

REPORT OF DIRECTOR OF CORPORATE SERVICES

Executive Board

24th February 2020

REVENUE BUDGET STRATEGY 2020/21 to 2022/23

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1. INTRODUCTION

1.1. Executive Board in January 2020 considered and endorsed the Revenue Budget Strategy 2020/21 to 2022/23 for consultation. The report indicated, after taking account of the provisional settlement, a council tax increase of 4.89% in 2020/21. The Executive Board in endorsing the report for consultation resolved

‘that the contents of the budget report be noted and the 2020/21 to 2022/23 budget strategy be approved as a basis for consultation, specifically seeking comments from consultees on the efficiency proposals detailed in appendix A to the report’.

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

- Budget Consultation Results
- The Medium Term Spending Plans
- Implication on Council tax for 2020/2021.

The final proposals have endeavoured to meet the aspirations of the Authority, whilst recognising the continued squeeze on public finances. They address specific pressures in certain service areas whilst seeking to balance the impact on service delivery and local taxpayers.

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 provisional settlement was more favourable than expected, it remains the case that it falls far short of the financial pressures facing Local Government. This equates to a real term reduction which continues to make the budget process extremely difficult. Yet again, decisions have had to be made in respect of prioritisation of services and the inclusion of further 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 6th January 2020, with the groups and committees being invited to comment in the following manner:-

- Public Consultation
- Town and Community Councils
- School Budget Forum
- Schools Insight Day
- Member Seminars
- Scrutiny Committees
- Trade Union Meetings

2.2. A detailed report on the consultation results for each of the above is attached at **Appendix A**.

3. BUDGET REQUIREMENT 2020/21

3.1. Current Year Performance (2019/20)

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 2019/20 (based on the December 2019 monitoring) is as follows:

Service	Approved Budget £'000	Total Expenditure Forecast £'000	Variance Forecast For Year £'000
Chief Executive	15,480	15,183	-297
Communities	97,736	98,415	679
Corporate Services	25,896	25,263	-633
Education and Children	166,860	170,797	3,937
Environment	55,861	56,230	369
Departmental Expenditure	361,834	365,889	4,055
Capital Charges	-20,497	-21,897	-1,400
Levies and Contributions	9,976	9,976	0
Transfer to/ from Reserves	0	96	96
Net Expenditure	351,313	354,064	2,750

The main reasons for the departmental overspends are as follows:

- Communities Department: continued pressure on adult services impacting on residential care, domiciliary care and direct payments budgets
- Education and Children's Services: Significant overspends forecast on individual school budgets, as well as further pressure on SEN/ALN provision, EOTAS and school based EVR and redundancy costs, and a shortfall in the Music Service SLA income from schools.
- Environment Department: the overspends are primarily due to increases in ALN pupils transport costs and a shortfall in planning application income.

The Authority is currently forecasting a variance of £2.750m at the year-end that will have to be met from balances.

3.1.3. 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 Education and Schools being considered currently as being the most significant issues.

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. Recorded CPI inflation dropped through 2019, reaching 1.5% in December 2019. The Office of Budget Responsibility is forecasting a return to 2.0% during the next financial year, though many commentators have highlighted the increased risk of inflation due as a result of Brexit. Given the scale of current uncertainty, the inflation factors for 2020/21 have been retained at the same level as reported in the draft budget.

	<u>2020/21</u> <u>Original</u>	2020/21 Proposed	<u>2021/22</u>	<u>2022/23</u>
General inflation	2.0%	2.0%	2.0%	2.0%
Electricity	5.0%	5.0%	5.0%	5.0%
Gas	5.0%	5.0%	5.0%	5.0%
Fuel	5.0%	5.0%	5.0%	5.0%
Pay Inflation - non teaching	2.0%	2.75%	2.75%	2.75%
Pay Inflation - Teaching	2.0%	2.75%	2.75%	2.75%
Levies	2.9%	5.7%	2.5%	2.5%
Pension Contributions	£209k	nil	nil	nil
Capital Charges	£250k	£250k	£500k	£500k

3.2.3. When considering changes to the final budget, members should note that the validation is applied not only to expenditure but income.

3.2.4. The Capital charges estimate reflects the current policy and the 5 year Capital Programme elsewhere on the agenda, including the continued delivery of the Council's Modernising Education Programme as well as significant investment in the coming years as part of the Swansea Bay City Region.

3.2.5. The Swansea Bay City Region is responsible for 11 projects and is reliant upon £241m of UK and Welsh Government Funding. During 2018/19 a joint agreement was approved by all four Local Authorities and a Joint Committee was created. The principle behind the funding structure of the City Deal is that

each Local Authority will be required to borrow the value of the funding allocated to their project and the UK and Welsh Government will repay this debt over a 15 year period. The County Council is the accountable body for the City Deal as whole but also has ownership of three projects: Yr Egin; the Wellness and Life Science Village; Skills and Talent programme; and Digital Infrastructure – the last two being regional projects.

Welsh Government has approved the project business case for Yr Egin and released funding in respect of this project. The Wellness and Life Science Village project business case is near completion and is expected to be submitted to Welsh Government in the coming months.

The value of the City Deal funding has been included within the Capital Programme, as the County Council will be required to borrow against these schemes. Whilst the Government funding is not providing any resources for the interest of the borrowings, the Budget Strategy assumes that there will not be any call on the County Council budgets as the Business Case will provide for such costs in full. It should however be recognised that an agreement has been reached with WG that the Local Authorities will be able to retain 50% of the additional NNDR yield that accrues from the City Deal Projects, the distribution basis is yet to be formally agreed by the Joint Committee.

- 3.2.6. The most significant uncertainty in the budget relates to pay costs for staff on NJC terms and conditions. At this time last year, the budget report highlighted the cost of implementing the nationally agreed pay award, including the implementation of a new pay spine. The current, as yet unreconciled positions are an Employers' offer of 2% against a Union Pay Claim of 10% - when added to other elements of the claim this equates to an overall cost approximating to around 15%. The recent increase to the National Living Wage from £8.21/hour to £8.72/hour may also place additional pressure on the lower points on the pay spine.

Given the scale of the gap between the two sides, it seems unlikely that this will be resolved soon. The budget allows for an increase of 2.75% which appears to be in line with a number of other councils' assumptions.

As highlighted in paragraph 3.5.3, Teachers pay has been provided for at 2.75% per annum based on the September 2019 award however the outlook remains similarly uncertain.

- 3.2.7. The draft budget assumed the Fire Levy would increase by 5.71%. This has now been confirmed to meet the increased

costs of capital investments as well as the unfunded element of Firefighters' Pension cost increases.

3.2.8. There is a clear risk to the Budget Strategy as departments may find it difficult to manage their expenditure within these parameters, especially where service specific inflationary increases may differ to the global validation rates. This risk is something that will require close monitoring during the year.

3.2.9. In total validation adds £11.8m to the current year's budget.

3.3. Cost Reduction Programme

3.3.1. As detailed in the report to Executive Board on 6th January 2020, 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 (generally frontline).

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. All new 'policy' proposals have undergone public consultation and Equality Impact Assessments (see attached report at **Appendix D**). 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).

3.3.5. The cost reductions included in the budget strategy are:

	2020/21 £m	2021/22 £m	2022/23 £m
Managerial	4.553	4.510	3.925
Existing Policy	0.509	0.700	0.030
New Policy	0.217	0.262	0.644
Total	5.279	5.472	4.599
Shortfall against target set	nil	0.458	0.610

(Detailed in **Appendix B**)

The shortfall on the targets set in years 2 and 3 of the budget strategy brings further financial risk, and further work will need to be undertaken in 2020/21 to identify additional cost reduction proposals for the following years.

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. The draft budget provided £7.4m of funding towards known and unavoidable service pressures. Subsequently, the following further funding requirements have been identified:

- The UK Government announcement on 31st December of the National Living Wage increase to £8.72/hour was materially above the estimate of £8.63/hour set by the Office of Budget Responsibility. This increase impacts on commissioned care contracts and adds a requirement of £472k to social care budgets;
- WG have reduced the Sustainable Waste Management Grant by £2m across Wales (c.£110k for Carmarthenshire). As this funding supports core waste and recycling activities, there is need to replace the shortfall with core funding; and
- £90k of additional funding needs to be allocated to gritting budgets as a consequence of revised pay arrangements in relation to out of hours winter maintenance duties.

When the additional schools validation (paragraph 3.5.2 below) is included, there is a need to augment the draft budget by £983k as show in the table below.

Increase in NLW	£472k
Decrease in SWMG	£110k
Winter gritting arrangements	£90k
Increase in schools funding (validation)	£311k
TOTAL	£983k

A full list of pressures is provided at **Appendix C**.

3.5. Schools Delegated Budgets

3.5.1. The draft budget was constructed on the basis of full funding to schools for known and unavoidable pay, pensions and inflationary increases, including the provision of additional core funding to replace temporary WG pay and pension grants, the most significant of which was to fund the full year cost of the teachers pensions employer contribution increase from 16.5% to 23.6%.

3.5.2. This approach recognises the significant pressure many school budgets are under and an acknowledgement of the time

required to effect change. Updated departmental allocations/calculation of future pay awards and pension costs has resulted in an increased allocation of £311k to schools, which has therefore been added to delegated budgets.

In total, increases to core budgets and grants will be an increase of £10.1m to schools funding.

- 3.5.3. The most significant financial risk facing schools funding is identified as the uncertainty over future pay rises, and the funding required by schools to meet them. Whilst the Chancellor's aspiration to raise starting teachers' salaries to £30,000 by 2022/23 will be welcomed by many as a boost to recruitment and retention to the profession, this represents an increase of around a quarter to starting salaries. How this will affect the overall teacher payscale is not clear, nor is the provision of any additional funding.

In recent years, in-year additional grant funding has been provided by WG towards additional teachers pay award costs. The following extract from Julie James AM letter on 16 December which accompanied the provisional settlement makes it clear that WG have no such intent going forward:

We have also provided funding for additional costs arising from the 2019/20 teachers' pay deal for the remainder of the academic year and have provided funding beyond this to recognise the future impacts of teachers' pay awards which will come into effect from September 2020.

4. FUNDING

4.1. Revenue Settlement 2020/21

- 4.1.1. WG are not due to publish the final local government settlement for 2020/21 until 25 February 2020.
- 4.1.2. Consequently, this paper is based on information already released (subject to legislative process where applicable) in relating to specific funding elements as well as officers assumptions where appropriate. Our key assumption is that WG will make no material change to the headline level of funding, subject to the following specific details:

- 4.1.2.1. Confirmation of no change to the capital limit for charging for residential care (currently £50,000) and consequently no funding requirement;
- 4.1.2.2. An increase in the maximum weekly charge applicable in a non-residential charging to increase from £90 to £100 per week, providing an estimated £250k in income for Carmarthenshire.
- 4.1.2.3. Confirmed continuation of the £2.4m (£144k for CCC) funding to local authorities for discretionary rates relief.

4.1.3. Whilst we have yet to receive specific grant terms and conditions, we understand that WG are seeking to continue to apply a flexible approach to the new Additional Learning Needs (ALN) grant. Consequently this will be applied to the pressure identified in the draft budget, providing further budget headroom of £400k.

Similarly, we understand that it will be possible to apply the Social Care Workforce Grant according to local priorities. As such, the estimated additional £600k will fully provide for the additional NLW pressure identified in paragraph 3.4.2, leaving £128k unallocated (this is included within the overall £560k headroom identified below)

By contrast, our expectation is that the additional Pupil Development Grant, worth around £500k to Carmarthenshire, will be directed by WG conditions and as such does not create any budget headroom.

4.1.4. When added to the contingency sum in the draft budget, the items highlighted in paragraphs 4.1.2 to 4.1.3 above create additional budget headroom of £1.25 million as set out below:

Increase in weekly charging limit	£250k
New ALN grant	£400k
Increase in SCW grant	£600k
Contingency sum in draft budget	£293k
Total	£1.543m

Pending any further changes in the final settlement, and taking into consideration the £983k for expenditure items in paragraph 3.4.2, we calculate there to be budget headroom available of £560k in 2020/21.

Following receipt of the final settlement, the Director of Corporate Services will make any necessary changes in consultation with the Chief Executive, the Leader and the Executive Board Member for Resources.

4.1.5. Based on the provisional information, the salient points of next year's settlement are noted below:

4.1.6. The draft settlement for 2020/21 gave an increase in Standard Spending Assessment (SSA) for Carmarthenshire of £22.515m (6.4%), SSA on an all Wales basis also increased by 6.4%, un-adjusted for transfers and new responsibilities.

4.1.7. Figures for individual Local Authorities were provided for the one financial year only, 2020/21, with no indicative reductions for any future years.

4.1.8. Business Rate Poundage is to increase to 53.5p from the current rate of 52.6p for 2019/20.

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

	2019/20 Settlement £m	2020/21 Original Notification £m	2020/21 Final Settlement £m
Standard Spending Assessment	353.034	375.549	Available 25 February
Aggregate External Finance	260.388	274.159	Available 25 February
Difference	92.646	101.390	

The difference represents the sum WG estimates councils will need to raise through taxation or charging. Against the WG assessed funding requirement for Carmarthenshire, it is notable that the fund gap has increased by nearly £9m (9.5%). The WG figures indicate the need for an average Authority to set Band D council tax at £1,335.76, an increase of 7.1% on the equivalent figure last year.

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 uncertainty continuing (including the starkly differing possible Trade Agreement outcomes)
- Additional pressure on demand lead Services
- Overestimation of the future settlements.
- Lack of Welsh Government forward indicators for 2021/22 onwards.

4.2.3. Sensitivity impact analysis:

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

	(expenditure only)	
General inflation	1% (income only)	-1.3
WG Settlement	1%	2.7
Specific Grants	1%	1.0
Council Tax	1%	0.8

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

	1 st Apr 2019 £'000	31 st Mar 2020 £'000	31 st Mar 2021 £'000	31 st Mar 2022 £'000
Schools Reserves	-393	-3,593	-2,593	-1,593
General Reserves	10,376	10,376	10,376	10,376
Earmarked Reserves	83,915	64,279	36,659	21,114

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. The forward forecast is based on the current year budget monitoring and an expectation of multi-year deficit recovery plans to be finalised.

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 dependent on what is greater. School Improvement officers continually work with schools to ensure they comply with the guidance. As at 31st March 2019, 39 primary, 6 secondary and one special school were in deficit and 10 primary, 3 secondary one special school held surpluses 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. As at 31 March 2019, General Reserves stood at £10.376m, or 2.9% of the 2019/20 net revenue budget.

5.1.2. The overall level of Balances are taken into consideration each year when the annual budget is set and has on occasion been utilised to augment expenditure/reduce council tax. Whilst the 2019/20 budget was set on the basis of a nil transfer from General Reserves, with the December Budget monitoring (outlined in paragraph 3.1.2 above) there could be a reduction in balances of £2,750k at the end of the current financial year.

5.1.3. Given the forecast overspend in the current year, it is deemed imprudent at this stage to assume any further support for future years budgets from the current General Reserves.

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 2019	31 March 2020	31 March 2021	31 March 2022
	£'000	£'000	£'000	£'000
Insurance	11,401	11,451	11,501	12,051
Capital Funds	42,371	37,699	16,015	982
Development Fund	1,509	102	121	1,542
Corporate Retirement Fund	3,685	3,685	2,685	1,685
Joint Ventures	1,180	1,312	444	240
Other	23,769	10,030	5,893	4,614
TOTAL	83,915	64,279	36,659	21,114

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. 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 2020/21, 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:

- 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

15. Building a better council and making better use of Resources

7. MEDIUM TERM FINANCIAL PLAN AND COUNCIL TAX PROPOSAL 2020/21

7.1. The table below provides members with a summary of the latest position which reflects the contents of this report.

Assuming that the Council Tax increase remains at the level set in the original budget strategy which is 4.89%, this will give an estimated income from Council Tax of £97.434m which when added to the Welsh Government settlement will provide a net available expenditure budget for the Authority of £371.593m. Once allowances have been made for new responsibilities, and

the additional social services funding requirement, the balance available for Executive Board to respond to the budget consultation is £560k:

	2020 - 2021 £'000	2021 - 2022 £'000	2022 - 2023 £'000
Previous Years Budget	351,313	371,593	382,147
Validations/Adjustments	24,998	16,484	16,137
Validated Budget	376,312	388,077	398,284
less			
Efficiency/Service Rationalisation	-5,279	-5,930	-5,209
Projected Budget	371,033	382,147	393,075
Potential sum available	560		
	371,593	382,147	393,075
WG Settlement RSG & NNDR	-274,159	-279,643	-285,235
Call on Council Tax	97,434	102,505	107,840
Tax Base	74,007	74,229	74,451
Council Tax Rate (Band D)	£ 1,316.55	£ 1,380.92	£ 1,448.46
Council Tax Increase	4.89%	4.89%	4.89%

A full summary of the Budget Build up can be seen in **Table 1**.

7.1.1. Years 2 and 3 of the Medium Term Financial Plan assume the identification and delivery of the current shortfall in savings proposals of £0.458m in 2021/22 and £0.610m in 2022/23.

7.1.2. It must be emphasised that the figures for the outer two years of the plan 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.

7.1.3. As outlined in paragraph 4.1.7, Welsh Government has not provided figures for 2021/22 and beyond. This year's budget process is evidence that despite an unprecedented increase in funding, the scale of pressures is such that further savings will still need to be made to deliver a balanced budget. This report before you today assumes a 2.0% increase in the settlement for both 2021/22 and 2022/23. This will continually be reviewed as and when further information becomes available, particularly given the possible impact of a multi-year Westminster Comprehensive Spending Review planned for 2020. Members

will note within paragraph 4.2.2, the overestimation of future settlements is identified as an inherent risk.

Recommendations

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

7.2.1. The Budget Strategy for 2020/21;

7.2.2. The Band D Council Tax for 2020/21;

7.2.3. The allocation of the £560k recurrent funding available balance taking into account the range of responses received during the consultation process and any further pressures identified;

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

And:

7.2.5. Delegate to the Director of Corporate Services, in consultation with the Chief Executive, Leader and Executive Board Member for Resources, to make any amendments necessary as a consequence of the WG final settlement due on 25 February.