

# REPORT OF DIRECTOR OF CORPORATE SERVICES

## Executive Board

1<sup>st</sup> February 2016

### REVENUE BUDGET STRATEGY 2016/17 to 2018/19

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## 1. INTRODUCTION

**1.1.** Executive Board in November 2015 considered and endorsed the Revenue budget strategy 2016/17 to 2018/19 for consultation. The report had been prepared in advance of receipt of the provisional settlement and was based on officers projections of spending need and potential settlement with no forward indicators having been provided by Welsh Government (WG). It also reflected the departmental submissions for savings proposals and indicated a council tax increase of 5.00% in 2016-17. The Executive Board in endorsing the report for the consultation process expressed the view

‘that the contents of the budget report be noted and approved as a basis for consultation, and to specifically seek comments from consultees on the efficiency proposals detailed in appendix A to the circulated report’

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

- Provisional Settlement Details
- Budget Consultation Results
- The Medium Term Spending Plans
- Implication on Council tax for 2016-2017.

The proposals have endeavoured to meet the aspirations of the Authority, whilst taking account of the continued tough economic climate. They address specific pressures in certain service areas

whilst recognising the need to minimise the impact on the local taxpayer.

**1.3.** The timetable for the Final settlement remains as follows:

- 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
- Setting of Council Tax for 2016/17 financial year: 10<sup>th</sup> March 2016

Due to the lateness of the final settlement and the legislative requirement, Executive Board recommendations to Council will need to be based on the provisional settlement figures, with any amendments to the budget requirement, should it be necessary, being made as part of the Council Tax setting report which will go to Council on the 10<sup>th</sup> March 2016.

**1.4.** In addition to the lateness of the Final Settlement, 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.

**1.5.** The Executive Board needs to consider these detailed proposals and make recommendations to County Council in accordance with Council policy.

**1.6.** Whilst the Provisional Settlement has resulted in a better position than that anticipated, Local Government has again been faced with reductions which, in conjunction with significant validation requirement for such items as the NI rebate removal, continues to make the budget process extremely difficult. Decisions have had to be made in respect of prioritisation of services and the inclusion of substantial 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 16<sup>th</sup> November 2015, with the following groups and committees being invited to comment:-

- Public Consultation and Commercial Ratepayers
- School Budget Forum (School's Budget)
- Scrutiny Committees
- Trade Unions

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

### 3. BUDGET REQUIREMENT 2016-17

#### 3.1. Current Year 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 October 2015 monitoring) is as follows:

Service	Approved Budget £'000	Total Expenditure Forecast £'000	Variance Forecast For Year £'000
Chief Executive	10,609	11,019	410
Education and Children's Services	159,427	160,378	951
Corporate Services	22,905	22,649	-256
Communities	90,856	91,501	645
Environment	45,598	45,724	126
<b>Departmental Expenditure</b>	<b>329,395</b>	<b>331,271</b>	<b>1,876</b>
Cont from Dept/Earmarked Reserves		-949	-949
Capital Charges	-3,535	-4,735	-1,200
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>327,948</b>	<b>-273</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 particular 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.

- 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.

## 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 contained in the budget strategy are as follows:

	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
General inflation	0.6%	1.4%	1.8%
Electricity	3.0%	3.0%	3.0%
Gas	3.0%	3.0%	3.0%
Fuel	-12.5%	3.0%	3.0%
Pay Inflation - non teaching	1.0%	1.0%	1.0%
Pay Inflation - Additional cost of employers pay offer	£787k	£313k	£900k
Pay Inflation - Teaching	1.0%	1.0%	1.0%
Levies	1.0%	1.0%	1.0%
Pension Contributions	£297k	£309k	£312k
Teachers Superannuation	£575k		
Employers NI Changes	£4,100k		
Auto Enrolment		£1,600k	
Capital Charges	-	£250k	£250k
<b>Main service Specifics:</b>			
County Elections	£70k	£230k	-£300k
Adj to pay scales starting salary	£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 validation over the three year period remains the change 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. The estimated impact of this on the Authority is £4.1m.
- 3.2.4. The original budget strategy assumed that the Mid and West Wales Fire Authority Levy would show a standstill position in its levy. The 2016-17 budget approved by the Mid and West Wales Fire Authority was an increase of 0.99% on the budget requirement falling on the Constituent Authorities. The effect of this has been an additional £92k budget requirement.
- 3.2.5. There is a clear risk to the Budget Strategy as departments may find it difficult to manage their expenditure within these parameters, especially where the lower inflationary increases have been applied by service providers. This risk is something that will require close monitoring during the year.
- 3.2.6. The Budget as constructed makes provision for a 1.0% pay award for all staff in 2016-17, added to which has been the cost of the recent employers pay offer (not yet accepted) which proposed increases ranging from 1.01% on SCP 17 to 6.4% on SCP9 for NJC staff. The teachers pay award has been provided at 1% from September 2016.
- 3.2.7. In total validation adds £12.7m to the current year's budget.

### **3.3. Cost Reduction Programme**

- 3.3.1. As detailed in the report to Executive Board on 16<sup>th</sup> November 2015, in anticipation of the reductions in this settlement round, significant work in identifying service efficiencies/rationalisation proposals had been undertaken and a range of proposals were presented and 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.

- 3.3.2. 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.
- 3.3.3. An exercise has been undertaken to obtain 'expressions of interest' from staff who may be interested in voluntary severance/early retirement as well as other flexible working options. 21 releases have currently been supported for release on or before 31<sup>st</sup> March 2015, generating annual savings of £687k, with a further 14 expressions of interest provisionally supported for release during the 2016-17 financial year.
- 3.3.4. All 'policy' proposals have undergone public consultation and Equality Impact Assessments (see attached report Appendix Aii). 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 now included in the final budget strategy are:

	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	7,522
<b>Total</b>	<b>13,696</b>	<b>11,571</b>	<b>10,179</b>

(Detailed in Appendix B)

### 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. Bearing in mind the budget pressures in the current year, and following a detailed review of the growth bids submitted, it is the

view of the Corporate Management Team that a sum of £2.420m be allocated as outlined at Appendix C.

- 3.4.3. It must be noted that the allocated sum does not meet all the pressures identified by departments, and accordingly departments will be required to strictly manage their budgets to remain within their allocated sums.

## **4. FUNDING**

### **4.1. Provisional Revenue Settlement 2016-2017**

- 4.1.1. On the 9<sup>th</sup> December 2015, the WG Minister for Public Services announced the provisional settlement for 2016-2017.
- 4.1.2. The total value of support for local government is £4,099 million (excluding specified bodies), compared with £4,125 million in 2015-16 (£4,156 million after adjusting for transfers). This represents a cash reduction of 0.6% compared with 2015-16. After adjusting for transfers, the reduction is 1.4% on an all Wales basis - for Carmarthenshire it is -1%, which in real terms is greater when the effects of inflation and new cost burdens are taken into account.
- 4.1.3. The Outcome Agreement Grant has now been transferred into the Settlement. £31.1m (£1.9m for Carmarthenshire) has been transferred in to the Revenue Support Grant for 2016-17 onwards.
- 4.1.4. WG has maintained £244 million within the Settlement for 2016-17 in relation to Council Tax Reduction Schemes and £4.77 million to support the cost of administering the scheme.
- 4.1.5. The main service blocks within the Settlement take account of increases in support for Schools of £35 million and £21m for Social Care. The Budget Proposals reflect the passporting of Carmarthenshire's allocation of these sums to the respective services.
- 4.1.6. Consideration is being given to whether further flexibility might be offered regarding certain grant funding for 2016-17 and beyond. In particular, whether the Education Improvement Grant, or part of it, might be transferred into the Revenue Settlement Grant in the Final Settlement for 2016-17. No decision has been taken on this as yet and there will be further engagement with Local Government representatives as part of the consultation on the Provisional Settlement.

4.1.7. WG has not provided any indicative AEF figures for 2017-18 and beyond, and in the absence of these the revised budget outlook reflects anticipated reductions of 2% per annum for both the 2017-18 and the 2018-19 financial years.

4.1.8. For specific revenue grants, in a number of policy areas, decisions about the implications for specific grants for 2016-17 have yet to be finalised. However, of the specific grants confirmed as part of the provisional settlement there has been an average reduction of 5%. In particular the Single Environment Grant (which encompasses the former Sustainable Waste Grant) has reduced by 6%. Initial projections by WG officials had indicated a significantly greater reduction for this grant, and the smaller reduction has assisted with service pressures identified in the original strategy.

4.1.9. Business Rate Poundage is to increase to 48.6p from 48.2p for 2016/17. (+0.8%)

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

	2015-2016 Settlement £m	2016-2017 Provisional Settlement £m
Standard Spending Assessment	327,885	330,353
Aggregate External Finance	252,481	251,685

## 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 climate continuing
- Additional pressure on demand lead Services



- Overestimation of the future settlements.
- Lack of Welsh Government forward indicators for 2017-18 onwards.

#### 4.2.3. Sensitivity impact analysis:

Budget element	Movement	Annual Impact £m
Pay inflation	1%	2.3
General inflation	1% (expenditure only)	2.1
General inflation	1% (income only)	-1.2
WG Settlement	1%	2.5
Specific Grants	1%	0.7
Council Tax	1%	0.76

#### 4.2.4. 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	8,431	8,431	8,431	8,431
Earmarked Reserves	72,002	52,476	35,869	18,131	16,950

### 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. Officers have yet to be informed of any transfers to/from these reserves by individual schools for future years.

4.3.2. Legislation allows schools to carry forward reserves from one financial period to another. Recent 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 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

## 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.

5.1.2. The overall level of balances are 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 2015-2016 budget was set on the basis of a £138k transfer from General Reserves, with the October monitoring forecasting an end of year underspend, the net effect is a projected £204k increase in the general balance.

5.1.3. Taking account of these changes the average level of the general reserves is forecasted to be around 2.6% of net expenditure during 2016/17. This equates to £8.4m.

## 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:

<b>Reserve</b>	<b>1<sup>st</sup> Apr 2015 £'000</b>	<b>31<sup>st</sup> Mch 2016 £'000</b>	<b>31<sup>st</sup> Mch 2017 £'000</b>	<b>31<sup>st</sup> Mch 2018 £'000</b>	<b>31<sup>st</sup> Mch 2019 £'000</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Insurance	9,625	9,425	9,225	9,025	9,025
Capital Funds	28,063	25,531	16,095	2,467	1,773
Development Fund	899	304	389	547	700
IAG/OAG	3,246	1,328	1,328	0	0
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	11,362	5,921	3,972	3,152
<b>TOTAL</b>	<b>72,002</b>	<b>52,476</b>	<b>35,869</b>	<b>18,131</b>	<b>16,950</b>

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. A review of Earmarked Reserves has been undertaken, and additional funding of some £20.375m has now been identified and allocated within the new proposed capital programme, which allows the inclusion of the new strategic projects that have been submitted by Departments as detailed elsewhere on the Agenda today.

In total some £33.865m of reserve funding is included over the five years of the proposed capital programme.

- 5.2.4. The budget proposals assume a sum of £200k per annum being transferred from the Insurance Reserve to support the revenue budget for 2016-17 and 2017-18.
- 5.2.5. 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.

## **6. MEDIUM TERM FINANCIAL PLAN AND COUNCIL TAX PROPOSAL 2016/17**

- 6.1. The table below provides members with a summary of the latest position which reflects the contents of this report.
- 6.2. It should be noted that the summary below has made provision for the pressures identified within this report, the latest employers pay offer and more importantly the additional support provided by Welsh Government for schools budgets, which equates to £2.1m for Carmarthenshire.
- 6.3. It must be noted that the AEF as stated earlier in the report is still provisional, and the Final Settlement will not be debated in WG until the 9<sup>th</sup> March 2016. In addition it should be noted that not all the anticipated specific grants for 2016-17 have been announced as yet. The Director of Corporate Services will advise on any implications and changes required to the budget requirement at the County Council meeting on 10<sup>th</sup> March 2016, when Council will be formally setting the Council Tax for 2016-2017.

## APPENDIX 1

**6.4.** The Authority's net expenditure for 2016/17 is estimated to be £331.836m, this gives a consequential Council Tax increase 5.00%.

The table also summarises the impact of the current Strategy on 2017/18 and 2018/19.

	2016 - 2017 £'000	2017 - 2018 £'000	2018 - 2019 £'000
<b>Previous Years Budget</b>	<b>329,989</b>	<b>332,036</b>	<b>331,561</b>
Validations/Adjustments	13,891	10,386	8,271
<b>Validated Budget</b>	<b>343,880</b>	<b>342,422</b>	<b>339,832</b>
<b>To be allocated</b>	<b>1,850</b>	<b>710</b>	<b>1,595</b>
less			
Efficiency/Service Rationalisation (Identified)	-13,694	-11,571	-10,179
<b>Projected Budget</b>	<b>332,036</b>	<b>331,561</b>	<b>331,248</b>
Less : Contribution from Balances	-200	-200	
	<b>331,836</b>	<b>331,361</b>	<b>331,248</b>
WG Settlement RSG & NNDR	-251,685	-246,651	-241,718
<b>Call on Council Tax</b>	<b>80,151</b>	<b>84,710</b>	<b>89,530</b>

  

Tax Base	70,929	71,397	71,868
<b>Council Tax Rate (Band D)</b>	<b>£ 1,130.02</b>	<b>£ 1,186.46</b>	<b>£ 1,245.75</b>
Council Tax Increase	5.00%	5.00%	5.00%

6.4.1. A full summary of the Budget Build up can be seen in Table1.

6.4.2. It can be seen from the table above that following the adjustments made reflecting the provisional settlement, there is a balance 'to be allocated'. This sum allows members the opportunity to give further consideration to the following items:

- The rate of Council Tax to be applied in 2016-17
- The consultation feedback on the savings proposals
- Increasing investment in certain service areas.

6.4.3. It must be emphasised that the figures for 2017 - 2018 and 2018 - 2019 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.

6.4.4. As outlined in paragraph 4.1.8, Welsh Government has not provided any indicative AEF figures for 2017-18 and beyond.

6.4.5. Recommendations

**6.5. That Executive Board consider and recommend to County Council:**

6.5.1. The Budget Strategy for 2016/17 (subject to paragraph 6.4.4)

6.5.2. The Band D council Tax for 2016/17.

6.5.3. That the provisional medium term financial plan be approved as a basis for future years planning.

6.5.4. That the Director of Corporate Services will advise and recommend to County Council on 10<sup>th</sup> March of any impact and consequential action required from the Final Settlement which is due to be published by Welsh Government on 2<sup>nd</sup> March 2016, and debated on 9<sup>th</sup> March 2016.