

REPORT OF DIRECTOR OF CORPORATE SERVICES

Executive Board

28th September 2015

REVENUE BUDGET OUTLOOK 2016/17 to 2018/19

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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. An increasingly difficult funding outlook, with the period of financial restraint in the public sector being set to continue for some time to come.
- 2.2. The importance of the choices that 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 budget and Medium Term Financial planning process has had a consistent theme over recent years. Since the financial crisis in 2008 the level of resources available to public services has been under pressure, and over the last five years the Council has had to manage a reduction in service budgets of £51m. At the same time pressures on the budget have been increasing in terms of demand and expectations.

Moving forward, whilst still retaining a focus on efficiency, it is recognised that a fundamental shift is required in relation to the quantum and nature of saving proposals over the medium term to ensure that financial sustainability can be achieved and a balanced budget set.

The current three year Medium Term Financial Plan (MTFP) was agreed by Council in February 2015 and was based on estimates of known commitments and formulated in the context of the tough financial settlement for 2015-16 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 2.5% of our net budget and we have made limited use of such reserves to support ongoing expenditure

4. OTHER CONSIDERATIONS

4.1. In June, the Minister for Public Services announced a new map for Local Government in Wales, reducing the number of Councils from 22 to 8 or 9. The proposal however is not final, and it remains to be seen whether it will be implemented in full following the National Assembly elections next year. In any event, implementation within the timescale of this MTFP appears very unlikely given the number of factors and the sheer volume of work involved.

4.2. The Minister for Public Services also released a report that WG has commissioned through KPMG and CIPFA detailing the conclusions of their research into the scope to move resources currently spent on administrative functions within Local Authorities to support the delivery of front line services in Wales.

The report highlighted that across Wales, Local Authorities spent around £470m in 2013-2014 on 'administrative activities' and identified potential annual savings of up to £151m prior to any local government mergers, of which:

- £33m savings could be achieved by authorities standardising their approach to the average in Wales
- £45m by standardising to the average sector level in England

- £73m through a new operating model, delivered by system-wide, strategic transformation in parallel to wider LG reform and pan sector collaboration.

4.3. The Executive Board has recently adopted the Corporate Strategy for 2015-2020 setting 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.

5. CURRENT FINANCIAL OUTLOOK

The most significant event that has happened since the MTFP was considered and approved has been the general election which saw the return of a majority Conservative Government. At the time of setting the budget continued public funding restraint seemed inevitable, it was the 'steepness of the downward curve' that was to be determined. Since the general election result the message of continued austerity and public sector funding restraint has been emphasized.

The Chancellor of the Exchequer set out the UK Government's budget on the 8th July, the headlines of which were:

- the deficit is to be cut at the same pace as during the last Parliament,
- 1% public sector pay rise to continue for next four years
- £37bn of further spending cuts by 2020, including £12bn of welfare cuts and £5bn from tax avoidance

Currently there is not a clear timetable for the Whitehall Spending Review and this could be published as late as November with knock on impacts for the publication of the Welsh provisional and final settlements.

That said, some things have been trailed:

- The potential for in-year (2015/16) reductions which will be extremely difficult to manage and destabilizing
- That the NHS is to be protected with the consequent impact that will have on other services.

In the absence of indicative AEF figures from WG the base model reflects 3.3% reductions in each of the three years. This is based on the letter received from WG in June 2014 suggesting that it would be prudent to assume that the current trends in Local Government funding will continue. It is difficult to predict at this stage what the final outcome will be from the next spending review, and as a guide each 1% reduction in funding equates to some £2.5m.

6. FINANCIAL MODEL

The revised financial model covers the three year period up to 2018/19. The most important part for any financial plan or model is the underlying assumptions, the current key assumptions being:

- 6.1. Welsh Government funding (AEF = RSG and NNDR) currently modelled based upon a cash reduction of -3.3% in each of the years which equates to a cash reduction of £8.3 million in 2016-17
- 6.2. The current projected outturn for 2015-16, based on the June budget monitoring is as follows:

Service	Approved Budget £'000	Total Expenditure Forecast £'000	Variance Forecast For Year £'000
Chief Executive	10,600	11,219	619
Education and Children's Services	159,427	160,029	602
Resources	22,914	22,862	-52
Communities	90,856	91,535	679
Environment	45,598	45,950	352
Departmental Expenditure	329,395	331,595	2,200
Cont from Dept/Earmarked Reserves			-1,010
Capital Charges	-3,535	-4,035	-500
Pensions Reserve Adjustment	-5,085	-5,085	0
Levies and Contributions	9,214	9,214	0
			0
Performance Incentive Grant	-570	-570	0
Transfer to/ from Reserves	-1,198	-1,198	0
Net Expenditure	328,221	329,921	690

- 6.3. The departmental overspends are primarily as a result of delays in the delivery of savings proposals put forward for 2015-16, and a review of the savings proposals that were agreed in February 2015 has identified that the following amounts are at risk of not being delivered/delivered in full:

- £1.750m in 2015-16
- £4.962m in 2016-17
- £2.098m in 2017-18

- 6.4.** During the course of the current National Assembly term, the Council has met the commitment to fund schools at 1% above the level of funding received by WG from the UK government. From 2016-17 onwards, the MTFP assume no service protection, and therefore schools will need to absorb reductions in line with other service areas
- 6.5.** National Insurance rebate of 3.4% for staff in pension funds removed in 2016/17 which adds £4.1 million
- 6.6.** Estimated effect of Auto Enrolment from April 2017 £1.6m.
- 6.7.** The Teachers Pension Scheme - Employers Superannuation contributions increase from 14.1% to 16.4% with effect from 1st September 2015. Full year effect in 2016-17 is an additional £575k
- 6.8.** 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
- 6.9.** Assumptions relating to the capital programme are as set out in the 5 year capital plan approved by Council in February 2015.
- 6.10.** Council Tax modelled with an increase of 5.00% per annum
- 6.11.** Validation assumptions for 2016-17 and 2017-17 have been revisited and are currently:

	Financial Model		
	2016-17	2017-18	2018-19
	%	%	%
Expenditure Inflation	0.6	1.4	1.8
Income Inflation	0.6	1.4	1.8
Pay Awards	1.0	1.0	1.0
Employers Pension Rates	0.3	0.3	0.3
Fuel	-12.5	3.0	3.0
Energy Costs	3.0	3.0	3.0
Capital charges	0	£250k	£250k

6.12. Service Pressures:

In the absence of a detailed breakdown of service pressures from departments at this stage, the model assumes a notional sum of £3m per annum for each of the three years.

- 6.13.** No account has been taken of new legislation, the most significant of which seem to be: Well being and Future Generations (Wales) Bill; Social services and Well Being Act; New Welsh Language Standards

- 6.14.** The current proposals do not make provision for any further amendment to the pay structure or the introduction of the living wage beyond those already approved for implementation from 1st October 2015.
- 6.15.** 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		
	2016/17 £'000	2017/18 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Previous Year's Budget	329,991	324,969	329,991	324,967	321,270
General Inflation	1,831	2,095	663	1,745	2,027
Pay Inflation	2,961	2,868	2,263	2,266	2,246
Other	4,617	1,582	4,093	1,460	0
Growth	3,000	3,000	3,000	3,000	3,000
Original & approved PBB Proposals	-18,201	-13,811			
Net Expenditure	324,199	320,703	340,010	333,438	328,543
Revenue Settlement	-244,149	-236,093	-244,149	-236,093	-228,302
Council Tax Receipts	-80,050	-84,610	-80,050	-84,607	-89,421
Shortfall	0	0	-15,811	-12,738	-10,820

6.16. Key points:

6.16.1. We are looking at requiring cumulative reductions of £39.4 over the three years.

6.16.2. 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

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

- 2016/17 – departments to deliver savings/make good those now in doubt (as per paragraph 6.3) as per the current three year financial strategy
- 2017/18 – again departments to deliver savings/make good those now in doubt (as per paragraph 6.3) as per the current three year financial strategy
- 2018/19 – savings targets allocated to all services as a proportion of controllable spend as follows:

Targets 2018/19	
	2018/19
Department	£'000
Chief Executive	500
Education	1,250
Schools Delegated	4,286
Resources	448
Community	
Services	2,877
Environment	1,460
Total	10,821

6.16.4. The above model, as stated above, is based upon a WG reduction of 3.3% per annum.

6.16.5. 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 2015-16 to increase as far as possible its options in respect of the 2016-17 budget setting process. The aims of these measures would be to partially mitigate the risk of the council not achieving a balanced budget for 2016-17 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 2016/17

- 8.1.** The financial model tabled above will be updated as and when more information becomes available, key amongst which will be the outcome of the spending review and the provisional settlement expected from WG late autumn of 2015.
- 8.2.** As part of the current Medium Term Financial Plan, Departments are requested to confirm their efficiency/service rationalisation proposals for 2016-17 and 2017-18 and to bring forward their proposals for 2018-19.
- 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 2014.
- 8.5.** Public consultation on the budget proposals to commence in November 2015, encompassing a variety of means including press articles, on-line surveys, budget roadshows and digital communications with residents, businesses and staff who live and work within the County.
- 8.6.** Scrutiny Committee consultation in December 2015/January 2016

9. RECOMMENDATION(S)

It is recommended that:

- 9.1.** The financial model and the significant financial challenges it poses is noted;
- 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