

**REPORT OF DIRECTOR OF CORPORATE SERVICES**

**Executive Board**

**26<sup>th</sup> July 2016**

**REVENUE BUDGET OUTLOOK 2017/18 to 2019/20**

|  |                           |                      |
|--|---------------------------|----------------------|
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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. KEY MESSAGES**

The key messages are:

- 2.1.** The period of financial restraint in the public sector is set to continue for some time to come.
- 2.2.** The importance of the choices that the new administration in the Welsh Government (WG) make around funding for the Health Service and any other protection afforded to service areas.
- 2.3.** The impact of any protection for service areas will be significant.

### **3. BACKGROUND**

The Medium Term Financial planning process has had a consistent theme over recent years with the level of resources available to public services seeing significant reductions. Over the last five years the Council has had to manage reductions in service budgets of £53m, whilst at the same time the pressures on the budget have been increasing in terms of demand and expectations.

The current three year Medium Term Financial Plan (MTFP) was agreed by Council in February 2016 and was based on estimates of known commitments and formulated in the context of the late financial settlement for 2016-17 with no indicative settlements available from WG for future years.

Our overall financial standing has been maintained at a prudent level. Many of our reserves are earmarked for specific purposes – whether this is to address liabilities now or in the future e.g. Insurance reserves, or for financing specific capital schemes. Our General Fund balance currently stands at 2.6% of our net budget and we have made limited use of such reserves to support ongoing expenditure

### **4. OTHER CONSIDERATIONS**

**4.1.** The new administration at the Welsh Government has been formed as a minority government following the May elections, and as yet there have been no new announcements regarding the timing and proposals for Local Government Reorganisation in Wales. This outlook has therefore been prepared on an ‘ongoing’ basis

**4.2.** The Welsh Government has yet to set out its budget priorities over the term of the new administration, and in particular what approach, if any, it will adopt in relation to giving protection or indeed growth to its various service areas. In particular whether it intends to protect or increase the Health or Education budgets.

**4.3.** The Corporate Strategy for 2015-2020 sets out the Authority’s strategic priorities and aspirations and its overarching themes and core values.

The Corporate Strategy and subsequent Business Plans are key to being able to develop the Medium Term Financial Plan and the vision for Carmarthenshire.

**4.4.** Members will be aware of the result of the European Referendum where the United Kingdom voted to leave the European Union. The full impact of this decision has yet to be determined. The Chancellor of the Exchequer’s statement to the markets on Monday 27<sup>th</sup> June 2016 stated that the UK was ready to face the position ‘from a position of strength’ and he indicated that there would be no immediate emergency budget. The Chancellor did however state that there would still need to be an ‘adjustment’ in the UK economy, but added it was ‘perfectly sensible to wait for a new prime minister’ before taking any

such action. Accordingly it is likely to the Autumn of 2016 before we know whether there will be any further reductions in funding for the public sector spending over and above that already reflected in the Comprehensive Spending Review.

## 5. CURRENT FINANCIAL OUTLOOK

In the absence of funding indications beyond 2016-17, and the potential impact from the referendum vote, there is limited information from which we can start to model future funding scenarios for the WG funding.

The spending review (2015) documentation did provide estimates of the Welsh Block Resource DEL, which along with assumptions about growth in business rates has enabled the Welsh Local Government Association (WLGA) to model a number of scenarios for the WG Budget and the impact on the Local Government core grant in the remaining years of the spending review.

Under the most optimistic scenario there is 'weak' protection for non-Local Government Budgets. Under this scenario, the NHS receives future increases based on a 'consequential' of the increase to the English NHS through the lifetime of the Parliament. All other budgets are held cash flat, allowing Local Government's Aggregate External Finance (AEF) to increase by 0.2% in 2017-18, 1.5% in 2018-19 and 1.5% in 2019-20.

A less favourable scenario is to assume that there is 'medium' protection for non-Local Government Budgets. Here the NHS receives more generous uplifts in line with general inflation over the spending review period. All other budgets are held cash flat, allowing AEF to reduce by 0.6% in 2017-18, 1.0% in 2018-19 and 0.9% in 2019-20.

A more pessimistic scenario can be envisaged where, as above the NHS is protected for inflation, and so are all other non-Local Government budgets. AEF reduces by 2.0% in 2017-18, 2.6% in 2018-19 and 2.6% in 2019-20.

For the purposes of our financial outlook, given the current uncertainties, the base model reflects the current MTFP with reductions in AEF of 2% per annum for each of the three financial years. These will be reviewed as more information becomes available.

## 6. FINANCIAL MODEL

The revised financial model covers the three year period up to 2019/20. The most important part for any financial plan or model is the underlying assumptions, the current key assumptions being:

- 6.1. For the purposes of our financial outlook, the base model reflects the 'AEF reducing by 2.0% in 2017-18, 2.0% in 2018-19 and 2.0% in 2019-20.
- 6.2. The indicative Savings proposals for 2017-18 and 2018-19 approved in February 2016 assume no on-going protection for schools and that school delegated budgets will reduce by £6m in 2017-18 and a further £6.0m in 2018-19.
- 6.3. Estimated effect of Auto Enrolment from April 2017 £1.6m.
- 6.4. The current pay settlement for NJC staff was for a two year period encompassing the 2017-18 financial year. Whilst the future pay awards have been included at 1% in line with the Chancellors 4 year pay cap for the public sector, additional increases have been assumed for the lower scales to meet the anticipated increases in the National Living Wage. Additional estimated cost £900k per annum in 2018-19 and 2019-20.
- 6.5. Service specific Grants within the current year's budget stands at £107m and it is assumed that this level will be maintained during the three year period of the model
- 6.6. Assumptions relating to the capital programme are as set out in the 5 year capital plan approved by Council in February 2016.
- 6.7. Validation assumptions for 2016-17 and 2017-17 have been revisited and are currently:

|                         | <b>Financial Model</b> |                     |                     |
|-------------------------|------------------------|---------------------|---------------------|
|                         | <b>2017-18</b><br>%    | <b>2018-19</b><br>% | <b>2019-20</b><br>% |
| Expenditure Inflation   | 1.8                    | 2.0                 | 2.1                 |
| Income Inflation        | 1.8                    | 2.0                 | 2.1                 |
| Pay Awards              | 1.0                    | 1.0                 | 1.0                 |
| Employers Pension Rates | 0.3                    | 0.3                 | 0.3                 |
| Fuel                    | 3.0                    | 3.0                 | 5.0                 |
| Energy Costs            | 3.0                    | 3.0                 | 5.0                 |
| Capital charges         | £250k                  | £250k               | £250k               |

**6.8. Service Pressures:**

The financial model assumes growth pressures of £3m per annum for each of the three years. The initial growth bids submitted by departments for 2017-18 amount to £3.342m and are attached at Appendix A.

**6.9.** The 2017-2018 budget makes provision for the introduction of the Apprenticeship levy which is a new government initiative announced in the 2015 Summer Budget. The government proposes to apply the levy to large employers across all industries at a rate of 0.5 per cent of an employer’s wage bill.

The Digital Apprenticeship Service will only be used to fund Apprenticeships delivered in England. £0.5billion from the Apprenticeship Levy will be allocated to governments in Scotland, Wales and Northern Ireland who will decide how the funds are spent, but details have not yet been released.

**6.10.** No account has been taken of any new legislative pressures.

**6.11.** 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  |                  |                  |
|-----------------------------------|------------------|------------------|------------------|------------------|------------------|
|                                   | 2017/18<br>£'000 | 2018/19<br>£'000 | 2017/18<br>£'000 | 2018/19<br>£'000 | 2019/20<br>£'000 |
| <b>Previous Year’s Budget</b>     | <b>331,226</b>   | <b>330,541</b>   | <b>331,226</b>   | <b>330,541</b>   | <b>328,796</b>   |
| General Inflation                 | 1,416            | 1,637            | 1,757            | 1,825            | 1,996            |
| Pay Inflation                     | 2,399            | 3,041            | 2,399            | 3,042            | 2,920            |
| Other                             | 3,083            | 543              | 3,182            | 543              | 990              |
| Growth                            | 3,230            | 3,000            | 3,230            | 3,000            | 3000             |
| Original & approved PBB Proposals | -11,013          | -10,155          |                  |                  |                  |
| Net Expenditure                   | 330,341          | 328,607          | 341,794          | 338,951          | 337,702          |
| Revenue Settlement                | -246,651         | -241,718         | -246,653         | -241,720         | -236,885         |
| Council Tax Receipts              | -83,690          | -86,889          | -83,689          | -87,076          | -92,037          |
| Shortfall                         | 0                | 0                | 11,453           | 10,155           | 8,780            |

If the shortfalls in each of the three financial years were to be met in full, then the indicative Council Tax rises would be :

- 2017-18 4.88%
- 2018-19 3.37%
- 2019-20 5.00%

**6.12. Key points:**

6.12.1. We are looking at requiring cumulative reductions of £30.4 over the three years.

6.12.2. 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. The net controllable budget of the authority is therefore £275m

6.12.3. It is proposed that the savings requirements for each of the financial years be addressed as follows:

- 2017/18 – departments to deliver savings/make good those now in doubt as per the current three year financial strategy, and submit proposals to achieve the following revised departmental targets:

| <b>Targets 2017/18</b> |                |
|------------------------|----------------|
|                        | <b>2017/18</b> |
| <b>Department</b>      | <b>£'000</b>   |
| Chief Executive        | 483            |
| Education              | 418            |
| Schools Delegated      | 6000           |
| Corporate Services     | 432            |
| Community Services     | 2,792          |
| Environment            | 1,328          |
| <b>Total</b>           | <b>11,453</b>  |

- 2018/19 – again departments to deliver savings/make good those now in doubt to achieve the targets as per the current three year financial strategy

- 2019/20 – savings targets allocated to all services as a proportion of controllable spend as follows:

| <b>Targets 2019/20</b> |                |
|------------------------|----------------|
|                        | <b>2019/20</b> |
| <b>Department</b>      | <b>£'000</b>   |
| Chief Executive        | 305            |
| Education              | 898            |
| Schools Delegated      | 3,487          |
| Corporate Services     | 296            |
| Community Services     | 2,548          |
| Environment            | 1,246          |
| <b>Total</b>           | <b>8,780</b>   |

6.12.4. The above model, as stated above, is based upon reductions to the AEF of 2% per annum for each of the three financial years.

6.12.5. 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 the current economic climate. The forecast will be monitored and refined as the likely position becomes clearer.

## **7. TAKING THE WORK FORWARD**

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

- 7.1.** A continued real and focused drive to achieve efficiency in what we do – including business processes, taking advantage of technology and reviewing non-employee spend.
- 7.2.** Establishing what is important to members (and other stakeholders) in terms of what they wish to prioritise and importantly what is not and can be 'given up'/or reduced;
- 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 2016-17 to increase as far as possible its options in respect of the 2017-18 budget setting process. The aims of these measures would be to partially mitigate the risk of the council not achieving a balanced budget for 2017-18 and would need to be undertaken following consultation with members. To support this, members have already approved the extension of the severance scheme for the lifetime of the current MTFP.

**8. BUDGET PREPARATION FOR 2017/18**

- 8.1. The financial model tabled above will be updated as and when more information becomes available, key amongst which will be the provisional settlement expected from WG in the autumn of 2016.
- 8.2. As part of the current Medium Term Financial Plan, Departments are requested to confirm/update their efficiency/service rationalisation proposals for 2017-18 and 2018-19 and to bring forward their proposals for 2019-20. To support the process, the Departmental service Director will challenge/draw up the cost reduction proposals in conjunction with :
  - Executive Board portfolio member, plus
  - Executive Board Portfolio Holder for Resources and/or Executive Board Portfolio Holder for Human Resources, Efficiencies and Collaboration
- 8.3. Officers will continue to refine the budget projections taking account of inflation factors, the collection rate and reviewing the potential for the use of reserves etc.



- 8.4.** Member seminar on budget proposals to be convened in October 2016.
- 8.5.** Public consultation on the budget proposals to commence in November 2016, encompassing a variety of means including on-line surveys, Town & Community Councils, budget roadshows/meetings and digital communications with residents, businesses and staff who live and work within the County.
- 8.6.** Scrutiny Committee consultation in December 2016/January 2017

## **9. RECOMMENDATION(S)**

It is recommended that:

- 9.1.** The Executive Board receives the initial budget outlook and notes the significant financial challenges it poses;
- 9.2.** Executive Board endorse the proposed approach to identifying the required savings
- 9.3.** Executive Board endorse the proposed approach to the budget consultation