

REPORT OF DIRECTOR OF CORPORATE SERVICES

Community Scrutiny Committee

14th December 2017

REVENUE BUDGET STRATEGY 2018/19 to 2020/21

(Copy of Executive Board report 27/11/17)

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|--|---------------------------|----------------------|
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1. INTRODUCTION

- 1.1. Executive Board in July 2017 received a report on the Revenue Budget Outlook for 2018/2019 to 2020/2021 which appraised members of the financial outlook and the proposals for taking forward the budget preparation for the three year period.
- 1.2. This report provides Members with the current view of the Revenue Budget for 2018/2019 together with indicative figures for the 2019/2020 and 2020/2021 financial years. The report is based on officers projections of spending need and takes account of the provisional settlement issued by Welsh Government on 10th October 2017. It also reflects the current departmental submissions for savings proposals.
- 1.3. Whilst significant work has already been undertaken in preparing the budget, this is only an initial position statement which will be updated over the coming months as the budget is further developed as figures are reviewed, and the final settlement becomes known.
- 1.4. The report is broken down into 5 parts:
 - Funding Projections
 - Budget Requirement
 - Impact on the Authority’s budget requirement
 - Consultation
 - Conclusion
 - Recommendations

2. PROVISIONAL SETTLEMENT

- 2.1.** The provisional settlement was announced on Tuesday 10th October 2017. Indicative figures for individual Local Authorities were provided for the one financial year only, 2018/19, with an all Wales indicative figure for the following year.
- 2.2.** The provisional settlement was better than this Council and Local Government in Wales in general anticipated. However, there was a reduction on the current year's settlement which had an enhanced impact when inflationary factors, demographic and demand changes are considered there is a significant negative impact on the Council's resources.
- 2.3.** The main points of the Provisional Settlement 2018/2019 on an all Wales basis are as follows:

- 2.3.1. Local government revenue funding for 2018-19 set at £4.186 billion, a reduction of 0.5% (£19.1 million) compared to 2017-18, but this is after new responsibilities are taken into account of £6.0 million.
- 2.3.2. Within the settlement there is an indication that funding has been provided for essential public services and there is mention that the schools element of the settlement has been increased by £62m in 2018-19, rising to £108m in 2019-20. The Social Care element has been increased by £42m in 2018-19 rising to £73m in 2019-20 however this is not clearly identifiable.
- 2.3.3. £6.0 million to support delivery of local services to meet homelessness prevention duties.
- 2.3.4. £0.6 million alongside the settlement to support the elimination of charging for child burials.
- 2.3.5. £1.8 million floor funding to ensure that no authority sees a reduction of greater than 1.0% compared to its 2017-18 settlement allocation.
- 2.3.6. Council Tax Reduction Scheme funding again maintained at £244m, with arrangements for 2019-20 onwards to be determined as part of their wider considerations as to how to make Council Tax fairer.
- 2.3.7. The settlement includes 'transfers in' of £35m in respect of the waste element of the Single Revenue grant, Welsh Independent Living Grant (£26.889m), Social Care Workforce Grant (£19m), Looked After Children (£7.415m), Carer's respite grant (£3m), and Social Care for prisoners in the secure estate (£0.412m).

2.4. The Settlement figures for Carmarthenshire are:

2.4.1. After adjustments for transfers in and out, the reduction in the provisional settlement is 0.5% (£1.187m). The Aggregate External Finance (AEF) therefore reduces from £259,147k in 2017/18 to £257,960k in 2018/19.

2.4.2. New responsibilities:

2.4.2.1. £399k to support delivery of local services to meet homelessness prevention duties.

2.4.3. Transfers In

2.4.3.1. £2.124m of funding previously provided via the (Environmental) Single Revenue Grant

2.4.3.2. £3.135m Independent Living Grant

2.4.3.3. £1.114m Social care Workforce Grant

2.4.3.4. £0.388m Looked after Children#

2.4.3.5. £0.181m Carers Respite Scheme

2.5. Details of the Welsh Government Service Specific Grants were updated on 24th October 2017 for 46 of the 58 differing grant schemes not transferred into the settlement, with the majority having been maintained at a **cash standstill position**. There are however some grant streams that have seen significant reductions :

- The Education Improvement Grant – reduced from £133.282m in 2017-18 to £118.137m in 2018-19. The detail/rationale behind this change remains unclear at this stage. Broadly we understand that the grant is being reduced by £2m per annum and the £13m is said to be the transfer of the Minority Ethnic Achievement Grant (MEAG) into the Settlement. The settlement papers do not reflect this as being a transfer in, and the loss of this grant is not currently reflected in the Education Budgets. Estimated impact on Carmarthenshire is £218k for MEAG and a further £87k for Gypsy & traveller- total of around £305k
- The Single Revenue Grant (formerly the Environmental Grant) that stood at £61.790m in 2017-18. £35m of this grant has been transferred into the settlement which gives a comparative 2017-18 figure of £26.79m. The published indicative figure for 2018-19 is £20.793m giving a reduction of £5.997m. Again we understand that the grant is being reduced by £2m per annum but there is no explanation as to the remainder of the reduction. Potential loss to CCC £353k.
- School Uniform Grant - reduced from £700k in 2017-18 to nil in 2018-19. WG state that it is being made available through the settlement, but it is not listed as such. CCC allocation £36k. The loss of this grant is not currently reflected in the Education Budgets

3. BUDGET REQUIREMENT 2018-2019

3.1. Current Years performance (2017/2018)

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 2017/18 (based on the August 2017 monitoring) is as follows

| Service | Approved Budget £'000 | Total Expenditure Forecast £'000 | Variance Forecast For Year £'000 |
|-----------------------------------|--------------------------|-------------------------------------|-------------------------------------|
| Chief Executive | 12,919 | 13,350 | 431 |
| Communities | 89,888 | 90,882 | 994 |
| Corporate Services | 23,526 | 23,305 | -221 |
| Education and Children's Services | 161,024 | 162,116 | 1,092 |
| Environment | 49,073 | 49,606 | 533 |
| Departmental Expenditure | 336,430 | 339,259 | 2,829 |
| Cont from Dept/Earmarked Reserves | | -423 | -423 |
| Capital Charges | -11,517 | -12,217 | -700 |
| Levies and Contributions | 9,487 | 9,487 | 0 |
| Transfer to/ from Reserves | -200 | -200 | 0 |
| Net Expenditure | 334,200 | 335,906 | 1,706 |

The main reasons for the departmental overspends are as follows:

- Chief Executive: proposed savings in Standby (£224k) and Health and Safety (285k) not yet being delivered.
- Education and Children's Services: continues to face pressure due in the main to school based EVR and redundancy costs, Special Educational Needs Statements, shortfall in the Music service SLA income from schools and closed schools property decommissioning costs.
- Communities Department: continues to deliver savings related to packages of social care but pressures of approximately £800k remain primarily due to slippage in receiving a full year effect of actions e.g. supported living hourly rate realignment, impact of Releasing Time to Care project on domiciliary care packages. Other pressures include £127k Careline income affected by commissioning

decisions undertaken by other local authorities, £50k Day Services for Older People- review ongoing.

- o Environment Department: overspends are primarily due to non-achievement of car park income targets and a decrease in planning application income.

The Authority is currently forecasting a variance of £1.706m at the year-end that will have to be met from General Balances.

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 validation factors are as follows:

| | <u>2018/19</u> <u>Original</u> | 2018/19 Proposed | 2019/20 | 2020/21 |
|--------------------------------|-----------------------------------|-----------------------------------|----------------|----------------|
| General inflation | 2.5% | 2.3% | 2.0% | 2.0% |
| Electricity | 3.0% | 5.0% | 5.0% | 5.0% |
| Gas | 3.0% | 5.0% | 5.0% | 5.0% |
| Fuel | 3.0% | 5.0% | 5.0% | 5.0% |
| Pay Inflation - non teaching | 1.0% | 2.0% | 2.0% | 2.0% |
| Pay Inflation - Teaching | 1.0% | 1.6% | 2.0% | 2.0% |
| Levies | 1.0% | 2.5% | 2.5% | 2.5% |
| Pension Contributions | £101k | £102k | £208k | £212k |
| Increased pay offer | £900k | £900k | £900k | £600k |
| Auto Enrolment | £700k | £700k | £350k | |
| Capital Charges | £250k | -£472k | £250k | £250k |
| Main service Specifics: | | | | |
| County Elections | -£300k | -£300k | | |

3.2.2. There is a clear risk to the Budget Strategy that departments may find it difficult to manage their expenditure within these parameters, especially where the inflationary increases have been applied by service providers. This risk is something that will require close monitoring during the year.

3.2.3. There is much debate currently regarding the on-going pay cap of 1% for public sector workers, and as yet no clarity as to whether this cap will be relaxed, and if so whether any additional funding will be made available to meet the additional costs. The Budget as constructed therefore makes provision for a pay award of 2% in each of the financial years (part year effect for teachers in 2018-19), together with higher percentages to those on lower

pay points due in part to the projected increases in the national Living Wage.

3.2.4. In total, validation adds £7.7m to the current year’s budget.

3.3. Cost reduction Programme

3.3.1. In anticipation of the settlement reductions, significant work in identifying further service efficiencies/rationalisation proposals has been undertaken.

3.3.2. The savings targets set for each financial year are as follows:

| | 2018/19 £m | 2019/20 £m | 2020/21 £m |
|--|---------------|---------------|---------------|
| Original targets | 12.527 | 12.385 | 10.610 |
| Updated targets (following Provisional Settlement) | 8.544 | 11.454 | 11.000 |

3.3.3. Accordingly departments have developed a range of proposals, and these efficiencies are included in **Appendix A** of this report.

3.3.3.1. The efficiency proposals are categorised as follows:

Managerial – Efficiencies that result in no perceivable change to the overall level of service delivery but may in some instances affect quality of service provided

Policy – Efficiency or service rationalisation proposals that will directly affect service delivery.

| | 2018/19 £m | 2019/20 £m | 2020/21 £m |
|-----------------|---------------|---------------|---------------|
| Managerial | 5.225 | 3.417 | 2.471 |
| Existing Policy | 2.396 | 4.227 | 4.836 |
| New Policy | 725 | 1.393 | 902 |
| Total | 8.346 | 9.037 | 8.209 |

(Detail at **Appendix A**)

3.3.4. The summary sheet at Appendix A sets out the savings targets set for individual departments and the value of savings currently identified.

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. In the setting of the current financial year’s budget, a total sum of £2.515m was allocated to services, of which £0.88m was allocated to Communities and £1.027m to Environment.
- 3.4.3. The original budget outlook for 2018-19 and 2019-20 contained a sum of £3m per annum to meet growth pressures, and the same provision for growth is currently reflected in the 2020-21 indicative budget.
- 3.4.4. Initial growth bids of £6.3m have been submitted by departments for 2018-19, and the current strategy reflects the original provision of £3m being allocated to departments as follows:

| | £'000 |
|-----------------|-------|
| Chief Executive | 150 |
| Communities | 1,750 |
| Education | 350 |
| Environment | 750 |

Departments will need to prioritise their departmental allocation against their original submissions

Detail at Appendix B.

3.5. Schools Delegated Budgets

- 3.5.1. The last year of WG funding protection for schools was 2015/16, and whilst the Welsh Government provisional settlement makes no specific requirement for Local Authorities to protect school budgets, it does state *‘The school element of the settlement has been increased by £62 million in 2018-19. This ensures that we maintain the assumed Welsh Government share of core spending on schools at the level of 2017-18. In 2019-20 this rises to £108 million, reflecting our commitment to continued investment in education and to prioritise schools funding within a tighter overall settlement.’* However, whilst these statements are made it is unclear as to how these figures have been calculated and where the said money has come from given the overall reduction in the settlement.
- 3.5.2. The current budget strategy proposals adopted in February 2017 assumed no schools protection, and the effect on schools delegated budgets were:

| | |
|--|----------------|
| | 2018/19 |
|--|----------------|

| | £m |
|-----------------------------|----------------|
| Previous Year Budget | 108.746 |
| Validation | 2.326 |
| Savings requirement | -4.989 |
| Net Adjustment | -2.663 |
| Proposed Delegated Budget | 106.083 |

3.5.3 In light of the pressures on the school budgets and the lead in time required for the Education Department and the Senior Manager – TIC Schools Officer to deliver change, the proposed strategy for 2018-19 is not to reduce the schools delegated budgets.

3.5.4 The proposed schools budget for 2018-19 will therefore stand at £108.746m which is the same as 2017/18.

3.6. Internal Funding

3.6.1. 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.

3.6.2. 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 and political climate continuing
- Impact of BREXIT.
- Additional pressure on demand lead Services
- Indicative 'all Wales' figures for 2019-20 only have been provided by Welsh Government in respect of settlements therefore there remains the potential for significant change in the future settlements.
- No indicative figures for 2020/21

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

| | 1 st Apr 2017 £'000 | 31 st Mch 2018 £'000 | 31 st Mch 2019 £'000 | 31 st Mch 2020 £'000 |
|--------------------|--------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Schools Reserves | 1,710 | -365 | -690 | -940 |
| General Reserves | 9,304 | 7,598 | 7,598 | 7,598 |
| Earmarked Reserves | 74,132 | 32,056 | 26,878 | 17,233 |

3.6.4. **School Reserves**

3.6.4.1. 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.

3.6.4.2. Legislation allows schools to carry forward reserves from one financial period to another. The School Funding (Wales) Regulations 2010 requires schools to limit their accumulated reserves at year end to £50,000 for Primary Schools and £100,000 for Secondary and Special Schools or 5% of their budget dependant on what is greater. School Improvement officers are currently working with schools to ensure they comply with the guidance. As at 31st March 2017, 33 primary, 4 secondary and 1 special schools were in deficit and 8 primary and 4 secondary schools held surpluses in excess of the £50k/£100k threshold.

3.6.5. **General Reserves**

3.6.5.1. 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

3.6.5.2. The overall level of balances is taken into consideration each year when the annual budget is set and has on occasions been utilised to augment expenditure/reduce council tax. The 2017-2018 budget was set on the basis of no

transfers from the General Reserves. Based upon the August Budget monitoring (outlined in paragraph 3.1.2 above) there could be draw of £1,706k against General Reserves at the end of the current financial year.

3.6.5.3. 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.

3.6.5.4. Taking account of these changes the average level of the general reserves is forecasted to be around 2.2% of net expenditure during 2018/19 and consideration needs to be given to how these balances are built back up over future years.

3.6.6. Earmarked Reserves

3.6.6.1. 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 2017 £'000 | 31 March 2018 £'000 | 31 March 2019 £'000 | 31 March 2020 £'000 |
|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Insurance | 9,945 | 9,795 | 9,845 | 9,895 |
| Capital Funds | 40,756 | 10,579 | 8,146 | 86 |
| Development Fund | 1,514 | 636 | 836 | 1006 |
| IAG/OAG | 9 | 0 | 0 | 0 |
| Corporate Retirement Fund | 2,842 | 2,069 | 1,296 | 506 |
| Joint Ventures | 1,168 | 647 | 782 | 917 |
| Other | 17,898 | 8,331 | 5,974 | 4,824 |
| TOTAL | 74,132 | 32,056 | 26,878 | 17,233 |

3.6.6.2.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

3.6.6.3.The budget proposals therefore assume nil contribution from reserves in support of the revenue budget in 2018/19 and a further analysis of the reserves held will be undertaken over the coming months with any further proposed utilisation being considered at the budget finalisation stage.

3.6.6.4.Taking account of the proposals within this report, the Director of Corporate Services confirms that overall the estimated level of financial reserves (as indicated above) is adequate for the financial year 2018/19, with the General Reserves being at the minimum that could be supported. However the Director is very conscious of the ongoing commitment to capital projects and of the demand on future services and therefore feels the reserves will need to be monitored closely going forward.

4. IMPACT ON THE AUTHORITY'S BUDGET STRATEGY

The table below provides an updated position on the current financial outlook taking account of the provisional settlement and also other recent validation changes.

4.1. Current Financial Outlook (updated for the Provisional Settlement):

| | Current MTFP | | Proposed Financial Model | | |
|--------------------------------------|------------------|------------------|--------------------------|------------------|------------------|
| | 2018/19 £'000 | 2019/20 £'000 | 2018/19 £'000 | 2019/20 £'000 | 2020/21 £'000 |
| Previous Year's Budget | 334,401 | 333,102 | 334,401 | 343,937 | 344,003 |
| General Inflation | 2,248 | 1,877 | 2,317 | 1,838 | 1,864 |
| Pay Inflation | 5,079 | 5,095 | 4,784 | 5,095 | 4,908 |
| Other | 1,199 | 1,399 | 907 | 1,588 | 1,270 |
| Growth | 3,000 | 3,000 | 2700 | 3,000 | 3,000 |
| Transfers In/out | | | 7,371 | | |
| Original & approved PBB Proposals | -12,525 | -12,385 | -8,543 | -11,455 | -11,000 |
| Net Expenditure | 333,102 | 332,087 | 343,937 | 344,003 | 344,045 |
| Revenue Settlement | -247,133 | -242,190 | -257,960 | -254,091 | -249,009 |
| Council Tax Receipts | -85,969 | -89,897 | -85,977 | -89,912 | -95,036 |
| Council Tax Increase: | 4.12% | 3.88% | 4.12% | 3.88% | 5.00% |

4.2. The total cost reductions now required for 2018/19 is £8.5m and for the 3 year period are estimated at £31m.

5. CONSULTATION

Budget consultation has been planned for the coming months and a summary of the individual approaches are as follows:

- 5.1.** Members seminars. (November and December 2017)
- 5.2.** The consultation process will commence online from the 27th November 2017.
- 5.3.** Town & Community Councils and commercial ratepayers consultation in December 2017.
- 5.4.** Consultation with Scrutiny Committees during December 2017 and January 2018.
- 5.5.** 'Insight' youth conference in November 2017.
- 5.6.** Consultation with the Schools Budget Forum in December 2017

5.7. Trade Union Consultation December 2017/January 2018

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:

- Looking at the long-term so that we do not compromise the ability of future generations to meet their own needs
- Understanding the root causes of the issues to prevent them recurring
- Taking an integrated approach so that we look at all well-being goals and objectives of other services and partners
- Collaboration – Working with others in a collaborative way to find shared sustainable solutions
- Involving a diversity of population in decisions that affect them

6.3. Carmarthenshire’s Well Being objectives:

Start Well

1. Help to give every child the best start in life and improve their early life experiences
2. Help children live healthy lifestyles
3. Continue to improve learner attainment for all
4. Reduce the number of young adults that are Not in Education, Employment or Training

Live Well

5. Tackle poverty by doing all we can to prevent it, help people into work and improve the lives of those living in poverty
6. Create more jobs and growth throughout the county
7. Increase the availability of rented and affordable homes

8. Help people live healthy lives (tackling risky behaviour and obesity)
9. Support good connections with friends, family and safer communities

Age Well

10. Support the growing numbers of older people to maintain dignity and independence in their later years
11. A Council wide approach to support Ageing Well in Carmarthenshire

In a Healthy and Safe Environment

12. Look after the environment now and for the future
13. Improve the highway and transport infrastructure and connectivity
14. Promote Welsh Language and Culture

7. CONCLUSION

- 7.1. Currently the budget proposals assume the full delivery of all of the £25.6m savings proposals submitted, together with the identification and delivery of the shortfall in savings proposals of £0.198m in 2018-19, £2.4m in 2019-20 and £2.7m in 2020-21.
- 7.2. Further cost reductions need to be identified to deliver a balanced budget in each of the three years
- 7.3. The current budget proposals assume a Council Tax increase in line with the original MTFP of 4.12% in 2018-19, 3.88% in 2019-20 and 5.00% in 2020-21. A 1% movement in the Council Tax rise equates to +/-£820k

8. RECOMMENDATION

- 8.1. Note the contents of the report and approve as a basis for consultation on the three year budget strategy 3 year Budget Strategy and approve as a basis for consultation, and specifically seek comments from consultees on the efficiency proposals in Appendix A.
- 8.2. Give consideration as to what additional savings proposals can be identified to deliver a balanced budget in each of the three financial years