

REPORT OF DIRECTOR OF CORPORATE SERVICES

EXECUTIVE BOARD

29th July 2019

REVENUE BUDGET OUTLOOK 2020/21 to 2022/23

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1. PURPOSE OF REPORT

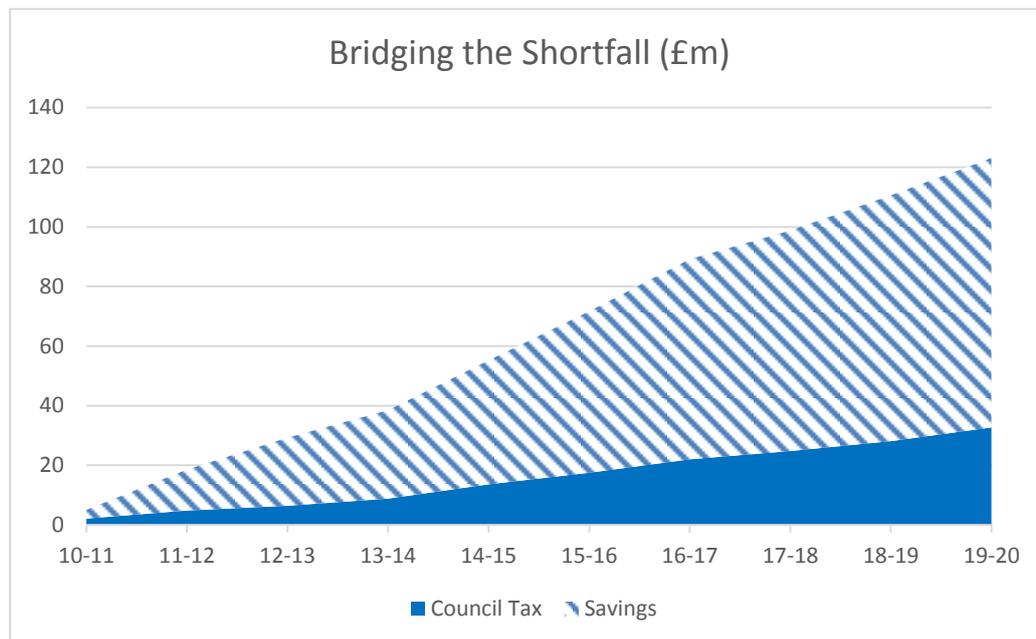
The purpose of this report is to:

- 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 2019 and was based on estimates of known commitments at that time, and formulated in the context of the Welsh Government (WG) financial settlement for 2019/20 with no indications of future years' settlements available.
- 2.2. In stark contrast to the Chancellor's 2018 autumn statement that, "Austerity is coming to an end", Welsh local authorities' 2019-20 budgets have been put under further pressure, requiring more cuts and asking citizens to bear unprecedented council tax increases. Successive Welsh Government budgets have either cut Local Authority funding or failed to meet unavoidable inflationary pressures. This Authority has already met a £120 million funding shortfall over the last decade through a combination of £90 million

budget reductions and £30 million of council tax increases, as shown in the chart below:



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. The perennial rise of social care demand has been joined in recent years by significant wage and pension cost increases as well as increased support required for learners with additional learning needs.

2.4. In spite of this, the Authority has maintained its financial standing at a prudent level. Most 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 2.9% 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. As highlighted in the subsequent paragraphs, the overarching picture is one of multiple layers of uncertainty. It is exceptionally difficult to make robust multi-year financial plans, as is required of Local Authorities, when the most important planning assumptions are not provided by both Welsh and Westminster governments.

NATIONAL CONTEXT

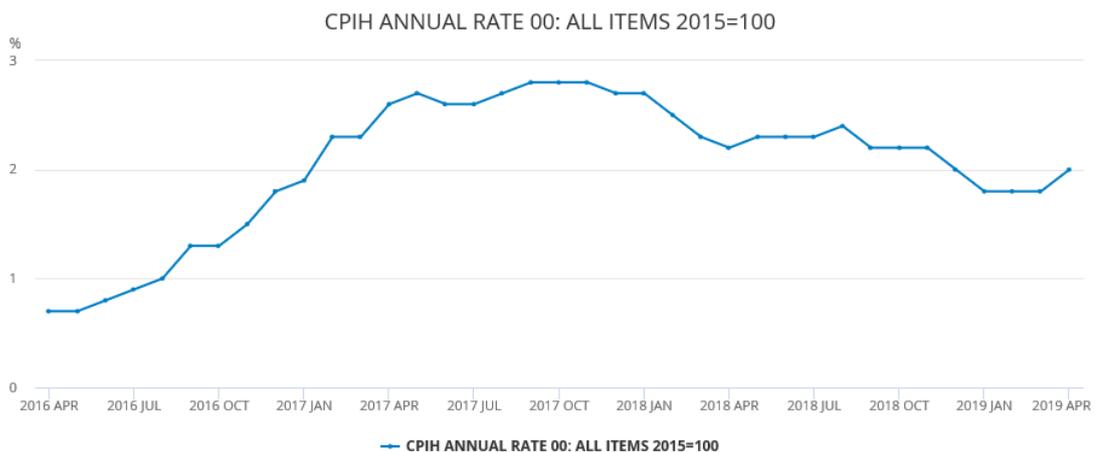
3.2. At the time of County Council approving the 2019-20 budget, the greatest uncertainty was the impact on public sector finances of the

nature of the UK’s Exit from the European Union. Whilst this remains the case, the resignation of the Prime Minister and ensuing Conservative leadership election has inevitably delayed any hope of further clarity in the near term.

A Westminster Comprehensive Spending Review (CSR) was scheduled to take place in the latter part of 2019. This would have impacted on the level of Welsh Government funding for devolved functions under the Barnett Formula in future years, and in addition was expected to provide some certainty of funding for the recent increased employer costs of unfunded public sector pension schemes. In addition, the pensions risk is of particular concern, as Carmarthenshire’s estimate of Teacher and Firefighter pensions increased costs (impact on the Fire Authority levy) for 2020-21 is nearly £5 million, if not met centrally by government departments.

3.3. The Comprehensive Spending Review is itself now in doubt. In recent months, observers have suggested that it could only be a one year settlement, with Liz Truss, Chief Secretary to the Treasury, saying in early June that it was “unlikely” to be undertaken. This is also likely to delay any changes to English Council’s funding formula, despite high profile events such as Northamptonshire’s Section 114 notice last summer.

3.4. Recent Office for National Statistics (ONS) figures confirm that public sector borrowing for 2018-19 has dropped to its lowest level since 2002, and inflation has reverted back towards the Bank of England target of 2%, though this again will be highly sensitive to Brexit. Below provides details of the movements in the CPIH for the last three years.



Source:

(CPIH is a measure of the annual rate of UK consumer price inflation that includes owner occupiers’ housing costs).

WELSH GOVERNMENT FUNDING

- 3.5.** In addition to the future decisions regarding public spending to be taken by the Westminster Government, as outlined above, there remains a lack of clarity from WG as to future settlements. There is some suggestion of a possible default “rollover” cash neutral budget for 2020-21, although this remains purely speculative at present. WG’s budget process is substantially later than normal, with their Draft Budget on 10 December and Final Budget on 3 March. Given that Local Authority settlements are received typically up to a week after, this means the Authority will need to prepare a draft budget based on the best available information in November, and is likely to be challenging in terms of meeting statutory deadline for Council tax setting of 10 March 2020.
- 3.6.** Research carried out by Cardiff University suggests that Local Authority settlements may continue to be squeezed by Welsh Government. This is predicated on possible 3%+ NHS funding increases being required, and no changes made to income tax bandings.
- 3.7.** Executive Board should note in particular the level of risk surrounding schools funding. For the 2019-20 budget, WG has provided temporary funding only for the recurrent pressure of teachers pay increases. In addition, delegated schools budgets have been bolstered by professional development funding, currently for one year only. For the first time, WG will have devolved responsibility for agreeing the September 2019 teachers pay award. At the time of writing, there appears to be an indication that Teachers will be offered an award of 2.75% which is greater than what has been modeled and assumed previously.

FUNDING PRIORITIES

- 3.8.** In February 2018, County Council endorsed the Executive Board’s plan for Moving Forward in Carmarthenshire over the next 5 years. This document sets strategic priorities and aspirations and will underpin the key policy decisions to be taken in the development of the Medium Term Financial Plan. The Financial Planning timetable is attached in Appendix A.

4. CURRENT FINANCIAL OUTLOOK / FINANCIAL MODEL

- 4.1.** The current MTFP was prepared with an assumed 1% reduction per in the WG settlement in 2020/21 and 2021/22.
- 4.2.** In line with informal indications of a “rollover” budget, combined with previous years’ settlements being less negative than forecasted, it is reasonable to soften the above assumption. Carmarthenshire’s settlement is typically below average (driven by key population and

service funding indicators), therefore the assumption is revised to a 0.5% reduction. In addition, we will build in a sensitivity of +/- 1%, which equates to either a c.£2.6m difference in either WG settlement or an equivalent value of unfunded pay and/or pension pressures.

- 4.3. Service specific grants currently account for around £100 million and it is assumed that EITHER, further reductions are contained within the AEF reduction above, OR that activity/expenditure is reduced in line with grant funding.

As highlighted in the paragraphs above, of particular concern are the grants for teachers pay and pensions, for which no future certainty has been provided.

- 4.4. As for all councils, the treatment of delegated school budgets has a significant impact on the scale of savings proposals across every other service area. During 2018-19, aggregate school balances decreased by nearly £2 million, despite an unplanned funding award of nearly £0.5 million late in the year. Given this, it is proposed to maintain the previous year’s approach of cash neutral funding for the delegated school budget. As a consequence of validation, it is recognised this will require savings to be made in respect of the schools budget. Like other areas of Council services, schools will be expected to deliver this through a combination of efficiency measures (implemented by individual schools, with support available from the Council’s TIC programme) as well as some efficiencies in the overall schools estate.
- 4.5. The previous pay settlement for NJC staff has now expired. The financial model reflects future pay awards at a steady 2% per annum, in the absence of any greater clarity. This assumes no further significant increases to the lower scales as the lowest grades now exceed the national living wage.
- 4.6. The 5 year capital plan was approved by Council in February 2019, however it is recognised that there may be further schemes the council wishes to pursue for which additional funding would be required. A “gap analysis” is currently being undertaken.
- 4.7. Validation assumptions for the three years have been revisited and are currently:

	Financial Model		
	2020-21	2021-22	2022-23
	%	%	%
Expenditure Inflation	2.0	2.0	2.0
Income Inflation	2.0	2.0	2.0
Pay Awards	2.0	2.0	2.0
Employers Pension	0.2	0.2	0.2

Rates			
Fuel	5.0	5.0	5.0
Energy Costs	5.0	5.0	5.0
Capital charges	£250k	£500k	£500k

4.8. Service Pressures:

The financial model has historically assumed growth pressures across the Authority of £3m per annum for each of the three years. The initial growth bids submitted by departments for 2020-21 are higher than ever and exceed £10m, and therefore this figure is increased to £4m for planning purposes. No account has been taken of any new legislative pressures.

Over the MTFP period, there are likely to be additional funding requirements in respect of the City Deal projects. These include both interest costs (as it is forecasted they will exceed the business rates retention deal agreed with WG) and additional staffing costs. These will need to be addressed within the individual business case appraisals before their commencement, and as such it is not anticipated these will impact upon 2020-21 budgets.

4.9. The modelling is based on Council Tax increases of 4.89% each year, in line with the MTFP indicative figure approved in February 2019 and an assumption this is repeated for 2022-23, purely for planning purposes.

4.10. 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		
	2020/21 £'000	2021/22 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Previous Year's Budget	351,314	353,793	351,314	355,093	359,167
General Inflation	2,208	2,237	2,649	2,379	2,418
Pay Inflation	4,781	4,262	4,546	4,702	4,792
Other	2,028	1,139	1,109	1,374	1,202
Growth	3,000	3,000	4,000	4,000	4,000
Original & approved PBB Proposals	-7,742	-7,155	-7,742	-7,155	0
Net Expenditure	353,793	356,585	355,093	359,167	363,369
Revenue Settlement	257,785	255,207	259,087	257,791	256,502
Council Tax Receipts	96,008	101,378	96,007	101,376	106,867
Shortfall	-1,797	-1,326	-782	-976	-7,960

Sensitivities for 2020-21 as outlined in paragraph 4.2 above could result in either an increased shortfall of £3.4m, or a surplus of £1.8m

4.11. Key points:

4.11.1. We are looking at requiring cumulative reductions of £25m over the three years, even after allowing for a cumulative increase in council tax over the three years of 15%.

4.11.2. 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 £293 million.

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

	2020-21	2021-22	2022-23
	£'000	£'000	£'000
Chief Executive	492	492	474
Schools Delegated Budget	2,593	2,452	2,501
Education & Children	1,029	1,029	991
Communities	2,814	2,813	2,708
Corporate Services	205	205	197
Environment	1,391	1,391	1,339
	8,524	8,381	8,210

5. SENSITIVITY ANALYSIS

- 5.1. 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.
- 5.2. 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%	£2.7m
General inflation	1% (expenditure only)	£2.6m
General inflation	1% (income only)	-£1.5m
WG Settlement	1%	£2.6m
Specific Grants	1%	£1.0m
Council Tax	1%	£0.96m

- 5.3. The following table illustrates the scale of the impact on departmental savings targets in 2019-2020 if some of the movements outlined above materialised (Tables do not reflect a cumulative effect) :

Department	1% change in WG settlement	1% change in Council Tax Increase	Increased schools protection – i.e. meet inflationary pressures centrally
	£'000s	£'000s	£'000s
Chief Executive	+/-215	+/-80	-215
Schools Delegated Budget	0**	0**	2,593
Education & Children	+/-450	+/-167	-450
Communities	+/-1,229	+/-455	-1,230
Corporate Services	+/-90	+/-33	-90
Environment	+/-608	+/-225	-608
	+/-£2.6m	960	0

** Based on assumption that “cash neutral” approach is maintained

- 5.4. The Budget modelling will be monitored and refined as the likely position becomes clearer.

6. TAKING THE WORK FORWARD

There are a number of strands to develop in bringing about change to ensure we achieve balanced budgets:

- 6.1. 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.
- 6.2. 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, recognising that prioritising in one area unavoidably leads to difficult choices elsewhere;
- 6.3. 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;
- 6.4. 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.
- 6.5. All of the above will involve:
 - 6.5.1. Consideration of alternative delivery models/providers;
 - 6.5.2. Acceptance of lower performance/reduction/cessation in some areas as an acceptable price to prioritise/protect others;
 - 6.5.3. Consideration of alternative and perhaps as yet untapped sources of finance;
 - 6.5.4. Some analysis of the cost/benefit equation of what we currently do and what we would propose to do.
 - 6.5.5. Council will need to implement measures in 2019-20 to increase as far as possible its options in respect of the 2020-21 budget setting process. The aims of these measures would be to partially mitigate the risk of the

council not achieving a balanced budget for 2019-20 and would need to be undertaken following consultation with members.

- 6.6.** 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.

7. BUDGET PREPARATION FOR 2020/21

- 7.1.** The financial model tabled above will be updated as and when more information becomes available, key amongst which will be any further information forthcoming regarding the provisional settlement (expected from WG in December of 2019), depending on the Westminster CSR process.

- As part of the current Medium Term Financial Plan, Departments are requested to update their efficiency/service rationalisation proposals for 2020-21 and 2021-22 and to bring forward their proposals for 2022-23. To support the process, the Departmental service Director will challenge/draw up the cost reduction proposals in conjunction with the Executive Board portfolio member. 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.

- 7.2.** Member seminars on budget proposals to be convened in November/December 2019, to allow all members time to review options required to achieve a sustainable MTFP. Member engagement will be crucial at these events.

- 7.3.** Public consultation on the budget proposals to commence in November 2019, 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.

- 7.4.** Scrutiny Committees consultation in December 2019/January 2020

8. RECOMMENDATION(S)

It is recommended that:

- 8.1.** 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;
- 8.2.** Executive Board endorse the proposed approach to identifying the required savings
- 8.3.** Executive Board note the proposed approach to the budget consultation