

**REPORT OF DIRECTOR OF CORPORATE SERVICES**  
**ENVIRONMENTAL & PUBLIC PROTECTION SCRUTINY**  
**COMMITTEE**

**11<sup>th</sup> December 2015**

**REVENUE BUDGET STRATEGY 2016/17 to 2018/19**  
**(Copy of Executive Board report 16/11/15)**

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## **1. INTRODUCTION**

**1.1.** Executive Board in September 2015 received a report on the Revenue Budget Outlook for 2016/17 to 2018/19 which appraised members of the financial outlook and the proposals for taking forward the budget preparation for the three year period.

**1.2.** Due to the lateness of the outcome of the Comprehensive Spending review, the current timetable for the announcement of the Provisional and Final Settlements are as follows:

- Comprehensive spending review due 25<sup>th</sup> Nov 2015.
- Welsh Government (WG) setting provisional budget 8<sup>th</sup> December 2015
- Provisional Local Government Settlement 9<sup>th</sup> December 2015
- WG publish final budget 1<sup>st</sup> March 2016
- WG Publish Final Local Government Settlement 2<sup>nd</sup> March 2016
- WG move Final Welsh Budget 2016-17 for debate 8<sup>th</sup> March 2016
- WG Move Final Settlement for Debate 9<sup>th</sup> March 2016
- Indicative deadline for Authorities to set Council Tax for 2016/17 financial year: 10<sup>th</sup> March 2016

- 1.3. Accordingly therefore, this report provides Members with the current view of the Revenue Budget for 2016/2017 together with indicative figures for the 2017/2018 and 2018/2019 financial years. The report is based on officers projections of spending need and potential settlement with no forward indicators being provided by WG. It also reflects the current departmental submissions for savings proposals.
- 1.4. 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 the budget will be further developed as figures are reviewed, and the settlement becomes known.
- 1.5. 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. As outlined in paragraph 1.2 the Welsh Government will not be setting their own provisional budget until 8<sup>th</sup> December 2015, so it will be the 9<sup>th</sup> December 2015 before the provisional settlement will be announced. Despite the announcement of the Comprehensive Spending Review, it is understood that is the Welsh Governments intention to provide figures for 1 year only i.e. 2016/17.
- 2.2. In the absence of indicative Aggregate External Funding figures from Welsh Government the base model reflects 3.3% reductions in each of the three years. This is based on the letter received from Welsh Government in June 2014 suggesting that it would be prudent to assume that the current trends in Local Government funding will continue. It remains difficult to predict what the final outcome will be from the current spending review and how WG chose to allocate the funds available to them between Health and Local Government. As a guide each 1% reduction in funding equates to some £2.5m.
- 2.3. For Carmarthenshire a 3.3% reduction in the provisional settlement equates to £8.3m.
- 2.4. 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.

- 2.5. 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

### 3. BUDGET REQUIREMENT 2016-2017

#### 3.1. Current Years performance (2015/2016)

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 2015/16 (based on the August 2015 monitoring) is as follows

Service	Approved Budget £'000	Total Expenditure Forecast £'000	Variance Forecast For Year £'000
Chief Executive	10,600	11,178	578
Education and Children's Services	159,427	160,476	1,049
Corporate Services	22,914	22,799	-115
Communities	90,856	91,500	644
Environment	45,598	45,749	151
<b>Departmental Expenditure</b>	<b>329,395</b>	<b>331,702</b>	<b>2,307</b>
Cont from Dept/Earmarked Reserves		-1,121	-1,121
Capital Charges	-3,535	-4,535	-1,000
Pensions Reserve Adjustment	-5,085	-5,085	0
Levies and Contributions	9,214	9,214	0
Outcome Agreement Grant	-570	-570	0
Transfer to/ from Reserves	-1,198	-1,198	0
<b>Net Expenditure</b>	<b>328,221</b>	<b>328,407</b>	<b>186</b>

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 some £1.5 m of the original proposals for 2015-16 are at risk of not being delivered/not being delivered in full:

The Education and Children's Services department is facing pressure due in the main to school based EVR and redundancy costs, and whilst the department can meet the bulk of these pressures through a transfer from its departmental reserves in the current year, this will not be available in future years.

The Authority is currently forecasting a variance of £186k at the year-end that will have to be met from General Balances.

In considering next year's budget, the current strategy assumes that departments will actually deliver/make good those savings proposals adopted for 2015/16 by the commencement of the next financial year.

### 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>2016/17</u> <u>Original</u>	<b><u>2016/17</u></b> <b><u>Proposed</u></b>	<b><u>2017/18</u></b>	<b><u>2018/19</u></b>
General inflation	1.8%	0.6%	1.4%	1.8%
Electricity	5.0%	3.0%	3.0%	3.0%
Gas	5.0%	3.0%	3.0%	3.0%
Fuel	5.0%	-12.5%	3.0%	3.0%
Pay Inflation - non teaching	1.5%	1.0%	1.0%	1.0%
Pay Inflation - Teaching	1.5%	1.0%	1.0%	1.0%
Levies	0.0%	0.0%	0.0%	0.0%
Pension Contributions	£291k	£297k	£309k	£312k
Teachers Superannuation	£575k	£575k		
Employers NI Changes	£3,700k	£4,100k		
Auto Enrolment			£1,600k	
Capital Charges	£250k	-	£250k	£250k
<b>Main service Specifics:</b>				
County Elections	£70k	£70k	£230k	-£300k
Adj to pay scales starting salary	£118k	£118k	-	-

3.2.2. 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.

3.2.3. The most significant specific validations over the three year period remain the changes in the Employers NI rates from April

2016, when defined benefit contracting out will be abolished. The consequence of this is that contracted out employers will stop receiving National Insurance rebate and instead pay the same NI rate as all other employers.

- 3.2.4. 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.
- 3.2.5. In line with the Chancellors announcement relating to Public Sector pay, the Budget as constructed makes provision for an annual pay award of 1% in each of the financial years.
- 3.2.6. Whilst recognising that we meet the national Living Wage requirement in year 1, it should be recognised that the MTFP makes no provision for further increases above the assumed inflation rises for future years.
- 3.2.7. In total, validation adds £7.8m to the current year's budget.

### 3.3. Cost reduction Programme

- 3.3.1. In anticipation of the unprecedented reductions in this settlement round, significant work in identifying further service efficiencies/rationalisation proposals has been undertaken. Accordingly departments have developed a range of proposals, and these efficiencies are included in **Appendix A** of this report.

3.3.1.1. 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.

	2016/17 £m	2017/18 £m	2018/19 £m
Managerial	6,307	3,347	2,357
Existing Policy	554	806	300
New Policy	6,835	7,418	8,302
<b>Total</b>	<b>13,696</b>	<b>11,571</b>	<b>10,959</b>

(Detail at **Appendix A**)

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

identified. Work is still on-going within services departments to identify further proposals so that their targets are met in each of the financial years.

- 3.3.3. As in the previous budget round, an exercise is being undertaken to obtain 'expressions of interest' from staff who may be interested in voluntary severance/early retirement as well as other flexible working options. Managers are currently considering the applications received to identify those that can contribute to the budget strategy.

### **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 £4.9m was allocated to services, of which £4.1m was allocated to Social Care.
- 3.4.3. The original budget outlook for 2016-17 and 2017-18 contained a sum of £3m per annum to meet growth pressures, and the same provision for growth is currently reflected in the 2018-19 indicative budget.
- 3.4.4. Initial growth bids of £3.7m have been submitted by departments against this sum of £3m in relation to 2016-17. Detail at Appendix B
- 3.4.5. No prioritisation or allocation of the £3m contained within the budget proposals has been made at this stage. This will be considered at the budget finalisation stage.

### **3.5. Internal Funding**

- 3.5.1. 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.

3.5.2. In deliberating this point however, members must bear in mind any **inherent risks** that may be built into the budget strategy. These include:

- Final WG budget not being published until 2<sup>nd</sup> March 2016, and Final Settlement not being moved for debate until 9<sup>th</sup> March 2016
- 2015 Challenging Efficiency targets
- Future inflation/interest rates
- Current economic climate continuing
- Additional pressure on demand lead Services
- No indicative figures for future year's settlements have been provided by Welsh Government therefore there is the potential for the overestimation of the future settlements.

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

	1 <sup>st</sup> Apr 2015 £'000	31 <sup>st</sup> Mch 2016 £'000	31 <sup>st</sup> Mch 2017 £'000	31 <sup>st</sup> Mch 2018 £'000	31 <sup>st</sup> Mch 2019 £'000
Schools Reserves	3,940	1,801	1,201	351	0
General Reserves	8,500	8,245	8,245	8,245	8,245
Earmarked Reserves	72,002	52,476	45,301	38,261	40,153

### 3.5.4. School Reserves

3.5.4.1. 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.

3.5.4.2. 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 31<sup>st</sup> March 2015, 22 schools were in deficit and 23 schools held surplus balances in excess of the £50k/£100k threshold.

### 3.5.5. General Reserves

3.5.5.1. 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

3.5.5.2. 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. Whilst the 2016-2017 budget was set on the basis of a transfer of £138k from General Reserves, with the October monitoring forecasting and end of year overspend, there could be draw of £324k.

3.5.5.3. 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.

3.5.5.4. Taking account of these changes the average level of the general reserves is forecasted to be around 2.5% of net expenditure during 2016/17.

**3.5.6. Earmarked Reserves**

3.5.6.1. 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:

<b>Reserve</b>	<b>31 March 2015</b>	<b>31 March 2016</b>	<b>31 March 2017</b>	<b>31 March 2018</b>	<b>31 March 2019</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Insurance	9,625	9,425	9,225	9,225	9,225
Capital Funds	28,063	21,386	21,331	16,834	19,187
Development Fund	899	304	440	637	816
IAG/OAG	3,246	1,328	1,328	1,328	1,328
Corporate Retirement Fund	4,158	2,766	971	0	0
Joint Ventures	1,591	1,760	1,940	2,120	2,300
Other	24,420	14,507	10,066	8,117	7,297
<b>TOTAL</b>	<b>72,002</b>	<b>52,476</b>	<b>45,301</b>	<b>38,261</b>	<b>40,153</b>

3.5.6.2.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

3.5.6.3.The budget proposals assume a sum of £200k per annum being transferred from the Insurance Reserve to support the revenue budget in 2016/17 and 2017/18.

3.5.6.4.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.

3.5.6.5.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 2016/17, with the General Reserves being at the minimum that could be supported.

#### **4. IMPACT ON THE AUTHORITY'S BUDGET STRATEGY**

- 4.1. The table below provides an updated position on the current financial outlook taking account of our projection for the provisional settlement and also other recent validation changes, including the latest pay offer made by the national employers.
- 4.2. As previously referred to in the report, no indicative or provisional settlement figures have been provided by Welsh Government for 2016-17 as yet, and therefore the estimated figures included in the financial model are only based on officers current projections.
- 4.3. Current Financial Outlook (updated for the Provisional Settlement):

	Current MTFP		Financial Model		
	2016/17 £'000	2017/18 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
<b>Previous Year's Budget</b>	<b>329,991</b>	<b>324,969</b>	<b>329,991</b>	<b>324,967</b>	<b>321,271</b>
General Inflation	1,831	2,095	665	1,745	2,027
Pay Inflation	2,961	2,868	2,263	2,270	2,246
Other	4617	1,582	-582	-140	0
Growth	3,000	3,000	3,000	3,000	3,000
Teachers Superannuation			575		
Employers NI/Auto Enrolment			4100	1600	
Original & approved PBB Proposals	-18,201	-13,811			
Net Expenditure	324,199	320,703	340,012	333,442	328,544
Revenue Settlement	-244,149	-236,093	-244,149	-236,093	-228,302
Council Tax Receipts	-80,050	-84,610	-80,051	-84,607	-89,421
<b>Shortfall</b>	<b>0</b>	<b>0</b>	<b>-15,812</b>	<b>-12,742</b>	<b>-10,821</b>
Savings Proposals to date			-13,696	-11,571	-10,959
<b>Balance / To be identified</b>			<b>-2,116</b>	<b>-1,171</b>	<b>138</b>

4.4. The total cost reductions now required for 2016/17 is £15.8m and for the 3 year period are estimated at £39.4m.

4.5. Over the three years there is currently a shortfall of £3.1m if all the savings proposals identified are delivered, of which £2.1m relates to 2016/17.

## 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 2015)

5.2. The consultation process will commence online from the 18<sup>th</sup> November 2015.

5.3. The public and commercial ratepayers consultation will be supported by roadshows across the county as follows:

Wednesday 25 November:

11am – 2pm Carmarthen Market outside Clock Tower

4pm – 6pm – Carmarthen Leisure Centre

Friday 4 December

11am – 1pm - Ammanford Market

4pm – 6pm – Tesco, Ammanford

Thursday 10 December

11am – 2pm - St Elli Shopping Centre, Llanelli

3pm – 6pm Llanelli Library

- 5.4. Consultation with Scrutiny Committees during November and December
- 5.5. 'Insight' youth conference in November 2015.
- 5.6. Consultation with the Schools Budget Forum in November 2015
- 5.7. Trade Union Consultation December 2015/January 2016

## 6. CONCLUSION

- 6.1. Currently there is a shortfall of £3.1m over the three financial years, assuming delivery of all of the £36.2m savings proposals currently submitted.
- 6.2. Further cost reductions need to be identified to deliver a balanced budget in the first two financial years
- 6.3. The current budget proposals assume a Council Tax increase of 5% in each financial year. A 1% movement in the Council Tax rise equates to +/-£760k

## 7. RECOMMENDATION

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