

REPORT OF DIRECTOR OF CORPORATE SERVICES

Executive Board

6th January 2020

REVENUE BUDGET STRATEGY 2020/21 to 2022/23

HEAD OF SERVICE & DESIGNATION.	DIRECTORATE	TELEPHONE NO.
C Moore, Director of Corporate Services	Corporate Services	01267 224121
AUTHOR & DESIGNATION	DIRECTORATE	TELEPHONE NO
R Hemingway, Head of Financial Services	Corporate Services	01267 224886

1. INTRODUCTION

- 1.1. Executive Board in July 2019 received a report on the Revenue Budget Outlook for 2020/21 to 2022/23 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 2020/21 together with indicative figures for the 2021/22 and 2022/23 financial years. The report is based on officers' projections of spending requirements and takes account of the provisional settlement issued by Welsh Government on 16 December 2019 (this was later than normal, principally due to the General Election). 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 aims to cover the following eight areas in building up the budget strategy:
 - Welsh Government settlement indications
 - Current year budget performance
 - Budgetary pressures and validations
 - Impact on the Authority's budget requirement
 - Savings proposals
 - Consultation

- Reserves
- Conclusion and Council Tax requirement

2. PROVISIONAL

- 2.1.** The provisional settlement was announced on Monday 16th December 2019, the same day as Welsh Government set its own budget. Indicative figures for individual Local Authorities were provided for one financial year only, 2020/21, with no further information about future years' settlements.
- 2.2.** The Westminster Autumn Statement in September 2019 included several significant increases to English Budgets, including future spending for English schools and social care. Through the Barnett consequential, the Welsh Government revenue budget increased by £593 million for 2020/21, of which around £207 million is directly related to Local Government spending. However, it should be noted that a proportion of the headline increase merely represents a transfer of cost – and funding – from one area of HM Treasury to another in respect of key public sector pensions schemes. As such, not all of the headline figure represents a true increase.
- 2.3.** The main points of the Provisional Settlement 2020/2021 on an all Wales basis are as follows:

2.3.1. Local government revenue funding for 2019/20 set at £4.474 billion, an increase of 4.3% (£184 million) compared to 2019-20, but this is after transfers into the settlement which WG have included at £53 million.

2.3.2. Our analysis suggests there are however inconsistencies in this:

The settlement allows for £39 million of transfers in respect of increased teachers pensions costs for September 2019-March 2020 (7 months). The full year effect is approximately £28 million higher, which will need to be met from the improved settlement.

Similarly, WG provided £12 million in 2019/20 towards the cost of the September 2019 Teachers Pay Award, representing 1.75% of the 2.75% increase for the seven months of the financial year. This has been transferred in, leaving £9 million again to be met from the improved settlement.

2.3.3. Unlike previous years, there is no funding floor. Individual settlements as published range from +3.0% (Monmouthshire) to +5.4% (Newport).

2.4. The Settlement figures for Carmarthenshire are:

2.4.1. After adjustments for WG identified transfers, the increase in the provisional settlement is 4.4% (£11.548m). The Aggregate External Finance (AEF) therefore increases to £274.159m in 2020/21.

2.4.2. New responsibilities and transfers in:

- £4.443m for Teachers pensions, however only £2.403m has actually been transferred in
- £1.265m for the September 2019 Teachers pay award, of which only £738k has been transferred in. Nothing has been included for the potential September 2020 award.
- £130k for NHS funded nursing

These account for £5.8m or 2.2% of the overall increase in funding provided by Welsh Government

Previous years' budgets have seen a significant increase in inflationary and inescapable pressures, with only partial mitigation in the form of

improved settlements from Welsh Government. Whilst this settlement is unquestionably the most generous we have seen in recent times, the scale of pressures is so vast that there is a continued squeeze on Local Government finances. On the basis of this experience, and in the absence of any forward guidance for future years, the MTFP assumptions for 2021 and beyond have revised to allow an improved settlement of +2.0%, but increases to the assumed level of pay, price and other inescapable pressures, leading to a revised savings target of £16.5 million over the three year MTFP period.

2.5. Details of the Welsh Government Service Specific Grants were provided alongside the provisional settlement on 16 December 2019 at an all Wales level. Many remain at a broadly similar level, there are however some important updates:

- The social care workforce grant has been increased from £30m to £40m across Wales. We will look for details of this to understand whether the increase can be used in full towards the obvious and unavoidable service pressures.

Whilst the Chancellor's spending round statement did not confirm a figure for the National Living Wage increase, the OBR forecasts it will rise from £8.21/hour to £8.63/hour which will impact significantly on the cost of many commissioned services.

- A new Additional Learning Needs grant of £7.2m across Wales, details of which will be explored to identify what might be used towards the department's identified pressure of £400k
- An increase in Pupil Development Grant (PDG) of £8.6m – to be channelled through ERW - and PDG Access of £3.2m across Wales
- The temporary funding put in place for Ethnic, Minority Gypsy Roma Traveller Learners has been maintained at £10.0m but there is no information on whether the current distribution, which does not favour Carmarthenshire, is to be changed or not.
- An all-Wales reduction of £1.8m to the Sustainable Waste Management Grant, which will reduce the support for Carmarthenshire's core waste budgets by around £110k.

2.6 Due to the delays in the provisional settlement, the consequential impact on Welsh Government's budget finalisation and publication is likewise delayed. The final settlement is not due to be published until 25 February and therefore County Council will set the final budget on 3 March 2020.

3. BUDGET REQUIREMENT 2020/2021

3.1. Current Years performance (2019/20)

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 2019/20 (based on the October 2019 monitoring) is as follows

	£'000	£'000	£'000
Chief Executive	15,480	15,462	-18
Communities	98,308	99,291	983
Corporate Services	26,320	25,634	-686
Education and Children's Services	166,372	170,454	4,082
Environment	55,353	56,028	675
Departmental Expenditure	361,834	366,870	5,036
Cont from Dept/Earmarked Reserves		-323	-323
Capital Charges	-20,497	-21,697	-1,200
Levies and Contributions	9,976	9,976	0
Transfer to/ from Reserves	0	0	0
Net Expenditure	351,313	354,824	3,512

The main reasons for the departmental overspends are as follows:

- Chief Executive’s Department: proposed savings in Corporate Health and Safety (290k) under review, offset by overachievement of rental income.
- Communities Department: overspends against budget in the areas of Older People, Physical Disabilities and Learning Disabilities.
- Education and Children’s Services: forecast increase in school deficit balances (£3m), overspends in Special Educational Needs Statements, Education Other Than at School, school premises costs and a shortfall in the Music Service SLA income.
- Environment Department: overspends are primarily due to an increase in ALN pupil transport numbers and a shortfall in planning application income.

The Authority is currently forecasting a variance of £3.5m at the year-end, however £3m of this forecast overspend relates to school budgets and is currently under significant review with

Headteachers and Governors of relevant schools, supported by officers from Education and Corporate Services departments. Various recovery plans are being finalised, which in some cases will include agreement to licenced deficits to allow the school to repay the deficit balance over a period of up to five years.

Taking account of the schools position, the net outturn of the other council fund services is £0.5m, which will need to be met from general balances, should the forecasted overspend position materialise.

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>2020/21</u> <u>Original</u>	2020/21 Proposed	<u>2021/22</u>	<u>2022/23</u>
General inflation	2.0%	2.0%	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%	2.75%	2.75%	2.75%
Pay Inflation - Teaching	2.0%	2.75%	2.75%	2.75%
Levies	2.9%	5.7%	2.5%	2.5%
Pension Contributions	£209k	nil	nil	nil
Capital Charges	£250k	£250k	£500k	£500k



3.2.2. It is considered prudent to increase the assumption on future pay awards to 2.75% annual for all staff. Pay represents the single largest expenditure item for the council, and has seen gradual but rising increases over recent successive years. In addition, this increase reflects the NJC Union demands far in excess of previous years, the Teachers September 2019 award of 2.75% as well as the Chancellor’s announcement of a desire to reach a teachers’ starting salary of £30,000, which is likely to place upward pressure across all pay points over coming years.

3.2.3. Based on the latest triennial valuation of the Dyfed Pension Fund, it is pleasing to note that there is no requirement to increase the employer’s pension rate for NJC staff.

- 3.2.4. Furthermore, our draft budget builds in the full year impact of the September 2019 increase in Teachers Pensions Employer contributions. The increase from 16.48% to 23.6% is estimated to cost around £4.4 million, plus pay award increases (total £4.7m). The part year grant funding has been transferred into the settlement, however the remainder must be met from core funding.
- 3.2.5. We have received confirmation from the fire authority that their indicative budget assumes a levy increase of 5.71%. (£562k). This is based on the explicit understanding that firefighters pension cost increases continue to be met through direct grant award.
- 3.2.6. As a result of these factors, validation excluding Teachers Pensions is at a similar level to last year and adds £11.5m 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:

	2020/21 £m	2021/22 £m	2022/23 £m
Original targets (July Budget Outlook report)	8.524	8.381	8.210

Due to the more favourable settlement than anticipated when targets were set, the savings proposals have been updated which have allowed for the withdrawal of the schools efficiency savings which enables the Authority to support the full validation of inflationary factors for schools. The revised targets are:

	2020/21 £m	2021/22 £m	2022/23 £m
Updated targets (following Provisional Settlement)	5.279	5.930	5.209

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.

Policy – Efficiency or service rationalisation proposals that will directly affect service delivery.

	2020/21 £m	2021/22 £m	2022/23 £m
Managerial	4.553	4.510	3.925
Existing Policy	0.509	0.700	0.030
New Policy	0.217	0.262	0.644
Total	5.279	5.472	4.599
Shortfall	Nil	0.458	0.610

(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 £4m per annum to meet growth pressures. This was against bids of over £10m which was unaffordable based on initial predictions of likely future settlements.

Current growth bids in excess of £12 million have been submitted by departments for 2020/21. Based on an evaluation of the value and unavoidable nature of pressures submitted, the previous allowance of £4 million will not be enough. In particular, the rising and unavoidable cost of social care provision and increase costs of compliance with recycling / waste services will contribute towards next year’s budget growth. Based on current information, the value allowed for, is £7.4 million.

A new funding line has been included to provide revenue resource to develop options for decarbonisation to respond proactively to the Climate Emergency declared in 2019. It is expected that this will subsequently require additional resources within the capital programme to take this agenda forward.

Information will be continue to be reviewed and updated between draft and final budgets, and where grant funding can be identified to meet any of these pressures in part or full, this will be adjusted.

The budget development process has been strengthened to consider previous years’ savings proposals that it has not been possible to deliver. This approach will further improve the

council's financial resilience. An adjustment has been made to base budgets of £842k.

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

3.5. Schools Delegated Budgets

3.5.1 The current budget strategy proposals adopted in February 2019 and maintained in the July 2019 Budget strategy report assumed a cash neutral settlement to schools. This required schools to identify their own efficiencies to meet known inflationary pressures, but provided relative protection when compared against the larger reductions allocated to other council departments.

Given the sharp decline in school balances in 2018/19 and the significant overspend position forecasted for 2019/20, there is significant focus on addressing the root causes of this, and to support individual schools to return to financial sustainability. It is recognised this will inevitably take some time to see the full effect of the changes being made, and therefore next year's budget provides known pressures and validation in full. This includes increases for the full year effects of teachers' pensions increased costs, provides core funding to replace previous grant for pay awards, plus an assumed award for September 2020. As a result, schools spending power is maintained between 2019/20 and 2020/21 with an increase of nearly £10 million to delegated budgets, as set out in the table below:

	£000s
Pay and price inflation estimated at 2%	2,593
Full year funding for teachers pensions	4,443
Replace grant 2019/20 grant with core funding	922
Pay award funding	1,279
Increased pupil numbers	560
Total	9,797

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, increasing financial risk. 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 in the context of previously delivered savings
- Future inflation/interest rates
- Current economic and political climate, including one-year Welsh Government settlements
- Continuing uncertainty around Brexit
- Possible impact of significant increases to the National Living Wage and Teacher salaries
- Additional pressure on demand led 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 st April 2019 £'000	31 st March 2020 £'000	31 st March 2021 £'000	31 st March 2022 £'000
Schools Reserves	-393	-3,393	-2,393	-1,393
General Reserves	10,376	9,864	9,864	9,864
Earmarked Reserves	83,915	62,142	36,153	20,608

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 31st March 2019, 39 primary, 6 secondary and 1 special schools were in deficit.

Schools are being supported through the current challenging deficit position. Recovery plans are being developed and will be implemented in agreement with the Directors of Corporate Services and Education. It is expected that the recovery phase will take a number of years to fully realise.

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 2019/2020 budget was set on the basis of no transfers from the General Reserves. Based upon the October budget monitoring (outlined in paragraph 3.1.2 above) there could be draw of £512k against General Reserves and an increase of £3m to school deficit balances 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 2019	31 March 2020	31 March 2021	31 March 2022
	£'000	£'000	£'000	£'000
Insurance	11,401	11,451	11,501	12,051
Capital Funds	42,371	36,084	15,350	317
Development Fund	1,509	102	121	1,542
Corporate Retirement Fund	3,685	3,685	2,685	1,685
Joint Ventures	1,180	1,312	444	240
Other	23,769	10,508	6,052	4,773
TOTAL	83,915	63,142	36,153	20,608

- 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 2020/21 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 2020/21, 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		
	2020/21 £'000	2021/22 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Previous Year's Budget	351,314	353,793	351,314	371,592	382,150
General Inflation	2,208	2,237	2,248	2,013	1,947
Pay Inflation	4,781	4,262	6,325	6,252	6,419
Transfers in & other*	2,028	1,773	7,110	2,224	2,270
Growth	3,000	3,000	9,582	6,000	5,500
Savings proposals	-7,742	-7,155	-5,279	-5,472	-4,599
Balance Available(+)/Further savings to be identified (-)	-1,797	-1,326	293	-458	-610
Net Expenditure	353,793	356,585	371,592	382,150	393,078
Funded by:					
Revenue Settlement	257,785	255,207	274,159	279,643	285,235
Council Tax Receipts	96,008	101,378	97,433	102,508	107,843
Council Tax Increase:	4.89%	4.89%	4.89%	4.89%	4.89%

*includes Teachers Pensions growth

- 4.2. The total of cost reductions now required for 2020/21 is £5.3m and for the 3 year period are estimated at £16.5m.
- 4.3. The 2020/21 draft budget currently includes a contingency sum of £293k, which will allow members scope to consider additional information forthcoming in respect of:

- 4.3.1. Responses to the consultation process;
- 4.3.2. Clarification of specific grants;
- 4.3.3. Further growth pressures not currently addressed;
- 4.3.4. Amendments/Updates in Validation figures; and
- 4.3.5. Changes arising from the final settlement

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. (7 & 9 January 2020)
- 5.2. The consultation process will commence online from 6 January 2019.
- 5.3. Town & Community Councils and commercial ratepayers consultation in January 2020.
- 5.4. Consultation with Scrutiny Committees during January 2020.
- 5.5. 'Insight' youth conference held on 21 November 2019.
- 5.6. Consultation with the Schools Budget Forum/Headteachers Forum in January 2020.
- 5.7. Trade Union Consultation meeting in 10 January 2020

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 2021/22, and 2022/23.
- 7.2.** Further cost reductions need to be identified and/or larger council tax increases be agreed to deliver a balanced budget for the latter two years.
- 7.3.** Given the scale of the pressures and forecasted budget gap, Council Tax increases have been maintained at the previous MTFP levels of 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 2020/21 to 2022/23 Budget Strategy as a basis for consultation, specifically seeking comments from consultees on the efficiency proposals in Appendix A.