

**REPORT OF DIRECTOR OF CORPORATE SERVICES**

**EXECUTIVE BOARD**

**30<sup>th</sup> November 2020**

**REVENUE BUDGET OUTLOOK 2021/22 to 2023/24**

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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 on 3<sup>rd</sup> March 2020 and was based on estimates of known commitments at that time, and formulated in the context of the Welsh Government (WG) financial settlement for 2020/21, with estimates used for years 2 and 3 of the plan.
- 2.2. Following the sustained period of Austerity since 2010, recent years have seen a gradual shift away from this policy. The public sector pay freeze was gradually relaxed, and successive negative settlements have given way to cash increases, albeit they have been reductions in real terms once pressures are taken into account.
- 2.3. This shift was at its starkest when setting the 2020/21 budget. Although the Authority received a £14m increase in its WG

settlement, the combination of 2.75% pay awards, teachers pensions cost increases above £4m, and a higher than expected increase in the national living wage combined with other inescapable pressures to necessitate a council tax increase of 4.89% and budget reductions totalling £5.1m to balance the budget.

- 2.4. The overall financial standing of the Authority has been maintained at a prudent level. In addition to existing reserve balances earmarked for specific purposes such as insurance or committed capital schemes, the authority set aside one-off funding in a Covid-19 resetting services reserve and was able to modestly add to our Council Fund, increasing the balance to 3.0% of our net budget. In recent years we have made limited use of such reserves to support ongoing expenditure.

### 3. OTHER CONSIDERATIONS

#### COVID-19, BREXIT & CSR

- 3.1. As with all other aspects of public life in the UK, Covid-19 will continue to dominate public sector finances over the medium term and perhaps longer. There is the immediate, current “triple-whammy” of reduced tax revenues from the economic impact of restrictions, unprecedented financial support measures for citizens and businesses, and additional funding requirements for the delivery of public services, principally health and social care.
- 3.2. Even taking a benign assumption that a vaccine is successfully deployed across the UK in the first half of 2021, the hangover effect will be significant. The economy and consequent tax revenues will be at a much lower base, the NHS will have a significant backlog of non-Covid-19 to get on top of, and HM Treasury will need to put in place measures to address public sector borrowing, which over 2020 is predicted to reach its highest level in peace time Britain.
- 3.3. The timeline is however far from clear. Whilst the outlook for public finances is undeniably worse as a result of Covid-19, there may be a gradual transition towards addressing public sector borrowing, driven by the need for public sector investment to boost economic recovery.
- 3.4. Brexit Trade talks, once the top daily news headline, continue but with no clear sense of an agreed deal. Should a deal not be agreed with the EU before the end of the year, economists widely predict a negative impact on UK business and prosperity.

- 3.5. The Westminster Government held a Comprehensive Spending Review (CSR) over the summer months, the outcome of which will now only be for one year only and whilst unavailable at the time of writing is due to be announced on 25<sup>th</sup> November. Whilst this is a clear threat of budget reductions, it is unlikely to be a popular move to cut budgets such as health, education and local government/social care. A verbal update will be provided in the meeting.
- 3.6. Whatever the outcome of the CSR, it will have a direct impact on Welsh Government budgets through the Barnett Consequential. During 2020/21 WG received very substantial additional funding through this mechanism which it has deployed to support the NHS, Local Authorities, businesses and others to respond to the pandemic.
- 3.7. On 29 October, Welsh Local Authorities received confirmation from the Minister for Finance that WG will confirm provisional settlement data on 22<sup>nd</sup> December. Whilst this is clearly driven by the CSR timeline, it will unquestionably compress the budget timetable more than at any time in recent history.

## 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. Consideration will need to be given to the impact which Covid-19 will inevitably have upon progress in delivering these goals.
- 3.9. Members will note that it is necessarily much later and more compressed than in normal budget cycles, leaving just a three week window for public consultation. Consultation activities will of course this year all take place electronically due to public health measures.

## 4. CURRENT FINANCIAL OUTLOOK

Budget development always involves assumptions which are refined as the situation evolves and information becomes clearer. However it is hard to recall such a great degree of uncertainty at such a late stage in the process. Given this, it is recommended that preparations are made based on the current MTFP parameters as set out in the budget papers agreed by Council Council in March 2020. Further details are provided in the subsequent paragraphs.

## 5. FINANCIAL MODEL

The financial model has been extended by one year and so covers the three year period up to 2023/24. It is realistically expected, however, that less progress will be made on this than under normal circumstances. During the coming months of the budget development, officers and members priorities must be the addressing the immediate challenge of balancing the 2021/22 budget. Notwithstanding this, the most important part for any financial plan or model is the underlying assumptions, the current key assumptions being:

- 5.1.** For the purposes of our financial outlook, the base model reflects the Aggregate External Finance (AEF) increasing by 2.0% each year. Service specific grants currently account for around £100 million and it is assumed that EITHER any further reductions are contained within the AEF reduction above OR that activity/expenditure is reduced in line with grant funding.

There are no significant planned reductions that officers are aware of, however members should note that we still have no details of the proposed “Shared Prosperity Fund” which is due to replace existing EU funding streams.

- 5.2.** As for all Local Authorities, the treatment of delegated school budgets has a significant impact on the scale of savings proposals across every other service area. Our planning assumption is currently that schools’ delegated budgets do not have a specific savings target applied. School budget outturns have been in deficit for the last two financial years, with progress to address this understandably and unavoidably impacted by Covid-19. As a consequence of validation for pay and price inflation, it is recognised this budget will grow, and that proportionally larger savings would need to be found elsewhere. Should there be new or additional pressure put on the budget, for example from a worse than planned WG settlement, schools funding would need to be reassessed.

- 5.3.** The MTFP approved by County Council in March 2020 included substantial savings in the Education department linked to the rationalisation of primary school provision. This would not see an adverse funding outcome for delegated budgets, but is instead about capturing the financial benefit of an overall more efficient schools system and the support services behind it. As with a number of other council transformation agendas, progress has inevitably been disrupted due to Covid-19. As such these proposals are being critically assessed for scale and speed of deliverability.

**5.4.** The current pay settlement for NJC staff was a one year settlement covering 2020/21 at 2.75%, which was the same for the majority of our teaching staff. There are pulls in both directions in national negotiations on staffing costs – on one hand the recognition and reward for the role which many have played in delivering services above and beyond at a time of great need; on the other hand there is the possible re-introduction of restraint at a time of significant private sector job losses and worsening public finances. Given these opposing forces, the financial model maintains the current assumption of 2.75% per annum. Allowances have been made with pressures funding for national living wages increases.

There are similarly opposing forces likely to influence inflation going forward. Consumer Price Indices have been below 1% since April 2020, however the transition to new trade arrangements will bring inflationary pressures in 2021. As such assumptions are maintained at 2% for now.

**5.5.** The 5 year capital plan was approved by Council in March 2020, however the pandemic has highlighted the need to consider possible new investment to support the local economy, jobs and livelihoods. With this in mind it is recognised that there may be further schemes the council wishes to pursue for which either additional funding would required or members may need to consider deferral or removal of previously approved schemes.

**5.6.** Validation assumptions for the three years have been revisited and are currently:

	<b>Financial Model</b>		
	<b>2021/22</b> %	<b>2022/23</b> %	<b>2023/24</b> %
Expenditure Inflation	2.0	2.0	2.0
Income Inflation	2.0	2.0	2.0
Pay Awards	2.75	2.75	2.75
Employers Pension Rates	0	0	0
Fuel	5.0	5.0	5.0
Energy Costs	5.0	5.0	5.0
Capital charges	£500k	£500k	£500k

**5.7.** Service Pressures:

The financial model assumes growth pressures of £6m per annum for next year and £5.5m for each of the following two years.

Clearly the pandemic, and nature of ongoing public health response measures to contain it, will have a substantial impact on future expenditure for the Authority. An overarching holding assumption has been added to service pressures of £1m. Over and above this, it is assumed for planning purpose that existing funding mechanisms from WG will remain in place. The initial growth bids for non-covid pressures submitted by departments for 2021/22 exceeds £10m and is currently being critically reviewed.

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 forecast they will exceed the business rates retention deal agreed with WG) and additional staffing costs. These will be addressed within the individual business case appraisals before their commencement, and as such it is not anticipated these will impact upon 2021/22 budgets.

- 5.8. The modelling is based on Council Tax increases of 4.89% each year in line with the MTFP indicative figures approved in March 2020, extended to year 3 purely for planning purposes.
- 5.9. 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		
	2021/22 £'000	2022/23 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
<b>Previous Year's Budget</b>	<b>371,593</b>	<b>382,147</b>	<b>371,593</b>	<b>382,147</b>	<b>393,075</b>
General Inflation	2,462	2,462	2,462	2,462	2,632
Pay Inflation	6,688	6,849	6,688	6,849	7,037
Other	1,334	1,345	1,334	1,345	1,357
Growth	6,000	5,500	6,000	5,500	5,500
Original & approved PBB Proposals	-5,297	-4,694	-5,297	-4,694	0
Net Expenditure	382,147	393,075	382,147	393,075	404,392
Revenue Settlement	-279,643	-285,235	-279,643	-285,235	-290,940
Council Tax Receipts	-102,505	-107,840	-102,505	-107,840	113,452
Shortfall	633	515	633	515	5,208

**5.10. Key points:**

5.10.1. We are looking at requiring cumulative reductions of £16m over the three years.

5.10.2. 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. It is proposed that the savings requirements for each of the financial years be allocated between departments as follows, according to controllable budgets:

	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	£'000	£'000	£'000
Chief Executive	492	432	432
Schools Delegated Budget	0	0	0
Education & Children	1,029	904	904
Communities	2,813	2,471	2,470
Corporate Services	205	180	180
Environment	1,391	1,222	1,222
	<b>5,930</b>	<b>5,209</b>	<b>5,208</b>

5.10.3. The above model, as stated above, is based upon increases to the AEF of 2% each year and council tax increases of 4.89%.

**6. SENSITIVITY ANALYSIS**

**6.1.** 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.

**6.2.** 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%	£2.4m
General inflation	1% (expenditure only)	£2.3m
General inflation	1% (income only)	-£1.4m
WG Settlement	1%	£2.8m
Specific Grants	1%	£1.0m
Council Tax	1%	£1.0m

6.3. The following table illustrates the scale of the impact on departmental savings targets in 2021/22 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	No schools protection – i.e. increased schools efficiencies
	£'000s	£'000s	£'000s
Chief Executive	+/-232	+/-85	-182
Schools Delegated Budget	0**	0**	2,192
Education & Children	+/-485	+/-178	-380
Communities	+/-1,327	+/-486	-1,040
Corporate Services	+/-97	+/-35	-76
Environment	+/-656	+/-240	-514
	<b>+/-2,568</b>	<b>+/-1,025</b>	<b>0</b>

\*\* Based on assumption that no savings target is applied to school budgets

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

## 7. TAKING THE WORK FORWARD

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

7.1. 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.



- 7.2.** 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;
- 7.3.** 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;
- 7.4.** 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.
- 7.5.** All of the above will involve:
- 7.5.1. Consideration of alternative delivery models/providers;
  - 7.5.2. Acceptance of lower performance/reduction/cessation in some areas as an acceptable price to prioritise/protect others;
  - 7.5.3. Consideration of alternative and perhaps as yet untapped sources of finance;
  - 7.5.4. Some analysis of the cost/benefit equation of what we currently do and what we would propose to do.
  - 7.5.5. Council will need to implement measures in 2020/21 to increase as far as possible its options in respect of the 2021/22 budget setting process. The aims of these measures would be to partially mitigate the risk of the council not achieving a balanced budget for 2021/22 and would need to be undertaken following consultation with members.
- 7.6.** 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.

## **8. BUDGET PREPARATION FOR 2021/22**

- 8.1.** The financial model tabled above will be updated as and when more information becomes available, key amongst which will be the provisional settlement expected from WG in December 2020. A timetable is provided at Appendix A.
- 8.2.** As part of the current Medium Term Financial Plan, Departments are requested to update their efficiency/service rationalisation proposals for 2021/22 and 2022/23 and to consider possible areas to target for 2023/24. To support the process, the Departmental service Director will challenge/draw up the cost reduction proposals in conjunction with:
  - Executive Board portfolio member, plus
  - Executive Board Portfolio Holder for Resources and/or Deputy Leader.
- 8.3.** 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.
- 8.4.** Virtual Member seminars on budget proposals to be convened in January 2021.
- 8.5.** Public consultation on the budget proposals to commence in January 2021. This will not necessarily involve public gatherings, but additional efforts will be made to engage as widely as possible given the circumstances, including the use of virtual meetings, and digital communications.
- 8.6.** Scrutiny Committee consultation in January/February 2021.

## **9. RECOMMENDATION(S)**

It is recommended that:

- 9.1.** The Executive Board receives the initial budget outlook and considers the level of Council Tax rises and budget savings that it considers appropriate for developing the Medium Term Financial Plan;
- 9.2.** Executive Board endorse the proposed approach to identifying the required savings
- 9.3.** Executive Board note the proposed approach to the budget consultation