
  - Recommendations

## 2. PROVISIONAL SETTLEMENT

- 2.1. The provisional settlement was announced on Tuesday 9<sup>th</sup> October 2018. Indicative figures for individual Local Authorities were provided for one financial year only, 2019/20, with no further information about future years' settlements.
- 2.2. Whilst the headline provisional settlement was better than this Council had forecast, it was a reduction on the current year's settlement. When inflationary factors, demographic and demand changes are considered there is a significant negative impact on the Council's resources.
- 2.3. Speaking on BBC Radio Wales on the day of the provisional settlement, the First Minister acknowledged the financial difficulty that this placed upon councils. He therefore committed that if there was a favourable Barnett consequential following the Chancellors Autumn Statement on 29 October, local government would be "first in the queue" for additional funding in Welsh Government's final budget, to be published in December.

However, responding to the Barnett consequential of £550m (£486m revenue by 2019-20) Cabinet Secretary for Finance Mark Drakeford was dismissive, saying that £365m had already been planned into the Welsh Government budget. WLGA's own indicative analysis is that there could be around £59m in 2019-20 available for WG to allocate in the final revenue settlement, published in December, if they so choose.

- 2.4. The main points of the Provisional Settlement 2019/2020 on an all Wales basis are as follows:
  - 2.4.1. Local government revenue funding for 2019-20 set at £4.214 billion, a reduction of 0.3% (£12.3 million) compared to 2018-19, but this is after transfers into the settlement which WG have included at £12.1 million.
  - 2.4.2. Our analysis suggests there are however inconsistencies in this:

WG's draft budget published on 2 October clearly states that £13.7 million has been included towards the cost of the September 2018 Teachers pay award, yet only £8.1 million has been provided. We therefore consider that the true settlement is £5.6 million worse than publicised. This appears to contradict both the Secretary of State for Wales' letter to Welsh Council Leaders as well as Welsh Government's own draft budget detailed proposals.

Similarly, there was explicit reference to £7.0 million of additional funding to meet Local Authorities costs arising from WG's approach to free school meals. On this, it is

clear that only £4.0 million has been provided, making the true settlement £3.0 million worse than publicised.

Like last year, there is reference in WG's draft budget to an extra £20 million for social care, however there is simply no extra money for this.

- 2.4.3. The WG budget does not include any funding for substantial increases in the Teachers' Pensions employer contribution rates (referred to in paragraph 3.2.3 below). WG officials have been unable to provide any clarity on the matter. We consider it likely that this information became available too late in the process to be included with the WG budget, and indeed some funding appears to have been set aside in the Chancellor's Autumn Statement.
- 2.4.4. £2.5 million floor funding to ensure that no authority sees a reduction of greater than 1.0% compared to its 2018-19 settlement allocation.
- 2.4.5. No information regarding any future arrangements on the WG previously stated aims as to how to make the Council Tax Reduction Scheme fairer.

**2.5.** The Settlement figures for Carmarthenshire are:

- 2.5.1. After adjustments for WG identified transfers, the reduction in the provisional settlement is 0.5% (£1.343m). The Aggregate External Finance (AEF) therefore reduces to £258,831k in 2019/20.

2.5.2. New responsibilities and transfers in:

- £422k for Free School Meals eligibility, however only £238k has actually been transferred in
- £843k for Teachers pay, of which only £497k has been transferred in

Taking account of these, the reduction for Carmarthenshire is 0.7% (£1.873m).

As this year's settlement includes a funding floor of -1.0%, and in the absence of any forward guidance for future years, the MTFP assumptions for 2020/21 and 2021/22 have each been revised upwards from -1.5% to -1.0%. This reduces the budget gap by £2.6m over the MTFP period.

**2.6.** Details of the Welsh Government Service Specific Grants were updated on 23<sup>rd</sup> October 2018, albeit there is no information for around £150m of

grants at an all Wales level. Of those published, the majority have been maintained at a ***cash standstill position***, reducing the value of output which can be delivered once inflation is taken into account. There are however some important updates :

- There is a new social services grant of £30m across Wales. As there are no specific details, we are planning on the basis that this can be used in full towards the obvious and unavoidable service pressures. The Chancellor's autumn statement confirmed the National Living Wage increase from £7.83/hour to £8.21/hour which will impact significantly on the cost of many commissioned services.
- There is a new education grant of £15m across Wales. By contrast the Cabinet Secretary for Education has said publicly that this is to be largely used for teachers' professional development. As such we have not been able to count it when considering new pressures funding.
- There is a new "super grant" named the Children and Communities Grant of £135m which brings together previously separate funding streams of Flying Start, Families First, Communities for Work Plus and Communities First Legacy Education Improvement Grant.
- The temporary funding put in place in 2018/19 for Ethnic, Minority Gypsy Roma Traveller Learners has been maintained at £8.7m but there is no information on whether the current distribution, which does not favour Carmarthenshire, is to be changed or not.
- The £9m planned all Wales cut to Education Improvement Grant has not been implemented.
- The Concessionary Fares grant has increased by £2m to £60m, though no details are available on any conditions attached to this increase.

### 3. BUDGET REQUIREMENT 2019/2020

#### 3.1. Current Years performance (2018/2019)

3.1.1. As the Authority's core spending requirements remains constant year on year, a review of current year's performance is important in identifying whether there are any underlying problems within the base budget

3.1.2. The current projection for the Revenue Outturn for 2018/19 (based on the August 2018 monitoring) is as follows

<b>Service</b>	<b>Approved Budget</b> £'000	<b>Total Expenditure Forecast</b> £'000	<b>Variance Forecast For Year</b> £'000
Chief Executive	13,832	14,078	246
Communities	97,714	98,507	793
Corporate Services	24,799	24,475	-324
Education and Children's Services	162,665	164,571	1,906
Environment	52,468	53,280	812
<b>Departmental Expenditure</b>	<b>351,479</b>	<b>354,911</b>	<b>3,432</b>
Cont from Dept/Earmarked Reserves		-650	-650
Capital Charges	-15,425	-15,970	-545
Levies and Contributions	9,724	9,724	0
Transfer to/ from Reserves	0	0	0
<b>Net Expenditure</b>	<b>345,778</b>	<b>348,015</b>	<b>2,237</b>

The main reasons for the departmental overspends are as follows:

- Chief Executive's Department: proposed savings in Corporate Health and Safety (285k) under review by TIC team.
- Communities Department: overspends against budget in the areas of Older People and Physical disabilities, Learning Disabilities, Mental Health and Safeguarding.
- Education and Children's Services: continues to face pressure due in the main to school based EVR and redundancy costs, Special Educational Needs Statements, shortfall in the Music service SLA income from schools and Out of County Placements.
- Environment Department: overspends are primarily due to non-achievement of car park income targets and a decrease in planning application income.

The Authority is currently forecasting a variance of £2.237m at the year-end that will have to be met from General Balances.

### 3.2. Validation

3.2.1. Validation reflects the changes in expenditure requirements to deliver the **current level** of services in future years. Primarily this is inflation, but also includes some service specific changes. The key validation factors are as follows:

	<u>2019/20 Original</u>	<u>2019/20 Proposed</u>	<u>2020/21</u>	<u>2021/22</u>
General inflation	2.3%	2.3%	2.0%	2.0%
Electricity	5.0%	5.0%	5.0%	5.0%
Gas	5.0%	5.0%	5.0%	5.0%
Fuel	5.0%	5.0%	5.0%	5.0%
Pay Inflation - non teaching	2.0%	2.0%	2.0%	2.0%
Pay Inflation - Teaching	2.0%	1.6%	2.0%	2.0%
Levies	2.9%	2.9%	2.5%	2.5%
Pension Contributions	£209k	£209k	£213k	£218k
New Pay Spine	£1800k	£2000k	n/a	n/a
Capital Charges	£250k	£250k	£250k	£250k

3.2.2. There are very significant pressures in terms of the council's pay bill. With a clear cessation of the 1% public sector pay cap over the last year, the budget is built on the an assumption of a 2% per annum increase generally – with two exceptions:

- Teachers pay - Factoring in the full year effect of the September 2018 award, but then reverting to the annual 2% each September;
- NJC pay spine – implementing the nationally agreed pay spine, which for Carmarthenshire means an average increase of 3.5% in April 2019, based on budgeted Top-of-Grade salaries, then reverting to 2% each April.

3.2.3. Furthermore, our draft budget considers the effect of the increase in Teachers Pensions Employer contributions. The increase from 16.48% to 23.6% is forecast to cost £2.75m in 2019/20 (September implementation) and a further £1.75m in 2020/21, totalling c. £4.5m full year effect. Our working assumption is that either this is fully funded through a direct grant in 2019/20 or accommodated in full in the final settlement

published in December. **Anything other than a fully funded position will further add to the budget cuts faced by Local Authorities – therefore if it factored into the settlement, this is likely to add around £50 million to the headline figure without providing any true relief.**

3.2.4. As a result of these factors, validation is high relative to recent years and adds £11.8m to the current year's budget.

### **3.3. Cost reduction Programme**

3.3.1. In anticipation of the settlement reductions, significant work in identifying further service efficiencies/rationalisation proposals has been undertaken.

3.3.2. The savings targets set for each financial year are as follows:

	2019/20 £m	2020/21 £m	2021/22 £m
Original targets (July Budget Outlook report)	11.473	11.240	10.249
Updated targets (following Provisional Settlement)	9.825	9.539	8.481

3.3.3. Accordingly departments have developed a range of proposals, and these efficiencies are included in **Appendix A** of this report.

- The efficiency proposals are categorised as follows:
  - Managerial – Efficiencies that result in no perceivable change to the overall level of service delivery but may in some instances affect quality of service provided;
  - Policy – Efficiency or service rationalisation proposals that will directly affect service delivery.

	2019/20 £m	2020/21 £m	2021/22 £m
Managerial	5.527	3.878	3.893
Existing Policy	3.078	3.126	3.021
New Policy	1.220	0.660	0.696
<b>Total</b>	<b>9.825</b>	<b>7.664</b>	<b>7.610</b>
Shortfall	0	1.875	0.871

(Detail at **Appendix A**)

- 3.3.4. The summary sheet at Appendix A sets out the savings targets set for individual departments and the value of savings currently identified.

### 3.4. New Expenditure Pressures

- 3.4.1. New expenditure pressures are the combination of additional cost to meet existing service needs e.g. increased client base/greater service take up and the costs of meeting change in service provision e.g. policy changes.
- 3.4.2. The original budget outlook report included £3m per annum to meet growth pressures.
- 3.4.3. Initial growth bids of £7.4m have been submitted by departments for 2019-20. Based on an evaluation of the value and unavoidable nature of pressures submitted, the current estimated value required has risen to £4m, of which £2.2m will need to be met from corporate funding and is allocated as follows:

	£'000
Communities (£1.8m to be met from social services grant)	400
Education	500
Environment	1,300

Departments will need to prioritise their departmental allocation against their original submissions

The detail is provided at **Appendix B**.

### 3.5. Schools Delegated Budgets

- 3.5.1 The current budget strategy proposals adopted in February 2018 and maintained in the July 2018 Budget strategy report assumed a cash neutral settlement to schools. This does require schools to identify their own efficiencies to meet known inflationary pressures, but provides relative protection when compared against the larger reductions allocated to other council departments. The council has allocated dedicated support from the TIC team to help schools identify efficiencies and has allocated a dedicated invest to save fund of £500k as an enabler.

The significant and clearly unavoidable pressure related to Teachers Pensions Employer Contributions is considered outside this process – for the purposes of Schools Delegated Budgets it is assumed to be fully funded. **Should funding not be confirmed in full by the time of our final budget in February 2019, this may have a significant detrimental effect on service provision and/or require an unprecedented jump in the scale of council tax increases.**

### 3.6. Internal Funding

3.6.1. Generally speaking whilst the use of reserves to support annual budgets should not be summarily discounted, it must be treated with caution. Funding on-going expenditure from such funds merely defers and compounds difficult financial problems to the following year. One-off items of expenditure within any budget proposal lend themselves better for such funding support.

3.6.2. In deliberating this point however, members must bear in mind any **inherent risks** that may be built into the budget strategy. These include:

- Challenging Efficiency targets
- Future inflation/interest rates
- Current economic and political climate continuing
- Impact of BREXIT
- A new First Minister to take over in December 2018
- Additional pressure on demand lead Services

In spite of positive progress last year, this year there is no indication from Welsh Government in respect of future settlements, therefore it remains difficult to construct multi-year budgets in the absence of any clear forecasts.

3.6.3. The following table summarises the main categories of reserves held by the Authority.

	1 <sup>st</sup> Apr 2018 £'000	31 <sup>st</sup> Mch 2019 £'000	31 <sup>st</sup> Mch 2020 £'000	31 <sup>st</sup> Mch 2021 £'000
Schools Reserves	1,515	-474	-474	-474
General Reserves	9,783	7,598	7,598	7,598
Earmarked Reserves	81,139	52,844	39,077	20,167

#### 3.6.4. School Reserves

- Schools have delegated responsibility for the management of their own finances. The level of reserves held by an individual school at any point in time will depend on a number of factors

including the level of contingency fund that the school governing body considers appropriate, and the particular plans each school has for expenditure. Officers have yet to be informed of any transfers to/from these reserves by individual schools for future years.

- Legislation allows schools to carry forward reserves from one financial period to another. The School Funding (Wales) Regulations 2010 requires schools to limit their accumulated reserves at year end to £50,000 for Primary Schools and £100,000 for Secondary and Special Schools or 5% of their budget dependant on what is greater. School Improvement officers are currently working with schools to ensure they comply with the guidance. As at 31<sup>st</sup> March 2018, 28 primary, 5 secondary and no special schools were in deficit and 18 primary and 6 secondary schools held surpluses in excess of the thresholds above, a small improvement from the year before.

### 3.6.5. **General Reserves**

- In the changeable and challenging environment currently facing Local Government the Authority is committed to maintaining a reasonable level of General reserves or Balances. Whilst there is no prescribed minimum level for Balances, Council has previously deemed 3% of net expenditure as being a prudent level, which has been accepted by our Auditors as being reasonable
- The overall level of balances is taken into consideration each year when the annual budget is set and has on occasions been utilised to augment expenditure/reduce council tax. The 2018-2019 budget was set on the basis of no transfers from the General Reserves. Based upon the August Budget monitoring (outlined in paragraph 3.1.2 above) there could be draw of £2,237k against General Reserves at the end of the current financial year.

- Given the likely draw on this reserve in the current year therefore it is deemed imprudent at this stage to assume any further support for future years budgets from the current General Reserves.
- Taking account of the reduction in general reserves forecasted, consideration needs to be given to how these balances are built back up over future years.

### 3.6.6. Earmarked Reserves

- The Authority holds earmarked reserves which have been set up to finance the delivery of specific projects, or in protecting the authority against future liabilities or issues. The reserves can be summarised as follows:

Reserve	31 March 2018	31 March 2019	31 March 2020	31 March 2021
	£'000	£'000	£'000	£'000
Insurance	10,741	11,041	11,216	11,391
Capital Funds	43,212	26,189	16,187	-653
Development Fund	1,627	923	1,091	1,257
Corporate Retirement Fund	2,959	2,202	1,445	688
Joint Ventures	1,248	1,284	1,386	1,488
Other	21,352	11,205	7,752	5,996
<b>TOTAL</b>	<b>81,139</b>	<b>52,844</b>	<b>39,077</b>	<b>20,167</b>

- As can be seen from the table above the level of earmarked reserves fluctuates greatly year on year, and whilst the level in each fund is not an exact science it is based on an informed estimate and past experience of the likely call on the authority in future years in line with the intended purpose of each reserve. Great care must therefore be taken when considering utilising such funds for purposes other than those which they were created as this could lead to the authority being faced with substantial unfunded liabilities in the future
- The budget proposals therefore assume nil contribution from reserves in support of the revenue budget in 2019/20 and a further analysis of the reserves held will be undertaken over the coming months with any further proposed utilisation being considered at the budget finalisation stage.
- Taking account of the proposals within this report, the Director of Corporate Services confirms that overall the estimated level of financial reserves (as indicated above) is adequate for the financial year 2019/20, with the General Reserves being at the minimum that could be supported. However the Director is very conscious of the ongoing commitment to capital projects and of the demand on future services and therefore feels the reserves will need to be monitored closely going forward.

#### **4. IMPACT ON THE AUTHORITY'S BUDGET STRATEGY**

The table below provides an updated position on the current financial outlook taking account of the provisional settlement and also other recent validation changes.

- 4.1. The Current Financial Outlook (updated for the Provisional Settlement) is set out in the table below:**

	Current MTFP		Proposed Financial Model		
	2019/20 £'000	2020/21 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
<b>Previous Year's Budget</b>	<b>345,778</b>	<b>346,988</b>	<b>345,778</b>	<b>349,996</b>	<b>352,503</b>
General Inflation	2,367	2,526	3,201	2,815	2,874

Pay Inflation	6,019	4,840	6,219	4,840	4,324
Transfers in & other	1,052	713	2,423	1,392	1,101
Growth	3,000	3,000	2,200*	3,000	3,000
Savings proposals	-8,812	-8,209	-9,825	-7,664	-7,610
Further savings to be identified	-2,417	-2,791	0	-1,875	-871
Net Expenditure	346,988	347,065	349,996	352,503	355,321
Funded by:					
Revenue Settlement	-256,793	-254,941	-258,831	-256,243	-253,680
Council Tax Receipts	-90,194	-94,124	-91,165	-96,260	-101,641
<b>Council Tax Increase:</b>	<b>3.78%</b>	<b>3.67%</b>	<b>4.89%</b>	<b>4.89%</b>	<b>4.89%</b>

\*Assumes new £30m Social Services grant can be used to fund pressures

- 4.2.** The total of cost reductions now required for 2019/20 is £9.8m and for the 3 year period are estimated at £28m.

## 5. CONSULTATION

Budget consultation has been planned for the coming months and a summary of the individual approaches are as follows:

- 5.1.** Members seminars. (November and December 2018)
- 5.2.** The consultation process will commence online from the 20<sup>th</sup> November 2018.
- 5.3.** Town & Community Councils and commercial ratepayers consultation in December 2018.
- 5.4.** Consultation with Scrutiny Committees during December 2018 and January 2019.
- 5.5.** 'Insight' youth conference in December 2018.
- 5.6.** Consultation with the Schools Budget Forum in November 2018
- 5.7.** Trade Union Consultation December 2018/January 2019

## 6. WELLBEING OF FUTURE GENERATIONS (WALES) ACT 2015

- 6.1.** 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.

'... the public body must act in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs'

**6.2.** In doing so, we must demonstrate the following 5 ways of working:

- Looking at the long-term so that we do not compromise the ability of future generations to meet their own needs
- Understanding the root causes of the issues to prevent them recurring
- Taking an integrated approach so that we look at all well-being goals and objectives of other services and partners
- Collaboration – Working with others in a collaborative way to find shared sustainable solutions
- Involving a diversity of population in decisions that affect them

**6.3.** Carmarthenshire's Well Being objectives:

**Start Well**

1. Help to give every child the best start in life and improve their early life experiences
2. Help children live healthy lifestyles
3. Continue to improve learner attainment for all
4. Reduce the number of young adults that are Not in Education, Employment or Training

**Live Well**

5. Tackle poverty by doing all we can to prevent it, help people into work and improve the lives of those living in poverty
6. Create more jobs and growth throughout the county
7. Increase the availability of rented and affordable homes
8. Help people live healthy lives (tackling risky behaviour and obesity)
9. Support good connections with friends, family and safer communities

**Age Well**

10. Support the growing numbers of older people to maintain dignity and independence in their later years
11. A Council wide approach to support Ageing Well in Carmarthenshire

### **In a Healthy and Safe Environment**

12. Look after the environment now and for the future
13. Improve the highway and transport infrastructure and connectivity
14. Promote Welsh Language and Culture

### **Governance**

15. Building a Better Council and Making Better Use of Resources

## **7. CONCLUSION**

- 7.1. Currently the budget proposals assume the full delivery of all of the savings proposals submitted, together with the identification and delivery of the shortfall in savings proposals 2020-21, and 2021-22.
- 7.2. Further cost reductions need to be identified and/or larger council tax increases be agreed to deliver a balanced budget in each of the three years.
- 7.3. Given the scale of the budget gap forecast, Council Tax increases have been increased from the previous MTFP to 4.89% in each of the three financial years. This provides at least some mitigation to the savings proposals which the council needs to consider.

## **8. RECOMMENDATION**

- 8.1. Note the contents of the report and approve the three year budget strategy as a basis for consultation. Specifically seek comments from consultees on the efficiency proposals in Appendix A.
- 8.2. Give consideration as to what additional savings proposals can be identified to deliver a balanced budget over the financial planning period.