

REPORT OF DIRECTOR OF CORPORATE SERVICES

EXECUTIVE BOARD

26th July 2021

REVENUE BUDGET OUTLOOK 2022/23 to 2024/25

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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 on 3rd March 2021 and was based on estimates of known commitments at that time, and formulated in the context of the Welsh Government (WG) financial settlement for 2021/22, with estimates used for years 2 and 3 of the plan.
- 2.2. The 2021/22 budget was set in context of an easing - but highly uncertain – public health situation. Whilst it attempted to address the immediate unavoidable effects of the pandemic on the Authority's finances over the coming year, it was to some extent mitigated by the assurance of continued financial support via Hardship funding in the short term. Nevertheless the MTFP required a combination of budget savings and council tax increases to bridge the financial gap over the planning period.

- 2.3.** The overall financial standing of the Authority has been maintained at a prudent level. This approach enabled us to act swiftly in the early phases of the pandemic, responding to the needs of residents and businesses and making critical decisions in advance of Welsh Government financial support, which was extremely important to the residents of the county at that time.

In addition to existing reserve balances earmarked for specific purposes such as insurance or committed capital schemes, the authority recognised specific risks and costs associated with the COVID19 recovery and has set aside one-off funding for resetting services and to fund support measures for the local economy. It was also possible to add to our Council Fund, which currently stands at 3.1% of our net budget. In recent years we have made limited use of such reserves to support ongoing expenditure.

3. CURRENT POSITION

COVID-19

- 3.1.** Nearly 18 months into the global pandemic, COVID19 continues to dominate public sector finances over the near term. The combination of additional health spending, reduced tax revenues and the unprecedented financial scale and duration of the furlough scheme have driven up public sector borrowing to £303bn (14.5% of GDP) in 2020/21– its highest in peacetime Britain and more than five times higher than 2019/20.
- 3.2.** Whilst the pace of both Welsh and UK vaccine rollout has exceeded all expectations, a full return to “normal” life remains some way off, with the risk of new variants of concern ever present and media reports of Welsh social distancing regulations remaining for the remainder of 2021. The economy and consequent tax revenues will be at a much lower base, with NHS waiting lists for routine operations at an all time high and several multiples of pre-pandemic levels. At a UK level, HM Treasury will need to put in place measures to address borrowing to bring public sector finances more into balance. This will inevitably impact upon available WG budgets through the Barnett consequential. This has already begun to be seen in the approach taken by Westminster towards NHS England pay awards as well as English schools recovery funding.
- 3.3.** The timeline to achieve this is however far from clear. Whilst the outlook for public finances is undeniably worse as a result of COVID19, there may be a gradual transition towards addressing public sector borrowing, driven by the need for public sector investment to boost economic recovery.

- 3.4.** During 2020/21, the Authority incurred £24m of additional costs and £10m of lost income which was met by the WG hardship scheme, whilst this mechanism is operating until at least September 2021, any permanent changes will need to be built into recurrent budgets. It is likely that we will need to build some additional costs into recurrent budgets as well as consider longer term impact on commercial income streams, which could be significant. One service area of note is homelessness, where the cost of provision during the last year increased significantly, but was funded by WG.

BREXIT

- 3.5.** The first six months of 2021 have seen a number of frictions arising from the new trading arrangements with the European Union. These have ranged from food export restrictions and fishing rights, staffing impacts on farming and hospitality and an acute shortage of HGV drivers according to recent media reports. What is clear is that the effects were not immediately felt and are taking some time to manifest, partially due to the combined effect of COVID19 restrictions. Carmarthenshire has already experienced some difficulties with recruitment in some areas, believed to be the combined effects of Brexit and COVID19.
- 3.6.** The initial stages of project development and evaluation are underway for the Community Renewal Fund and Levelling Up Fund respectively, the precursors to the long awaited Shared Prosperity Fund. There is much greater decision making vested in Westminster rather than Welsh Government, and funding is allocated across the UK on a competitive basis. It remains to be seen whether the level of grant award in both Carmarthenshire and Wales reduces versus historic levels.

COMPREHENSIVE SPENDING REVIEW

- 3.7.** The last two years have seen single year Westminster Comprehensive Spending Reviews (CSR). A multi year CSR is planned over Autumn 2021, which has the potential to shift key dates in the latter half of our budget planning process. Early indications are this could lead to a provisional settlement date in December, in line with last year's late timetable.

Given, however, the significant disruption to last year's MTFP development, it is critical that budget development work is started early to ensure a thorough and robust process.

FUNDING PRIORITIES

- 3.8.** In April 2021, County Council approved the updated “Moving Forward in Carmarthenshire” 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.
- 3.9.** Due to public restrictions, last year’s public consultation activities were curtailed to online only budget questionnaires and virtual member meetings. It is planned that wider public engagement will take place for this budget cycle, depending upon the prevailing public health restrictions in place. It is proposed that member seminars remain as virtual meetings as this format allowed more members to participate to get the widest range of views.

4. CURRENT FINANCIAL OUTLOOK

Budget development always involves assumptions which are refined as the situation evolves and information becomes clearer. COVID19 impacts both in terms of uncertainty over the possibility of future “variants of concern” until such time as worldwide vaccination/herd immunity is realised and the path to more balanced public finances. As these uncertainties are unlikely to be resolved over the summer, it is recommended that budget development work is begun based on the current MTFP parameters as set out in the budget papers agreed by Council Council in March 2021. Further details are provided in the subsequent paragraphs.

5. FINANCIAL MODEL

The financial model has been extended by one year and so covers the three year period up to 2024/25. 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) increasing by 2.0% each year. 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.

There are no significant planned reductions that officers are aware of, however members should note that we are now in a transition phase towards the proposed “Shared Prosperity Fund” which will replace existing EU funding streams. The bid processes are currently in

progress for the Community Renewal Scheme (revenue schemes) and Levelling Up Fund (capital schemes).

- 5.2.** As for all Local Authorities, the treatment of delegated school budgets has a significant impact on the scale of savings proposals across every other service area. Our planning assumption is currently that schools' delegated budgets do not have a specific savings target applied – this is the budget approach we have taken over the last three years, which has protected schools from more than £5m of savings that have inevitably fallen across other council services. Whilst school balances are now showing a substantial surplus position, members should be aware that this is largely due to one off recovery funding received very late in the financial year. Whilst working to mitigate the impacts of lockdowns on learners, many of our schools still have a pressing need to return their budgets to a sustainable footing.

As a consequence of validation for pay and price inflation, it is recognised this budget will grow, and that proportionally larger savings will need to be found elsewhere. Should there be new or additional pressure put on the budget, for example from a worse than planned WG settlement, schools funding would need to be reassessed.

- 5.3.** The MTFP approved by County Council in March 2021 included substantial savings in the Education department linked to the rationalisation of primary school provision – these savings are planned for 2023/24. This would not see an adverse funding outcome for delegated budgets, but is instead about capturing the financial benefit of an overall more efficient schools system and the support services behind it. If this is to be delivered, it is imperative that positive progress is made over the coming year.

- 5.4.** The April 2021 pay settlement for NJC staff remains unknown. The Employers offer of 1.5% was quickly rejected by unions. The September 2021 Teachers pay award recommended by the Independent Welsh Pay Review Body is 1.75% - this is in consultation phase at the time of writing. As was the case last year, there are pulls in both directions in national negotiations on staffing costs – on one hand the recognition and reward for the role which many have played in delivering services above and beyond at a time of great need; on the other hand there is the need to rebalance public sector finances, as seen in the English NHS employers offer as referenced in paragraph 3.2 above. Given these opposing forces, the financial model maintains the current assumption of 2.5% per annum pay growth.

Commissioned care costs may experience larger than normal increases over the MTFP period following the WG plans announced to raise care staff pay up to the real living wage, which is currently

6.6% above the national living wage. This will require full funding from WG, without which it will represent a substantial pressure on Local Authority budgets. Current modelling includes allowances for forecast National Living Wage increases only.

Inflation forecasts remain uncertain. Current year figures are highly skewed by the impact of restrictions (and their easing) and short term availability of goods, where supply chains have been interrupted by new regulations post Brexit and the Suez Canal blockage in March 2021. With the exception of July 2020, the 12 month Consumer Price Index has been below 1% since the start of the pandemic, but increased from 0.7% to 2.1% between March and May 2021, the largest increase in over a decade. As such assumptions are increased to 2.5% for prudence at this stage of budget development.

CAPITAL PROGRAMME

- 5.5.** The 5 year capital plan was approved by Council in March 2021. Alongside revenue budget development work, a review of existing and new capital projects will be undertaken to inform future development of the five year Capital Programme. It is likely that any projects approved for the Levelling Up Fund (see paragraph 3.6 above) may require match funding which will need to be identified.
- 5.6.** An emerging risk to this is the supply and availability of construction materials, which could put pressure both on project budgets previously approved as well as timelines, particularly where there are fixed expenditure deadlines for specific grants.
- 5.7.** Additionally, members should note that there may be significant capital costs associated with the Waste Strategy which are not currently included within the Capital programme. Based on the experience of other Local Authorities, it is hoped that a substantial contribution from Welsh Government can be secured, though this is not confirmed.
- 5.8.** Validation assumptions for the three years have been revisited and are currently:

	Financial Model		
	2021/22 %	2022/23 %	2023/24 %
Expenditure Inflation	2.5	2.5	2.5
Income Inflation	2.5	2.5	2.5
Pay Awards	2.5	2.5	2.5
Employers Pension Rates	0	0	0
Fuel	2.5	2.5	2.5

Energy Costs	2.5	2.5	2.5
Capital charges	£500k	£500k	£500k
Revenue Implications of Capital schemes	£400k	£400k	£400k

5.9. Service Pressures:

The financial model assumes growth pressures of £5.5m per annum for every year. In addition to the normal pressures which might be expected, of particular note are the following:

- COVID19 related service expenditure – whilst this will no doubt reduce it is likely that some working practices will change as a result of experiences and will lead to additional costs.
- Commercial income – there may be need to consider any possible longer term reductions to income generating services such as leisure centres or parking.
- Waste strategy – as well as capital costs referred to above, there will be revenue cost implications of any future changes implemented.
- Decarbonisation – following the climate emergency declared by the County Council in February 2019, further actions required to meet our commitment to become net zero carbon may put additional pressures on capital and revenue budgets.

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 2021/22 budgets.

5.10. The modelling is based on Council Tax increases in line with the MTFP approved in March 2021, being 4.35% in 2022/23, 4.40% in 2023/24 extended to year 3 purely for planning purposes.

5.11. 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		
	2022/23 £'000	2023/24 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Previous Year's Budget	386,185	396,637	386,185	396,609	407,419
General Inflation	1,822	2,184	2,278	2,730	2,798
Pay Inflation	6,287	6,271	6,287	6,271	6,200
Other	2,052	2,092	1,568	1,642	1,919
Growth	5,500	5,500	5,500	5,500	5,500
Original & approved PBB Proposals	-4,644	-4,093	-4,644	-4,093	0
Net Expenditure	396,637	407,477	396,609	407,419	418,814
Revenue Settlement	290,517	296,327	290,517	296,327	302,254
Council Tax Receipts	106,120	111,150	106,092	111,092	116,560
Shortfall	565	1,115	565	1,240	5,023
Modelling Council Tax Increase	4.35%	4.40%	4.35%	4.40%	4.40%

5.12. Key points:

5.12.1. We are looking at requiring cumulative reductions of £15m over the three years. As well as additional cost pressures brought about by the pandemic, changes in working practices have the potential to provide the opportunity for some savings. A reduction in staff travel, printing costs and possible reduction of the corporate administrative estate could deliver valuable efficiency savings at no detriment to the quality of service delivery to the public. Clearly given the abnormality of the last year, it cannot be taken as a reliable benchmark, work is underway to estimate how large a contribution this could make towards savings targets over the longer term.

Many savings proposals require substantial lead time to prepare for, or to follow prescribed statutory processes. This requires early planning and proactive work several years ahead of the implementation date.

5.12.2. 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. It is proposed that the savings requirements for

each of the financial years be allocated between departments as follows, according to controllable budgets:

	2022/23	2023/24	2024/25
	£'000	£'000	£'000
Chief Executive	432	443	417
Schools Delegated Budget	0	0	0
Education & Children	904	925	872
Communities	2,471	2,530	2,383
Corporate Services	180	184	174
Environment	1,222	1,251	1,178
	5,209	5,333	5,023

5.12.3. The above model, as stated above, is based upon increases to the AEF of 2% each year and council tax increases of 4.35% in 2022/23 and 4.40% for both 2023/24 and 2024/25.

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%	£2.4m
General inflation	1% (expenditure only)	£2.3m
General inflation	1% (income only)	-£1.4m
WG Settlement	1%	£2.9m
Specific Grants	1%	£1.0m
Council Tax	1%	£1.0m

- 6.3.** The following table illustrates the scale of the impact on departmental savings targets in 2021/22 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	+/-241	+/-88	-160
Schools Delegated Budget	0**	0**	1,925
Education & Children	+/-504	+/-184	-334
Communities	+/-1,378	+/-503	-913
Corporate Services	+/-100	+/-37	-67
Environment	+/-681	+/-249	-452
	+/-2,905	+/-1,025	0

** Based on assumption that no savings target is applied to school budgets

- 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. This year's work will include a renewed focus on common and repetitive spend to identify the scale of budget reductions achievable in areas such as print/postage/staff travel which have been impacted by COVID19 new working practices.
- 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 2021/22 to increase as far as possible its options in respect of the 2022/23 budget setting process. The aims of these measures would be to partially mitigate the risk of the council not achieving a balanced budget for 2022/23 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 2022/23

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, currently expected from WG in October 2021, though subject to the CSR as referenced in paragraph 3.7 above. A timetable is provided at Appendix A.

8.2. As part of the current Medium Term Financial Plan, Departments are requested to update their efficiency/service rationalisation proposals for 2022/23 and 2023/24 and to consider possible areas to target for 2024/25. Savings development will be led by Department Service Directors with review and challenge from:

- Executive Board Portfolio Member, plus
- Executive Board Portfolio Member for Resources

Consideration will be given to inclusion of independent challenge to further support this process.

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. Virtual Member seminars on budget proposals to be convened in December/January 2022.

8.5. Public consultation on budget priorities and proposals will take place in October – January 2021. Specific consultation methods will need to reflect the COVID19 alert level prevailing at the time, but additional efforts will be made to engage as widely as possible given the circumstances, including the use of virtual meetings, and digital communications.

8.6. Scrutiny Committee consultation in January/February 2021.

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 budget savings 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