

REPORT OF DIRECTOR OF CORPORATE SERVICES

Social Care & Health Scrutiny Committee

12th December 2016

REVENUE BUDGET STRATEGY 2017/18 to 2019/20

(Copy of Executive Board report 21/11/16)

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1. INTRODUCTION

- 1.1. Executive Board in July 2016 received a report on the Revenue Budget Outlook for 2017/2018 to 2019/2020 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 2017/2018 together with indicative figures for the 2017/2018 and 2019/2020 financial years. The report is based on officers projections of spending need and takes account of the provisional settlement issued by Welsh Government on 19th October 2016. 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 the budget will be further developed as figures are reviewed, and the 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

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2. PROVISIONAL SETTLEMENT

- 2.1. The provisional settlement was announced on Wednesday 19th October 2016. Again this year, indicative figures were provided for the one financial year only, 2017/18, with no forward indicative figures for future years, although it has been indicated that future years funding proposals may become available post the Chancellor of the Exchequers Autumn Statement
- 2.2. The provisional settlement was significantly better than this Council and Local Government in Wales in general anticipated. However it must be recognised that a cash neutral settlement still has a significant negative impact on the Council's resources due to inflationary factors, demographic changes and demand.
- 2.3. The main points of the Provisional Settlement 2017/2018 on an All Wales basis are as follows:
 - 2.3.1. Local government revenue funding for 2017-18 set at £4.107 billion, an increase of +0.1% (£3.8 million) compared to 2016-17, but this is after new responsibilities are taken into account of £4.8 million.
 - 2.3.2. Additional £25 million as a result of the agreement between the Welsh Government and Plaid Cymru.
 - 2.3.3. Additional £25 million in recognition of the importance of strong local social services
 - 2.3.4. £4.5 million to fund the commitment to increase the capital limit used by local authorities who charge for residential care from £24,000 to £30,000.
 - 2.3.5. £0.3 million to fund the commitment to introduce a full disregard of the War Disablement Pension in financial assessments for charging for social care.
 - 2.3.6. £2.3 million of additional funding outside the settlement to ensure that no authority sees a reduction of greater than 0.5% compared to its 2016-17 settlement allocation and, where relevant, top-up funding.
 - 2.3.7. £1 million for school transport
 - 2.3.8. £3 million to support town centre car parking
 - 2.3.9. The settlement includes 'transfers in' of £3.082m in respect of the Delivering transformation Grant (£2.830m), Deprivation of Liberty Standards (£0.184m), Blue Badge additional funding (£0.011m) and Food Hygiene Rating scheme, and 'transfers out' of £1.000m in respect of teacher registration fees subsidies.
- 2.4. The figures for Carmarthenshire are:

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2.4.1. Provisional Settlement 0% movement on the 2016-17 settlement. i.e. a small reduction of £17k.

2.4.2. New responsibilities:

2.4.2.1. £300k due to increase in the capital limit used by local authorities who charge for residential care from £24,000 to £30,000

2.4.2.2. £18k to fund the commitment to introduce a full disregard of the War Disablement Pension in financial assessments for charging for social care

2.4.2.3. £180k to support town centre car parking

2.4.2.4. £60k for school transport

2.4.3. Transfers In

2.4.3.1. £169k of funding previously provided via the social services *delivering transformation grant*

2.4.3.2. £12k to support *deprivation of liberty safeguards*

2.4.3.3. £3k to deliver the *food hygiene rating scheme*

2.4.3.4. £1k additional funding for the *blue badge scheme*.

2.4.4. Transfers Out

2.4.4.1. £54k in respect of teacher registration fee subsidies

2.5. Service specific Grants within the current year's budget stands at £107m, and details of future allocations are not available for all at this stage. With the exception of the Environmental Grant which is being reduced by 6.7%, it is assumed that all others will be maintained at their existing level during the three year period of the model

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3. BUDGET REQUIREMENT 2017-2018

3.1. Current Years performance (2016/2017)

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 2016/17 (based on the August 2016 monitoring) is as follows

Service	Approved Budget £'000	Total Expenditure Forecast £'000	Variance Forecast For Year £'000
Chief Executive	13,666	14,179	513
Education and Children's Services	162,326	163,876	1,550
Corporate Services	22,301	22,039	-262
Communities	90,991	91,779	788
Environment	47,235	47,621	386
Departmental Expenditure	336,519	339,494	2,975
Cont from Dept/Earmarked Reserves		-254	-254
Capital Charges	-9,519	-10,269	-750
Pensions Reserve Adjustment	-5,085	-5,085	0
Levies and Contributions	9,310	9,310	0
Transfer to/ from Reserves	-265	-265	0
Net Expenditure	330,960	332,931	1,971

The departmental overspends are primarily as a result of delays in the delivery of some of the savings proposals put forward for 2016-17, and a review of the savings proposals that were agreed in February 2016 has identified that some £1.8 m of the original proposals for 2016-17 are at risk of not being fully delivered in the current financial year.

The Education and Children's Services department continues to face pressure due in the main to school based EVR and redundancy costs, and short term transport costs for pupils from closed schools and property decommissioning costs.

The Authority is currently forecasting a variance of £1.971m 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 2016/17 by the commencement of the next financial year.

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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>2017/18</u> <u>Original</u>	<u>2017/18</u> <u>Proposed</u>	<u>2018/19</u>	<u>2019/20</u>
General inflation	1.4%	2.3%	2.2%	2.0%
Electricity	3.0%	5.0%	3.0%	3.0%
Gas	3.0%	5.0%	3.0%	3.0%
Fuel	3.0%	5.0%	3.0%	3.0%
Pay Inflation - non teaching	1.0%	1.0%	1.0%	1.0%
Pay Inflation - Teaching	1.0%	1.0%	1.0%	1.0%
Levies	1.0%	1.0%	1.0%	1.0%
Pension Contributions	£297k	£298k	£302k	£305k
Auto Enrolment	£1,600k	£1,600k		
Capital Charges	£250k	-	£250k	£250k
Main service Specifics:				
County Elections	£230k	£230k	-£300k	
Apprentice levy	£850k	£850k	-	

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 relate to Auto Enrolment and the introduction of the Apprentice levy from April 2017. Currently there is no information as to how the Apprentice Levy will be utilised within Wales.

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 previous Chancellors announcement relating to Public Sector pay, the Budget as constructed makes provision for the headline pay award of 1% in each of the financial years, together with higher percentages to those on lower pay

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points due in part to the introduction of the national Living Wage from 1 April 2016.

3.2.6. 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.

	2017/18 £m	2018/19 £m	2019/20 £m
Managerial	4,435	4,462	2,940
Existing Policy	3,988	3,591	3,527
New Policy	347	181	1,307
Total	8,770	8,234	7,774

(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.

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.

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3.4.2. In the setting of the current financial year's budget, a total sum of £2.4m was allocated to services, of which £1.8m was allocated to Social Care.

3.4.3. The original budget outlook for 2017-18 and 2018-19 contained a sum of £3m per annum to meet growth pressures, and the same provision for growth is currently reflected in the 2019-20 indicative budget.

3.4.4. Initial growth bids of £3.3m have been submitted by departments for 2017-18, and the current strategy reflects an allocation of £2.542. Detail at Appendix B

3.5. Schools Delegated Budgets

3.5.1. The last year of WG funding protection for schools was 2015/16. The current budget proposals assume no protection going forward.

3.5.2. The original budget strategy proposals have been reviewed, and the effect on schools delegated budgets are:

	2017/18 £m	2018/19 £m	2019/20 £m
Previous Years Budget	<u>109.247</u>	<u>107.313</u>	<u>105.527</u>
Validation	1.845	1.699	1.326
Savings requirement	-3.779	-3.485	-3.987
Net Adjustment	-1.934	-1.786	-2.661
Proposed Delegated Budget	107.313	105.527	102.866

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 climate continuing
- Impact of BREXIT.
- Additional pressure on demand lead Services

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- 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.

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

	1 st Apr 2016 £'000	31 st Mch 2017 £'000	31 st Mch 2018 £'000	31 st Mch 2019 £'000	31 st Mch 2020 £'000
Schools Reserves	3,677	181	0	0	0
General Reserves	8,779	6,743	6,743	6,743	6,743
Earmarked Reserves	66,131	49,124	24,264	21,309	20,736

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 2016, 27 schools were in deficit and 24 schools held surplus balances 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

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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 2016-2017 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 £1,971k 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 2.0% of net expenditure during 2017/18.

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 2016	31 March 2017	31 March 2018	31 March 2019	31 March 2019
	£'000	£'000	£'000	£'000	£'000
Insurance	7,886	7,386	7,386	7,586	7,786
Capital Funds	33,822	30,277	9,450	6,803	5,590
Development Fund	1,195	445	603	756	756
IAG/OAG	1,337	1,337	9	9	9
Corporate Retirement Fund	3,142	1,352	386	391	1,101
Joint Ventures	1,515	1,695	1,875	2,055	2,055
Other	17,234	6,632	4,555	3,709	3,439
TOTAL	66,131	49,124	24,264	21,309	20,736

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

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

3.6.6.4. 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.

3.6.6.5. 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 2017/18, 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 the provisional settlement and also other recent validation changes, including the second year of the pay offer agreed by the national employers.

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

	Current MTFP		Financial Model		
	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Previous Year's Budget	331,226	330,541	331,226	333,784	334,188
General Inflation	1,416	1,637	2,197	2,134	1,847
Pay Inflation	2,399	3,041	2,427	2,973	2,954
Other	3,083	543	3,042	831	968
Growth	3,230	3,000	2,772	2,700	3,000
Original & approved PBB Proposals	-11,013	-10,155	-8,770	-8,234	-7,774
Net Expenditure	330,341	328,607	333,584	334,188	335,183

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Revenue Settlement	-246,651	-241,718	-251,794	-249,276	-246,783
Council Tax Receipts	-83,690	-86,889	-81,791	-84,913	-84,000
Council Tax Increase:	4.88%	3.14%	2.50%	3.14%	3.42%

4.3. The total cost reductions now required for 2017/18 is £8.8m and for the 3 year period are estimated at £24.6m.

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 22nd November 2016.
- 5.3.** The public and commercial ratepayers consultation in December 2016.
- 5.4.** Consultation with Scrutiny Committees during November and December
- 5.5.** 'Insight' youth conference in November 2016.
- 5.6.** Consultation with the Schools Budget Forum in November 2016
- 5.7.** Trade Union Consultation December 2016/January 2017

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:
- i. Looking at the long-term so that we do not compromise the ability of future generations to meet their own needs
 - ii. Understanding the root causes of the issues to prevent them recurring

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- iii. Taking an integrated approach so that we look at all well-being goals and objectives of other services and partners
- iv. Collaboration – Working with others in a collaborative way to find shared sustainable solutions
- v. Involving a diversity of population in decisions that affect them

6.3. The Act identifies 7 well-being goals, they provide a shared vision for public bodies to work towards. We must work towards achieving all of them.

- i. A prosperous Wales
- ii. A resilient Wales
- iii. A healthier Wales
- iv. A more equal Wales
- v. A Wales of cohesive communities
- vi. A Wales of vibrant culture and thriving Welsh Language
- vii. A globally responsible Wales

6.4. As a Council we must set and publish well-being objectives by the 31st March 2017. Our well-being objectives must be designed to maximise our contribution to achieving the 7 well-being goals of the Act.

6.5. We must also publish a Well-being Statement that sets out how we will achieve our objectives and explain how we ensure resources, including financial are allocated to meet our objectives.

7. CONCLUSION

7.1. Currently the budget proposals assume the full delivery of all of the £24.6m savings proposals currently submitted.

7.2. The current budget proposals assume a Council Tax increase of 2.5% in 2017-18, 3.14% in 2018-19 and 3.42% in 2019-20. A 1% movement in the Council Tax rise equates to +/-£790k

8. RECOMMENDATION

8.1. 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.