

REPORT OF DIRECTOR OF CORPORATE SERVICES

Executive Board

6th February 2017

REVENUE BUDGET STRATEGY 2017/18 to 2019/20

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1. INTRODUCTION

1.1. Executive Board in November 2016 considered and endorsed the Revenue budget strategy 2017/18 to 2019/20 for consultation. The report indicated, after taking account of the provisional settlement, a council tax increase of 2.5% in 2017-18. The Executive Board in endorsing the report for the consultation process expressed the view

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

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

- Final Settlement Details
- Budget Consultation Results
- The Medium Term Spending Plans
- Implication on Council tax for 2017-2018.

The final proposals have endeavoured to meet the aspirations of the Authority, whilst taking account of the continued tough economic climate. They address specific pressures in certain service areas whilst recognising the need to minimise the impact on the local taxpayer.

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 Settlement has resulted in a better position than that anticipated, Local Government has again been faced with real term reductions which, in conjunction with significant validation requirement for such items as auto enrolment and the Apprenticeship Levy, continues to make the budget process extremely difficult. 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 21st November 2016, with the following groups and committees being invited to comment:-
 - Public Consultation and Commercial Ratepayers
 - School Budget Forum (School's Budget)
 - Scrutiny Committees
 - Trade Unions
- 2.2. A detailed report on the consultation results for each of the above is attached at Appendix A.

3. BUDGET REQUIREMENT 2017/18

3.1. Current Year Performance (2016/2017)

- 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 2016/17 (based on the October 2016 monitoring) is as follows:

Service	Approved Budget £'000	Total Expenditure Forecast £'000	Variance Forecast For Year £'000
Chief Executive	13,517	13,865	348
Education and Children	162,325	164,106	1,781
Corporate Services	22,183	21,855	-328
Communities	90,994	91,486	492
Environment	47,500	48,040	540
Departmental Expenditure	336,519	339,352	2,833
Capital Charges	-9,519	-10,619	-1,100
Pensions Reserve Adjustment	-5,085	-5,085	0
Levies and Contributions	9,310	9,310	0
			0
Contribution from Balances	-65	-65	0
Transfer to/ from Reserves	-200	-576	-376
Net Expenditure	330,960	332,317	1,357

3.1.3. There are significant budget pressures, with departmental overspends being as a result of delays in the delivery of some of the savings proposals put forward for 2016-17, and a review of the savings proposals that were agreed in February 2016 has identified that some £1.25 m of the original proposals for 2016-17 are at risk of not being fully delivered in the current financial year. The Education and Children's Services department continues to face pressure due in the main to school based EVR and redundancy costs, and short term transport costs for pupils from closed schools and property decommissioning costs. Whilst part of this budget pressure is offset by under-spends in other departments and capital charges, this cannot be relied upon going forward. The Authority is currently forecasting an overall variance of £1,357k at the year-end that will have to be met from General Balances.

3.1.4. 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 Social Services being considered currently as being the most significant issue.

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. The Office of Budget Responsibility's inflationary forecasts contained in its November 2016 Economic and Fiscal outlook report has been revised upwards on its March 2016 forecast, as have the energy cost forecasts from the National Procurement Service. Accordingly the inflation factors for 2017/18 and following years have been changed as outlined in the following table.

	<u>2017/18</u> <u>Original</u>	2017/18 Proposed	2018/19	2019/20
General inflation	2.3%	2.4%	2.5%	2.1%
Electricity	5.0%	13.5%	3.0%	3.0%
Gas	5.0%	18.0%	3.0%	3.0%
Fuel	5.0%	5.0%	3.0%	3.0%
Pay Inflation - non teaching	1.0%	1.0%	1.0%	1.0%
Pay Inflation - Teaching	1.0%	1.0%	1.0%	1.0%
Levies	1.0%	2.8%	1.0%	1.0%
Pension Contributions	£298k	£99k	£101k	£204k
Auto Enrolment	£1,600k	£700k	£700k	£350k
Capital Charges	-	-£315k	£250k	£250k
Main service Specifics:				
County Elections	£230k	£230k	-£300k	
Apprentice levy	£850k	£850k	-	

3.2.3. Under the Local Authorities (Capital Finance and Accounting)(Wales)(Amendment) Regulations 2010 [the Amendment Regulations] the authority is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement at a rate that it considers to be prudent and having regard to the guidance issued. The Budget Strategy has been prepared based upon the Regulatory Method for supported borrowing in which the calculation is based on 4% of the opening Capital Financing Requirement and the Asset Life Method for the Unsupported Borrowing e.g. Modernising Education Provision and Fleet replacement.

3.2.4. Officers are currently working with Treasury Management Consultants to review the basis of the Minimum Revenue Provision (MRP) provision within the annual budget, taking account of the discretion allowed within the regulations. It is for the Authority to determine what it considers to be a prudent provision, and whilst it is not the role of our external auditors to determine what is prudent, they will need to be engaged so that

they are satisfied with the procedural aspects, and the Auditor General for Wales has also indicated that they will be giving consideration to the Wellbeing of Future Generations (Wales) Act 2015 as part of their review. Officers currently estimate the effect of changing from a 4% reducing balance to a straight line charge at 2.5%, being a reduction of some £2.5m to £2.6m to the annual budget in the initial years. Whilst there is no direct requirement to link the charge to specific asset lives to justify a change in methodology, and a reduction in the percentage applied for the repayment of debt, we must be satisfied that the approach is prudent and there is a clear link to the assets that were originally funded. If a straight line 2.5% methodology was applied this would provide repayment over 40 years similar to the Authority's estimated asset lives. A report outlining the options and implications of any potential changes that can be made to the MRP calculation for borrowing will be presented to a future County Council meeting in the coming months.

- 3.2.5. Upon confirmation of this change in policy, this will allow consideration of how the funding will be used in future years. At this stage therefore, whilst the funding may be anticipated we would need to be able to fund any element brought into the 2017-2018 budget by alternative means as a safeguard against the anticipated amounts not materialising, or the change in the policy not being endorsed. Accordingly therefore it is proposed to allocate a sum of £1m to the revenue budget in 2017-18, with such amount being funded from the Insurance Earmarked Reserve pending the adoption of the change in the MRP policy, at which stage the Insurance Earmarked Reserve will be replenished in full. Members will also note that within the 5 year capital programme elsewhere on this agenda, an anticipated sum of £1.5m has been utilised in the funding for 2017/18, with £600k per annum thereafter on the basis that expenditure on future capital schemes will only be committed when the change in policy is agreed and funding is secured.
- 3.2.6. As outlined, the Capital charges estimate therefore reflect the current policy and the 5 year Capital Programme elsewhere on the agenda. Members will further be aware from the Extraordinary meeting of Council held on the 25th January 2017, that delegated authority was granted for the Leader of Council or the Chief Executive to sign the city deal agreement on the basis set out in that report. The exact level of borrowing and structure and terms of the borrowing in respect of the projects is yet to be confirmed, and when further details of the investment are known, a full business case appraisal of the individual projects will be completed.
- 3.2.7. The most significant specific validations over the three year period relate to Auto Enrolment which is now phased over two

years, and the introduction of the Apprentice levy from April 2017.

3.2.8. The original budget strategy assumed that the Mid and West Wales Fire Authority Levy would be 1%. The 2017-18 budget approved by the Mid and West Wales Fire Authority was an increase of 2.8% on the budget requirement falling on the Constituent Authorities. The effect of this has been an additional £168k budget requirement.

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 the lower inflationary increases have been applied by service providers. This risk is something that will require close monitoring during the year.

3.2.10. The Budget as constructed makes provision for the 2017-18 NJC pay award agreed in May 2016 which was a 1.0% pay award for all staff above spinal point 17 from April 2017, together with increases ranging from 1.45% on SCP 16 to 2.67% on SCP9 for NJC staff. The Teachers pay award has been provided at 1% from September 2017.

3.2.11. In total validation adds £7.4m to the current year's budget.

3.3. Cost Reduction Programme

3.3.1. As detailed in the report to Executive Board on 21st November 2016, 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.

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. An exercise has been undertaken to obtain ‘expressions of interest’ from staff who may be interested in voluntary severance/early retirement as well as other flexible working options. 20 applications have currently been supported for release on or before 31st March 2017, generating annual savings of £472k, with a further 12 expressions of interest provisionally supported for release during the 2017-18 financial year
- 3.3.5. All ‘policy’ proposals have undergone public consultation and Equality Impact Assessments (see attached report Appendix Aii). 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).
- 3.3.6. The cost reductions now included in the final budget strategy are:

	2017/18 £m	2018/19 £m	2019/20 £m
Managerial	4,435	4,462	2,940
Existing Policy	3,988	3,591	3,527
New Policy	347	181	1,307
Total	8,770	8,234	7,774

(Detailed in Appendix B)

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, it is the view of the Corporate Management Team that a sum of £2.515m be allocated as outlined at Appendix C.
- 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.

3.5. Schools Delegated Budgets

3.5.1. The last year of WG funding protection for schools was 2015/16. The current budget proposals assume no protection going forward.

3.5.2. As a consequence of the settlement members did deem it appropriate to reduce the original target savings for the schools delegated budget from £6m per annum by £2.221m. The impact of this action reduced the net adjustment for the Schools Delegated budget to a net cash movement in budget of £1.7m .

	2017/18 £m	2018/19 £m	2019/20 £m
Previous Years Budget	<u>109.247</u>	<u>107.537</u>	<u>105.790</u>
Validation	2.069	1.738	1.346
Savings requirement	-3.779	-3.485	-3.987
Net Adjustment	-1.710	-1.747	-2.641
Proposed Delegated Budget	107.537	105.790	103.149

4. FUNDING

4.1. Revenue Settlement 2017-2018

4.1.1. On the 21st December 2016, the WG Cabinet Secretary for Finance and Local Government announced the final settlement for 2017-2018.

4.1.2. The final settlement was broadly in line with the provisional announcement, with Aggregate External Finance only increasing by £6.2m on an all Wales basis, of which £6m is funding to address homelessness previously administered through DWP.

4.1.3. The movement for Carmarthenshire was an additional £398k for Homelessness, with a net decrease of £18k on the provisional settlement.

- 4.1.4. The final settlement preserved the funding floor announced in October 2016, providing £1.6m of funding to ensure that no authority sees a reduction of greater than 0.5% compared to its 2016-17 allocation and top-up funding.
- 4.1.5. Individual authority settlements have changed by up to +/-0.2% from the provisional settlement largely due to updated council tax base figures.
- 4.1.6. The published change in Aggregate External Finance (AEF) on an all Wales basis equated to an average increase of 0.2%, which in real terms is a reduction when inflation is taken into account. For Carmarthenshire County Council (CCC) the published increase was 0.2% (£452k). This was after taking account of transfers in and out of the settlement, and the transfer of new responsibilities.
- 4.1.7. The salient points of next year's settlement are noted below:
- 4.1.8. The final settlement for 2017/18 gave an increase in Standard Spending Assessment (SSA) for Carmarthenshire of £4.468m (1.4%), SSA on an all Wales basis also increased by 1.4%, un-adjusted for transfers and new responsibilities.
- 4.1.9. WG has not provided any indicative AEF figures for 2018-19 and beyond, and have indicated that these will not be available in the near future.
- 4.1.10. Transfers in and out of the settlement include:

Transfers In:

Social Services delivering transformation grant	£169k
Deprivation of liberty safeguards	£12k
Food Hygiene rating scheme	£3k
Blue Badge Scheme	£1k

Transfers Out:

Teacher Registration Fee	£54k
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New Responsibilities:

Increasing Capital Limits for Residential Care	£300k
War Disablement Pension Disregard	£18k
Homelessness Prevention	£398k

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

4.1.11. Business Rate Poundage is to increase to 49.9p from 48.6p for 2017/18. (+2.6%)

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

	2016-2017 Settlement £m	2017-2018 Original Notification £m	2017-2018 Settlement £m
Standard Spending Assessment	330.855	333.848	335.323
Aggregate External Finance	251.724	251.794	252.176

4.1.13. Further to the Final Settlement, Welsh Government have announced that a further £10m of new funding across Wales to help meet the extra costs associated with the introduction of the national living wage. The specific allocation for Carmarthenshire has not been made available as yet, but is anticipated to meet the Social Care department's estimate of the potential cost pressures from the increased national living wage. At the same time, Welsh Government advised that additional funding will be available to Local Authorities as the maximum weekly charge for domiciliary care rises from £60 to £70, it has been assumed as part of the Budget Strategy that this maximum weekly charge will be actioned within Carmarthenshire.

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 climate continuing
- Additional pressure on demand lead Services
- Overestimation of the future settlements.
- Lack Welsh Government forward indicators for 2017-18 onwards.

4.2.3. Sensitivity impact analysis:

Budget element	Movement	Annual Impact £m
Pay inflation	1%	2.2
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%	0.79

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

	1 st Apr 2016 £'000	31 st Mch 2017 £'000	31 st Mch 2018 £'000	31 st Mch 2019 £'000	31 st Mch 2020 £'000
Schools Reserves	3,677	2,730	1,400	950	500
General Reserves	8,779	7,357	7,357	7,357	7,357
Earmarked Reserves	66,131	52,540	25,254	22,249	14,908

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.
- 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 2016, 27 schools were in deficit and 24 schools held surplus balances 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 occasions been utilised to augment expenditure/reduce council tax. Whilst the 2016-2017 budget was set on the basis of a £65k transfers from General Reserves, with the October Budget monitoring (outlined in paragraph 3.1.2 above) there could be a draw of £1,357k 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 therefore 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 2.2% of net expenditure during 2017/18.

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 2016	31 March 2017	31 March 2018	31 March 2019	31 March 2020
	£'000	£'000	£'000	£'000	£'000
Insurance	-7,886	-7,386	-7,386	-7,586	-7,786
Capital Funds	-33,822	-30,965	-10,131	-7,468	-177
Development Fund	-1,195	-445	-612	-765	-765
IAG/OAG	-1,337	-1,337	-	-	-
Corporate Retirement Fund	-3,142	-1,352	-386	-391	-1,101
Joint Ventures	-1,515	-1,692	-1,872	-2,052	-2,232
Other	-17,234	-9,363	-4,867	-3,987	-2,847
TOTAL	-66,131	-52,540	-25,254	-22,249	-14,908

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. The budget proposals assume a sum of £1.2m being transferred from the Insurance Reserve to support the revenue budget in 2017/18, and as outlined in paragraph 3.2.5 £1m of this sum is allocated in support of the budget pending approval of a change in the Minimum Revenue Provision policy and will be replenished from such change of policy if adopted.

5.2.4. 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 2017/18, 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:
- i. Looking at the long-term so that we do not compromise the ability of future generations to meet their own needs
 - ii. Understanding the root causes of the issues to prevent them recurring
 - iii. Taking an integrated approach so that we look at all well-being goals and objectives of other services and partners
 - iv. Collaboration – Working with others in a collaborative way to find shared sustainable solutions
 - v. Involving a diversity of population in decisions that affect them
- 6.3.** The Act identifies 7 well-being goals, they provide a shared vision for public bodies to work towards. We must work towards achieving all of them.
- i. A prosperous Wales
 - ii. A resilient Wales
 - iii. A healthier Wales
 - iv. A more equal Wales
 - v. A Wales of cohesive communities
 - vi. A Wales of vibrant culture and thriving Welsh Language
 - vii. A globally responsible Wales
- 6.4.** As a Council we must set and publish well-being objectives by the 31st March 2017. Our well-being objectives must be designed to maximise our contribution to achieving the 7 well-being goals of the Act.
- 6.5.** We must also publish a Well-being Statement that sets out how we will achieve our objectives and explain how we ensure resources, including financial are allocated to meet our objectives.

7. MEDIUM TERM FINANCIAL PLAN AND COUNCIL TAX PROPOSAL 2017/18

- 7.1.** The table below provides members with a summary of the latest position which reflects the contents of this report.
- 7.2.** Assuming that the Council Tax increase remains at the level set in the original budget strategy which is 2.5%, this will give estimated expenditure of £334.201m. The table below indicates a potential sum of £1.9m which can be considered by the Executive Board for use to respond to the budget consultation:

	2017 - 2018 £'000	2018 - 2019 £'000	2019 - 2020 £'000
Previous Years Budget	331,226	334,401	335,623
Validations/Adjustments	11,023	9,460	9,188
Validated Budget	342,249	343,861	344,811
less			
Efficiency/Service Rationalisation (Identified)	-8,770	-8,238	-7,760
Projected Budget	333,480	335,623	337,051
Potential sum available	1,921		
Less : Contribution from Earmarked Reserves	-1,200		
	334,201	335,623	337,051
WG Settlement RSG & NNDR	-252,176	-249,655	-247,158
Call on Council Tax	82,024	85,968	89,893

Tax Base	71,599	72,071	72,547
Council Tax Rate (Band D)	£ 1,145.61	£ 1,192.82	£ 1,239.11
Council Tax Increase	2.50%	4.12%	3.88%

7.2.1. A full summary of the Budget Build up can be seen in Table1.

7.2.2. It must be emphasised that the figures for 2018 - 2019 and 2019 - 2020 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.

7.2.3. As outlined in paragraph 4.1.9, Welsh Government has not provided any indicative AEF figures for 2018-19 and beyond. Current indications are that future settlements will see further reductions in the funding made available to Local Authorities. Whilst this report before you today assumes a 1% reduction in the settlement for both 2018/19 and 2019/20, 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.

7.2.4. Recommendations

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

7.3.1. The Budget Strategy for 2017/18.

7.3.2. The Band D Council Tax for 2017/18.

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