

REPORT OF DIRECTOR OF CORPORATE SERVICES

Executive Board

4th February 2019

REVENUE BUDGET STRATEGY 2019/20 to 2021/22

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1. INTRODUCTION

1.1. Executive Board in November 2018 considered and endorsed the Revenue budget strategy 2019/20 to 2021/22 for consultation. The report indicated, after taking account of the provisional settlement, a council tax increase of 4.89% in 2019-20. The Executive Board in endorsing the report for consultation resolved

‘that the contents of the budget report be noted and the three year budget strategy be approved as a basis for consultation, and to specifically seek comments from consultees on the efficiency proposals detailed in appendix A to the report’.

1.2. This report updates members on the latest position for the Revenue budget including:

- Final Settlement Details, including pertinent grants information and updates on key risk items
- Budget Consultation Results
- The Medium Term Spending Plans
- Implication on Council tax for 2019-2020.

The final proposals have endeavoured to meet the aspirations of the Authority, whilst recognising the continued squeeze on public finances. They address specific pressures in certain service areas whilst seeking to balance the impact on service delivery and local taxpayers.

1.3. There are inherent risks attached to this Budget Strategy and they are detailed within the body of this report, however the Director of

Corporate Services confirms that the proposed budget has been prepared in a robust manner.

- 1.4. The Executive Board needs to consider these detailed proposals and make recommendations to County Council in accordance with Council policy.
- 1.5. Whilst the final Settlement is more favourable than expected, Local Government has again been faced with real term reductions which, in conjunction with significant validation requirements for such items as the implementation of the new pay spine, continues to make the budget process extremely difficult. It is also worth noting that the trend has continued in recent years of Local Authorities receiving a decreasing proportion of Welsh Government funding year-on-year. Decisions have had to be made in respect of prioritisation of services and the inclusion of substantial budget reductions in order to achieve what hopefully is an acceptable Council Tax increase.

2. CONSULTATION

- 2.1. The original proposals have been subjected to an extensive consultation exercise since the Budget Strategy reports were presented to the Executive Board on the 19th November 2018, with the groups and committees being invited to comment in the following manner:-
 - Public Consultation
 - Town and Community Councils
 - School Budget Forum
 - Schools Insight Date
 - Member Seminars
 - Scrutiny Committees
 - Trade Union Meetings
- 2.2. A detailed report on the consultation results for each of the above is attached at Appendix A.

3. BUDGET REQUIREMENT 2019/20

3.1. Current Year 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 October 2018 monitoring) is as follows:

Service	Approved Budget £'000	Total Expenditure Forecast £'000	Variance Forecast For Year £'000
Chief Executive	13,563	13,430	-133
Communities	97,701	98,590	889
Corporate Services	24,799	24,354	-445
Education and Children	162,786	164,458	1,672
Environment	52,629	53,407	778
Departmental Expenditure	351,479	354,239	2,760
Capital Charges	-15,425	-16,375	-950
Levies and Contributions	9,724	9,724	0
Transfer to/ from Reserves	0	-555	-555
Net Expenditure	345,778	347,033	1,255

The main reasons for the departmental overspends are as follows:

- Communities Department: whilst continuing to deliver savings related to packages of social care the pressures of approximately £1,200k remain primarily due to demographic pressures being higher than initial projections and slippage in receiving a full year effect of actions e.g. commissioning alternatives to Residential Care, impact of releasing Time to Care project on domiciliary care packages. This is offset by vacant posts savings of £311k.
- Education and Children's Services: the department continues to face pressure due in the main to school based EVR and redundancy costs, SEN provision and a shortfall in the Music service SLA income from schools.
- Environment Department: the 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 £1.255m at the year-end that will have to be met from General Balances.

3.1.3. In considering next year’s budget, consideration needs to be given to the ability of departments to address any ongoing pressures from the current year, with the pressures within Education and Social Services being considered currently as being the most significant issues.

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 changes from the original strategy are as follows:

3.2.2. Recorded CPI inflation dropped 0.2% from 2.3% to 2.1% between November and December 2018, whilst the Office of Budget Responsibility is forecasting the next quarter at 2.4%. Given the scale of current uncertainty, the inflation factors for 2019/20 have been retained at the same level as reported in the original budget strategy.

	<u>2019/20</u> <u>Original</u>	2019/20 Proposed	<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%	2.0%	2.0%	2.0%
Levies	2.9%	2.5%	2.5%	2.5%
Pension Contributions	£209k	£209k	£213k	£218k
New Pay Spine	£2000k	£1788k	n/a	n/a
Capital Charges	£250k	nil	£250k	£250k
Allied Healthcare	nil	£500k	nil	nil

3.2.3. When considering changes to the final budget, members should note that the validation is applied not only to expenditure but income. Consequently, members may wish to consider using some of the budget headroom available to them to mitigate price rises, as has been the case in previous years in respect of parking fees and school meals prices.

3.2.4. The Capital charges estimate reflects the current policy and the 5 year Capital Programme elsewhere on the agenda. Based on the current plans, there is no requirement to increase the budget

for 2019/20. This releases £250k against the draft budget, though members should note that future years' requirements may be higher, particularly as Carmarthenshire's spending plans as part of the Swansea Bay City Region are firmed up.

- 3.2.5. The Swansea Bay City Region is responsible for 11 projects and is reliant upon £241m of UK and Welsh Government Funding. During 2018/19 a joint agreement was approved by all four Local Authorities and a Joint Committee was created. The principle behind the funding structure of the City Deal is that each Local Authority will be required to borrow the value of the funding allocated to their project and the UK and Welsh Government will repay this debt over a 15 year period. The County Council is the accountable body for the City Deal as whole but also has ownership of three projects: Yr Egin; the Wellness and Life Science Village and Skills and Talent programme, this being a regional project.

The Wellness and Life Science Village and Yr Egin project business plans were presented to Executive Board on the 3rd December 2018 and the value of the City Deal funding has been included within the Capital Programme, as the County Council will be required to borrow against these schemes. Whilst the Government funding is not providing any resources for the interest of the borrowings, the Budget Strategy assumes that there will not be any call on the County Council budgets as the Business Case will provide for such costs in full. It should however be recognised that an agreement has been reached with WG that the Local Authorities will be able to retain 50% of the additional NNDR yield that accrues from the City Deal Projects, the distribution basis is yet to be agreed by the Joint Committee.

- 3.2.6. The most significant specific validation over the three year period again relates to the cost of implementing the nationally agreed pay award, including the implementation of a new pay spine. The effect is that all National Joint Council (NJC) staff will receive at least a 2% increase from April 2019, with increases for the lower half of the scale being considerably above this. Most notably for Carmarthenshire, staff employed at Grade A and B, currently both receiving the Foundation Living Wage of £8.75/hour, will move to £9.18/hour and £9.36/hour respectively, increases of 4.9% and 6.9%. Full departmental calculations have now been completed, confirming the overall cost increase to the council is some £4.7m for NJC officers, which is £0.2m lower than allowed for in the draft budget. Departments have been allocated specific validation according to the different staffing mix. For schools, this means an additional validation of £251k to delegated budgets, which has been added to cash budgets.

The pay offer does not apply to Chief Officers, who will receive a 2% increase under the agreed two year deal. Teachers pay is now devolved to the Welsh Government for the first time and has been provided at 2% for future awards.

- 3.2.7. Based upon early discussions by Mid and West Wales Fire Authority, the draft budget assumed the Levy would increase by 2.9%. The 2019-20 budget currently proposed has been curtailed to an increase of 2.48% on the budget requirement falling on the Constituent Authorities. The effect of this has been a reduced requirement of £45k versus our draft budget. However, as with Teacher's Pensions, the Fire Authority has a significant risk in respect of Firefighters' Pension cost increases, for which funding from Welsh Government is expected but has not yet been confirmed.
- 3.2.8. A specific validation of £500k has been added to Adult Social Care budgets to meet the increased costs the council will face as a consequence of the financial collapse of a national provider, Allied Healthcare, which the council had contracted with. The service has now been brought in-house with minimal disruption to service users, consequently the 2019/20 budget will provide for the harmonisation of employee terms and conditions, including internal payscales.
- 3.2.9. There is a clear risk to the Budget Strategy as departments may find it difficult to manage their expenditure within these parameters, especially where service specific inflationary increases may differ to the global validation rates. This risk is something that will require close monitoring during the year.
- 3.2.10. In total validation adds £11.3m to the current year's budget.

3.3. Cost Reduction Programme

- 3.3.1. As detailed in the report to Executive Board on 19th November 2018, in anticipation of the reductions in this settlement round, significant work in identifying further service efficiencies/rationalisation proposals had been undertaken and a range of proposals were presented.
- 3.3.2. The current proposals are attached in **Appendix B** and are categorised as follows:

Managerial – cost reductions that result in no perceivable change to the overall level of service delivery or council policy

Policy – Efficiency or service rationalisation proposals that will directly affect service delivery (generally frontline).

- 3.3.3. Equality Impact Assessments have been conducted on those proposals which could have an impact on service delivery. These are intended to identify whether these savings could have a disproportionate impact on one or more groups. Where this is the case appropriate consultation with representatives of such groups will be conducted and measures to mitigate the impact will be considered where possible.
- 3.3.4. All new ‘policy’ proposals have undergone public consultation and Equality Impact Assessments (see attached report at **Appendix C**). In deciding which savings proposals to adopt, members are reminded of their duty to give ‘due regard’ (consideration) to equality, as defined in the Equality Act 2010. In practice, this means taking decisions in the light of possible equality impacts and understanding how impacts on affected groups could be lessened (mitigated).
- 3.3.5. The cost reductions included in the budget strategy are:

	2019/20 £m	2020/21 £m	2021/22 £m
Managerial	5.527	3.878	3.893
Existing Policy	2.581	3.126	3.021
New Policy	1.220	0.660	0.696
Total	9.328	7.664	7.610
Shortfall against target set		1.875	0.871

(Detailed in **Appendix B**)

The shortfall on the targets set in years 2 and 3 of the budget strategy bring further financial risk, and further work will need to be undertaken in 2019-20 to identify additional cost reduction proposals for the following years.

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. Bearing in mind the budget pressures in the current year, and following a detailed review of the growth bids submitted, the budget strategy reflects the original provision, with two additions:

- a further £200k allocated to social services in light of the additional demand the service is already experiencing in the current year
- a further £100k allocated to the Education department, recognising the pressure on future EVR budgets, largely as a result of historic decisions.

	£'000
Communities (plus £1.8m extra to be met from the new Social Services Grant)	600
Education	600
Environment	1,300

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

3.4.3. It must be noted that the allocated sum does not meet the pressures identified by departments, and accordingly departments will be required to strictly manage their budgets to remain within their allocated sums. The detail is provided at **Appendix D**.

3.5. Schools Delegated Budgets

3.5.1. The draft budget was constructed on the basis of a cash neutral funding settlement to schools. This recognised forecast inflationary pressures of £2.6m, and therefore a need to schools to deliver efficiency savings to this value. Departmental allocation of pay spine costs has resulted in increased pressure of £251k to schools, which has therefore been added as a cash sum to delegated budgets. In addition, the budget honours the additional funding transferred into the Revenue Support Grant for Teachers pay. Taken together, increases to core budgets and grants will be a cash increase of £2.6m to schools funding, as shown below:

Additional RSG	£497k
Pay spine validation	£251k
Teachers Pay	£922k
Professional development	£900k (est)
TOTAL	£2,570k

However, members should note that Welsh Government have chosen to retain a significant element of funding in the form of specific grants. There is consequently inherent risk to the stability of school funding for future years, due to the fact that the 2019/20 is reliant upon Teachers Pay grants of worth £922k to Carmarthenshire.

3.5.2. The draft budget report received by Executive Board in November 2018 highlighted a key risk around the increase in the cost of Teachers Pensions. Whilst Welsh Government have been unable to provide a definitive response to this issue, there is currently a live consultation by the Westminster Department for Education proposing to meet the additional costs in full for English state funded schools. Consequently the final budget maintains the assumption that this will be fully funded. The value of the additional cost in 2019/20 for Carmarthenshire is c. £2.75m. Until this matter is resolved and the Government departments confirm the transfer, this will remain a significant risk to the Authority.

4. FUNDING

4.1. Revenue Settlement 2019-2020

4.1.1. On the 19th December 2018, the WG published the final local government settlement for 2019-20.

4.1.2. The final settlement includes an additional £23.6m (excluding the cost of the funding floor arrangements) when compared to the provisional settlement. This comprises an additional £13m

as included in the funding package announced by the Cabinet Secretary for Finance on 20th November 2018. It also includes:

- 4.1.2.1. £7m (£467k for CCC) to support a further increase to the capital limit for charging for residential care to £50,000 commencing from April 2019;
 - 4.1.2.2. £1m (£60k for CCC) towards the increased costs associated with Free School Meals provision as a result of Universal Credit rollout;
 - 4.1.2.3. Also included is an additional £2.4m (£144k for CCC) funding to local authorities for discretionary rates relief.
- 4.1.3. The movement for Carmarthenshire was an additional £1.557m.
- 4.1.4. The final settlement enhanced the funding floor announced in October 2018, providing an additional £1m of funding to ensure that no authority sees a reduction of greater than 0.3% compared to its 2018-19 allocation and top-up funding.
- 4.1.5. The published change in Aggregate External Finance (AEF) on an all Wales basis equated to an average increase of 0.2% (£10m) which represents a material real terms reduction. For Carmarthenshire County Council (CCC) the published increase was 0.008% (£22k). This was after taking account of transfers in and out of the settlement, and the transfer of new responsibilities.
- 4.1.6. The salient points of next year's settlement are noted below:
- 4.1.7. The final settlement for 2019/20 gave an increase in Standard Spending Assessment (SSA) for Carmarthenshire of £6.975m (2.0%), SSA on an all Wales basis also increased by 2.2%, un-adjusted for transfers and new responsibilities.
- 4.1.8. Figures for individual Local Authorities were provided for the one financial year only, 2019/20, with no indicative reductions for any future years.
- 4.1.9. Transfers in and out of the settlement include:

Transfers In:

Teachers pay	£497k
Free school meals eligibility	£297k

New Responsibilities:

Increasing capital limits for residential care	£467k
Business rates relief	£144k

The above has a neutral effect on the Authority’s budget.

4.1.10. Business Rate Poundage is to increase to 52.6p from 51.4p for 2019/20.

4.1.11. The table below provides a summary of the overall position for this authority after the final settlement:

	2018-2019 Settlement £m	2019-2020 Original Notification £m	2019-2020 Settlement £m
Standard Spending Assessment	346.059	350.947	353.034
Aggregate External Finance	259.440	258.831	260.388

4.2. Internal Funding

4.2.1. 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.

4.2.2. 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 uncertainty continuing (including the starkly differing possible Brexit outcomes)
- Additional pressure on demand lead Services
- Overestimation of the future settlements.
- Lack of Welsh Government forward indicators for 2020-21 onwards.

4.2.3. Sensitivity impact analysis:

Budget element	Movement	Annual Impact £m
Pay inflation	1%	2.1
General inflation	1% (expenditure only)	2.2
General inflation	1% (income only)	-1.3
WG Settlement	1%	2.5
Specific Grants	1%	1.0
Council Tax	1%	0.8

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

	1 st Apr 2018 £'000	31 st Mar 2019 £'000	31 st Mar 2020 £'000	31 st Mar 2021 £'000
Schools Reserves	1,515	-474	n/a	n/a
General Reserves	9,783	8,528	8,528	8,528
Earmarked Reserves	81,139	52,844	39,077	20,167

4.3. School Reserves

- 4.3.1. 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, so the forecast is for the reserves to be reduced to a nil balance overall given the trend in reducing school balances over recent years.
- 4.3.2. Legislation allows schools to carry forward reserves from one financial period to another. Current guidance requires schools to limit their carry forward to £50,000 for Primary Schools and £100,000 for Secondary Schools or 5% of their budget dependant on what is greater. School Improvement officers continually work with schools to ensure they comply with the guidance. As at 31st 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 £50k/£100k threshold.

5. GENERAL RESERVES

- 5.1.1. 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.
- 5.1.2. The overall level of Balances are taken into consideration each year when the annual budget is set and has on occasion been utilised to augment expenditure/reduce council tax. Whilst the 2018-2019 budget was set on the basis of a nil transfer from General Reserves, with the October Budget monitoring (outlined in paragraph 3.1.2 above) there could be a draw of £1,255k against General Reserves at the end of the current financial year.
- 5.1.3. Given the likely draw on this reserve in the current year, it is deemed imprudent at this stage to assume any further support for future years budgets from the current General Reserves.
- 5.1.4. Taking account of these changes the average level of the general reserves is forecasted to be around 2.4% of net expenditure during 2019/20.

5.2. Earmarked Reserves

5.2.1. 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
TOTAL	81,139	52,844	39,077	20,167

5.2.2. 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.

5.2.3. Taking account of the proposals within this report, including the use of reserves, 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.

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

15. Building a better council and making better use of Resources

7. MEDIUM TERM FINANCIAL PLAN AND COUNCIL TAX PROPOSAL 2019/20

7.1. The table below provides members with a summary of the latest position which reflects the contents of this report.

Assuming that the Council Tax increase remains at the level set in the original budget strategy which is 4.89%, this will give an estimated income from Council Tax of £90.925m which when added to the Welsh Government settlement will provide a net available expenditure budget for the Authority of £351.313m. Once allowances have been made for new responsibilities, and the additional social services funding requirement, the balance available for Executive Board to respond to the budget consultation is £528k:

	2019 -20 £'000	2020 -21 £'000	2021 -2022 £'000
Previous Years Budget	345,778	351,313	353,792
Validations/Adjustments	14,335	12,018	11,270
Validated Budget	360,113	363,331	365,062
less			
Efficiency/Service Rationalisation	-9,825	-9,539	-8,481
Projected Budget	350,288	353,792	356,581
RSG passported to schools	497		
Potential sum available	528		
	351,313	353,792	356,581
WG Settlement RSG & NNDR	-260,388	-257,785	-255,207
Call on Council Tax	90,925	96,007	101,374
Tax Base	72,440	72,923	73,410
Council Tax Rate (Band D)	£ 1,255.17	£ 1,316.54	£ 1,380.94
Council Tax Increase	4.89%	4.89%	4.89%

A full summary of the Budget Build up can be seen in **Table 1**.

- 7.1.1. Years 2 and 3 of the Medium Term Financial Plan assume the identification and delivery of the current shortfall in savings proposals of £1.875m in 2020-21 and £0.871m in 2021-22
- 7.1.2. It must be emphasised that the figures for the outer two years of the plan are indicative only and must therefore be treated with caution as the settlement figures, growth pressures and the inflation assumptions contained therein will all be subject to revision as the year progresses and firmer data becomes available.
- 7.1.3. As outlined in paragraph 4.1.8, Welsh Government has not provided figures for 2020-21 and beyond. Current indications are that future year's settlements will continue to see further reductions in the funding made available to Local Authorities. This report before you today therefore assumes a 1.0% reduction in the settlement for both 2020/21 and 2021/22. This will continually be reviewed as and when further information becomes available. Members will note within paragraph 4.2.2, the overestimation of future settlements is identified as an inherent risk.

Recommendations

7.2. That Executive Board consider and recommend to County Council:

7.2.1. The Budget Strategy for 2019/20;

7.2.2. The Band D Council Tax for 2019/20;

7.2.3. The allocation of the £528k recurrent funding available balance taking into account the range of responses received during the consultation process and any further pressures identified; and

7.2.4. The Medium Term Financial Plan which will form the basis for future years financial planning.