

REPORT OF DIRECTOR OF CORPORATE SERVICES

EXECUTIVE BOARD

31st July 2017

REVENUE BUDGET OUTLOOK 2018/19 to 2020/21

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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 in February 2017 and was based on estimates of known commitments at that time, and formulated in the context of the standstill financial settlement for 2017-18 with no indicative settlement figures being available from Welsh Government (WG) for future years.
- 2.2. 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 in real terms. Over the last five years the Council has had to manage reductions in service budgets of £51m, whilst at the same time the pressures on the budget have been increasing in terms of demand and expectations, particularly within the Social Care and Education services.
- 2.3. At the same time as managing reducing settlements and the growth in demand, the Authority has also had to absorb substantial cost increases on workforce costs as a result of the loss of the National Insurance rebate as a consequence of the introduction of Single Tier Pensions, the introduction of the Apprenticeship levy, and the additional cost of the National Living Wage both in respect of the Authorities own direct pay costs and indirectly through increased charges from service providers.

- 2.4.** The overall financial standing of the Authority 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 Council Fund balance currently stands at 2.8% of our net budget and in recent years we have made limited use of such reserves to support ongoing expenditure.

3. OTHER CONSIDERATIONS

- 3.1.** The outcome of the General Election on 8th June 2017 has been a hung parliament. At the time of drafting this report the Conservatives are looking to form a minority Government .

- 3.2.** There is significant political debate at present as to whether a new minority Conservative Government will take a different course to the previous government on a number of key areas, specifically:

3.2.1. Whether the austerity measures, adopted by the previous government, will continue in their present form and to a similar extent going forward

3.2.2. Whether the government will pursue a ‘hard’ Brexit or ‘soft’ Brexit in its negotiations with Europe, and the resultant economic impact of any final agreement that may be reached.

- 3.3.** In addition to the uncertainty around the decisions regarding public spending to be taken by central government, as outlined above in paragraph 3, at the time of the 2017-18 Final Settlement WG provided no forward indications as to future settlements and thereby their intentions regarding their priorities for funding allocations going forward.

- 3.4.** 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.

- 3.5.** The Wales Audit Office Financial Resilience Report recommended that we ‘strengthen the links between financial planning and corporate planning’. The Corporate and Financial Planning timetable for 2018-19 (Appendix A) has been drafted to ensure that the Council’s corporate and financial planning processes are properly aligned.

4. CURRENT FINANCIAL OUTLOOK

- 4.1. The current MTFP was prepared with an assumed 1% reduction per annum in the WG settlement for both 2018-19 and 2019-20.
- 4.2. In the absence of funding indications beyond 2017-18 and the potential impact from the result of the General Election, there is limited information from which we can start to model future funding scenarios for the WG funding.
- 4.3. Initial WLGA forecasts (before any change to economic strategy resulting from the outcome of the General Election), range from a best case scenario of a 2% reduction per annum in the WG settlements for 2018-19 and 2019-20 to a worst case scenario of a 3.3% reduction in each year. Therefore the assumptions within the current MTFP would appear to be unrealistic.

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

5. FINANCIAL MODEL

The revised financial model covers the three year period up to 2020/21. 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 AEF reducing by 2.0% per annum for each of the three financial years.
- 5.2. As with the indicative Savings proposals for 2018-19 and 2019-20 approved in February 2017, the current outlook assumes no on-going protection for schools.
- 5.3. The current pay settlement for NJC staff was for a two year period encompassing the 2017-18 financial year, with the current MTFP reflected future pay awards at 1% in line with the Chancellors 4 year pay cap for the public sector from 2015, together with additional increases for the lower scales to meet the impact of the anticipated increases in the National Living Wage.

The unions are currently negotiating for a new pay spine which it is currently estimated will add 1% to the pay bill, and they have recently submitted a claim for a 5% pay award in 2018-19 reflecting the recent and forecasted increases in the cost of living. It is considered appropriate therefore to amend the pay increase assumptions to 2% per annum for the next three years.

- 5.4. 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
- 5.5. Assumptions relating to the capital programme are as set out in the 5 year capital plan approved by Council in February 2017.
- 5.6. Council on the 26th April 2017 approved changes to the Authority’s Treasury Management Policy, Strategy and Minimum Revenue Provision Policy, which changed the basis of the repayment of the Council’s borrowing from a 4% reducing balance basis to a straight line basis of 2.5% which reflected the estimated “Asset Life” of the Authority’s fixed assets. This change resulted in a reduction of some £2.5m in the charge to the annual budget in 2017-2018. In anticipation of this change, £1m of this sum was allocated to Councils 2017-2018 revenue budget, with the balance of £1.5m being utilised to support the Capital Programme.

The estimated saving in the MRP charge are as follows: A decision needs to be taken therefore as to how the balance over and above the £1m already taken into the revenue budget is utilised in future years.

	2018-19	2019-20	2020-21	2021-22	2022-23
Annual Saving	£2.590m	£2.293m	£2.008m	£1.735m	£1.472m

The Financial model has been prepared on prudent basis, with the underlying savings being validated into the budget being £1.472m (the position at year 5), and the savings above that amount being made available to finance one-off items in each financial year.

Resultant sums available for one-off items:

	2018-19	2019-20	2020-21	2021-22	2022-23
Funding for one-off items	£1.118m	£821k	£536k	£263k	£0

- 5.7. Validation assumptions for the three years have been revisited and are currently:

	Financial Model		
	2018-19 %	2019-20 %	2020-21 %
Expenditure Inflation	2.3	2.0	2.0
Income Inflation	2.3	2.0	2.0
Pay Awards	2.0	2.0	2.0
Employers Pension Rates	0.1	0.2	0.2
Fuel	5.0	5.0	5.0

Energy Costs	5.0	5.0	5.0
Capital charges	-£222k	£250k	£250k

5.8. 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 2018-19 amount to £6.324m and are attached at Appendix B.

5.9. No account has been taken of any new legislative pressures.

5.10. Any funding implications arising from the implementation of the City Deal projects will need to be addressed within the individual business case appraisals before their commencement. No specific funding arrangements have been assumed within this budget outlook report.

Whilst it is recognised that the Authority will have to account for the interest costs of the borrowing for the City Deal funding from the Government, it is acknowledged currently that Authorities will benefit from the commitment made by the Government that they will be able to retain 50% of the NNDR generated from the City Deal developments.

5.11. The modelling is based on Council Tax increases for 2018-2019 and 2019-2020 of 4.12% and 3.88% respectively in line with the MTFP indicative figures approved in February 2017. The 2020-2021 financial year has been modelled on a 5% Council Tax increase.

5.12. 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		
	2018/19 £'000	2019/20 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Previous Year's Budget	334,401	335,622	334,401	333,101	332,087
General Inflation	2,424	1,970	2,248	1,877	1,903
Pay Inflation	2,990	2,976	5,079	5,095	4,908
Other	1,345	1,241	1,199	1,399	1,076
Growth	2,700	3,000	2,700	3,000	3,000
Original & approved PBB Proposals	-8,238	-7,760			
Net Expenditure	335,622	337,049	345,627	344,472	342,974
Revenue Settlement	-249,655	-247,158	-247,133	-242,190	-237,346
Council Tax Receipts	-85,967	-89,891	-85,968	-89,897	-95,018
Shortfall	0	0	12,526	12,385	10,610

5.13. Key points:

5.13.1. We are looking at requiring cumulative reductions of £36m over the three years.

5.13.2. 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

5.13.3. It is proposed that the savings requirements for each of the financial years be allocated between departments as follows:

	2018-19	2019-20	2020-21
	£'000	£'000	£'000
Chief Executive	400	395	339
Schools Delegated Budget	4,989	4,933	4,226
Education & Children	1,285	1,270	1,088
Communities	3,646	3,605	3,088
Corporate Services	424	419	359
Environment	1,783	1,763	1,510
	12,526	12,385	10,610

5.13.4. 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. 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%	£2.1m
General inflation	1% (expenditure only)	£2.1m
General inflation	1% (income only)	-£1.3m
WG Settlement	1%	£2.5m
Specific Grants	1%	£1.0m
Council Tax	1%	£800k

Protecting schools	@ Cash neutral (New target)	£2.577m
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6.3. The following table illustrates the scale of the impact on departmental savings targets in 2018-2019 if some of the movements outlined above materialised (Tables do not reflect a cumulative effect) :

Department	1% reduction in settlement £'000	Schools protected @ standstill (New Target) £'000	1% reduction in Council Tax Increase £'000
Chief Executive	80	127	26
Schools Delegated Budget	996	-2389	319
Education & Children	256	407	82
Communities	728	1156	233
Corporate Services	85	134	27
Environment	356	565	114
	2,500	0	800

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.
- 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 2017-18 to increase as far as possible its options in respect of the 2018-19 budget setting process. The aims of these measures would be to partially mitigate the risk of the council not achieving a balanced budget for 2018-19 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 2018/19

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 2017.

8.2. As part of the current Medium Term Financial Plan, Departments are requested to update their efficiency/service rationalisation proposals for 2018-19 and 2019-20 and to bring forward their proposals for 2020-21. 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 Deputy Leader.

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 2017.

8.5. Public consultation on the budget proposals to commence in November 2017, encompassing a variety of means including on-line surveys, Town & Community

Councils, and digital communications with residents, businesses and staff who live and work within the County.

8.6. Scrutiny Committee consultation in December 2017/January 2018

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 the level of school efficiencies 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