

REPORT OF DIRECTOR OF CORPORATE SERVICES

Executive Board

18th January 2021

REVENUE BUDGET STRATEGY 2021/22 to 2023/24

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1. INTRODUCTION

- 1.1. Executive Board in November 2020 received a report on the Revenue Budget Outlook for 2021/22 to 2023/24 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 2021/22 together with indicative figures for the 2022/23 and 2023/24 financial years. The report is based on officers' projections of spending requirements and takes account of the provisional settlement issued by Welsh Government on 22nd December 2020. It also reflects the current departmental submissions for savings proposals after taking account of the impact of pandemic on the delivery of these savings.
- 1.3. Whilst significant work has already been undertaken in preparing the budget, this represents an initial position statement which will be updated over the coming month as the budget is further developed, council members are engaged and public consultation takes place. The final settlement is due to be received from Welsh Government on 2nd March.
- 1.4. The report is broken down into 5 parts:
 - Funding Projections
 - Budget Requirement
 - Impact on the Authority's budget requirement
 - Consultation
 - Conclusion

- Recommendations

2. PROVISIONAL SETTLEMENT

- 2.1. The provisional settlement was announced on Tuesday 22nd December 2020. Indicative figures for individual Local Authorities were provided for one financial year only, 2021/22, with no further information about future years' settlements.
- 2.2. The Westminster Comprehensive Spending Review announced on 25 November 2020 included a significant Barnett consequential, reported at £1.3 billion, though it is understood this includes Covid-19 expenditure. There were also the following announcements which have a material impact on our budget considerations:
 - 2.2.1. An announcement of a “pay freeze” for public sector workers excluding the NHS, but with “at least £250” for anyone earning below £24,000. Whilst unquestionably below the 2.75% allowed for previously, members should note that not only has no further information been published on this, but it is also stressed that this should be considered as an opening negotiating position in what is ordinarily subject to national pay bargaining. Unions have reacted negatively calling it a “kick in the teeth for the key workers”.
 - 2.2.2. A national living wage of £8.91, an increase of 2.2% on the current £8.72, much less than anticipated.
- 2.3. The main points of the Provisional Settlement 2021/22 on an all Wales basis are as follows:
 - 2.3.1. Local government revenue funding for 2021/22 set at £4.651 billion, an increase of 4.0% (£177 million) compared to 2020/21, but this is after transfers into the settlement of £5 million.
 - 2.3.2. Our analysis suggests there are however inconsistencies in this:

The settlement allows for £4 million of transfers in respect of the September 2020 Teachers pay award, which represented only partial funding of the part year (7 months) financial effect of the pay award. We estimate the full year effect of the award is approximately £40 million across

Wales, which will need to be met from the improved settlement.

WG also provided £1.6 million funding in 2020/21 to support the sixth form element of the September 2020 Teachers pay award. By contrast, WG have neither added this to the settlement nor increased sixth form grant funding, which remains at a cash flat position.

2.3.3. Unlike previous years, there is no funding floor. Individual settlements range from +2.0% (Ceredigion) to +5.6% (Newport), although there is some disquiet about this across Wales.

2.4. The Settlement figures for Carmarthenshire are:

2.4.1. After adjustments for WG identified transfers, the increase in the provisional settlement is 3.8% (£10.466 million). The Aggregate External Finance (AEF) therefore increases to £284.820 million in 2021/22. This includes £244k in respect of Teachers pay.

This settlement is significantly above our previous assumption of +2.0%, however there remains significant risk to our funding position as it provides no additional funding either in respect of any future pay award or Covid-19 related costs and/or continuing income reduction (discussed in paragraph 3.4.3 below)

On the basis of this experience, and in the absence of any forward guidance for future years, the MTFP assumptions for 2022 and beyond maintain our current assumptions of annual settlement increases of +2.0%, but increases to the assumed level of pay, price and other inescapable pressures, leading to a savings target of £17 million over the three year MTFP period.

2.5. Details of the Welsh Government Service Specific Grants were provided alongside the provisional settlement on 22 December 2020 at an all Wales level. Many remain at broadly at similar level (cash value level), however there are however some important updates :

- The social care workforce grant has been increased from £40m to £50 million across Wales. As was the case last year, we assume that the increase, estimated at £600k for Carmarthenshire, can be used in full towards the obvious and unavoidable service pressures.
- The Additional Learning Needs grant of £7.2 million across Wales which was introduced last year has been continued. This

continuation is welcome as it can be applied to the department's recurrent need of £400k

- A reduction of £1.0 million to the Sustainable Waste Management Grant, which will reduce the support from Carmarthenshire's core waste budgets by around £55k.

There are a number of grant changes referred to in narrative to the main WG budget narrative which are not reflected in the local government provisional grant tables, which we understand are due to be updated for the final settlement.

3. BUDGET REQUIREMENT 2021/22

3.1. Current Years performance (2020/21)

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 2020/21 (based on the October 2020 monitoring) is as follows

Service	Approved Budget £'000	Total Expenditure Forecast £'000	Variance Forecast For Year £'000
Chief Executive	12,994	12,436	-558
Communities	102,882	103,794	912
Corporate Services	27,637	27,186	-452
Education and Children's Services	178,291	179,798	1,506
Environment	59,190	60,207	1,017
Departmental Expenditure	380,995	383,420	2,426
Cont from Dept/Earmarked Reserves			0
Capital Charges	-19,940	-21,140	-1,200
Levies and Contributions	10,538	10,538	0
Transfer to/ from Reserves	0	0	0
Net Expenditure	371,593	372,818	1,226

The main reasons for the departmental overspends are as follows:

- o Communities Department: overspends against budget in the areas of Physical Disabilities, Learning Disabilities and Mental Health.

- Education and Children’s Services: overspend is due mainly to the forecast increase in school deficit balances.
- Environment Department: overspends are due to a shortfall in income across parking and property maintenance, together with additional costs within Waste Services.

The Authority is currently forecasting a variance of £1.2 million at the year-end that will have to be met from Reserves

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>2021/22</u> <u>Original</u>	2021/22 Proposed	<u>2022/23</u>	<u>2023/24</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	2.75%	2.75%	2.75%	2.75%
Pay Inflation - Teaching	2.75%	2.75%	2.75%	2.75%
Levies	2.9%	2.4%	2.5%	2.5%
Pension Contributions	nil	nil	nil	nil
Capital Charges	£500k	£500k	£500k	£500k

3.2.2. Our previous planning assumptions include future annual pay awards of 2.75% for all staff. Since then, the Chancellor’s Autumn Budget statement included a pay freeze for public sector workers, with the exception of NHS staff and other public sector workers earning below £24,000 who would receive “at least £250”. Without any detail beyond this, it is impossible to accurately estimate the cost of this. Teachers pay is similarly uncertain - the additional part year effect of the September 2020 pay award adds around £1 million to schools expenditure above 2020/21 levels.

The Chancellor’s proposal is in effect an opening employer’s position – our staff remuneration levels are subject to national pay bargaining, further complicated by WG assuming responsibility for Welsh Teachers pay decisions in 2019. The minister’s letter which accompanied the provisional settlement stated that WG itself had received no Barnett consequential in respect of pay and therefore authorities should provide for this in their budgets.

Given the current scale of uncertainty and that pay represents the single largest expenditure item in our budgets, it is deemed prudent to retain the pay award assumption in our draft budget at this time. This will also enable Carmarthenshire to uphold its commitment to being a living wage employer.

3.2.3. We have received confirmation from the fire authority that their indicative budget assumes a levy increase of 2.43%. This is based on the explicit understanding that firefighters pension cost increases continue to be met through direct grant award.

3.2.4. As a result of these factors, validation is at a similar level to last year and adds £11.1 million to the current year’s budget.

3.3. Cost Reduction Programme

3.3.1. In anticipation of the settlement challenges, significant work to review service efficiencies/rationalisation proposals has been undertaken.

In ordinary times, delivery of current savings proposals and development/preparation for future years forms a significant proportion of services activity and in particular, senior management capacity. The impact of the pandemic, and our response to it, has severely curtailed our ability to make normal levels of progress in this area.

Officers have reviewed savings and deferred delivery of a total of £3.043m from 2020/21 and 2021/22 to the outer two years of the plan.

3.3.2. The savings targets set for each financial year are as follows:

	2021/22 £m	2022/23 £m	2023/24 £m
Original targets (November Budget Outlook report)	5.930	5.209	5.208
Updated targets (following Provisional Settlement)	2.511	5.209	5.208

3.3.3. Accordingly, departments have developed a range of proposals, and these efficiencies are included in **Appendix A** of this report.

- The efficiency proposals are categorised as follows:
 Managerial – Efficiencies that result in no perceivable change to the overall level of service delivery.
 Policy – Efficiency or service rationalisation proposals that will directly affect service delivery.

	2021/22 £m	2022/23 £m	2023/24 £m
Managerial	2.438	4.346	2.429
Existing Policy	0.073	0.565	1.115
New Policy	Nil	Nil	Nil
Total	2.511	4.911	3.544
Shortfall	Nil	0.298	1.664

(Detail at **Appendix A**)

3.3.4. 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.

3.4.2. The original budget outlook report included £6 million in 2021/22 per annum to meet growth pressures.

Initial growth bids in excess of £11 million have been submitted by departments for 2021/22. This figure does NOT include any continuing Covid-19 response and/or income loss. Based on an evaluation of the value and unavoidable nature of pressures submitted as well as additional funding identified through grants as explained in paragraph 2.5 above, core funding for specific pressures totalling £4.689 million have been funded.

For this budget round, social care pressures are particularly difficult to quantify, for the following reasons:

- Funding required for the National Living Wage increase is less than expected, as the Chancellor's announcement of £8.91/hour was much less than the figure forecast by the Office of Budget Responsibility. However, the sector has been through unprecedented turmoil over the last year, and

cost pressures may persist even as Covid-19 hopefully recedes.

- The social care workforce impact of the new trading arrangements with Europe post Brexit could be significant
- There is a clear and unprecedented increase in need for Mental Health services. Whilst £500k has been provided for in the budget, it is hard to predict how demand will evolve.

Based on this assessment, a contingency sum of £500k has been set aside specifically against Social care. Members should further note that the budget figures contained within this report do not allow for any future funding pressures in respect of waste. To achieve increasingly challenging statutory Welsh Government recycling targets, it is likely that changes will need to be made to the waste collection methodology in the coming years which will require significant one off capital funding as well as increases to recurrent revenue budgets.

Information will continue to be reviewed and updated between draft and final budgets, and where grant funding can be identified to meet any of these pressures in part or full, this will be adjusted.

- 3.4.3 Covid-19 has led not just to unprecedented additional costs, but also a collapse of important income, particularly during periods of lockdown. Taken together, it is anticipated that the combination of additional expenditure and income loss will have a £30 million impact on Carmarthenshire’s current year budgets. Authorities have submitted monthly claims, which have been assessed, and to a very significant extent, fully refunded by WG. Looking ahead to next year, continued WG funding in this way has not been committed at this stage, not least because WG itself does not yet have funding confirmed as a consequence of Westminster Covid-19 related expenditure.

At the time of writing, the national picture appears bleak with the highest ever reported daily cases and daily deaths at the same peak as the first wave. Whilst the rollout of both approved vaccines is clearly the “way out”, the speed of vaccination is highly ambitious, and it has already been suggested that restrictions may continue to be needed next Winter. In this context, an additional £1 million corporate contingency is set aside in our budget.

In total, pressures funding adds £6.189 million to the budget. The detail is provided at **Appendix B**.

- 3.4.4 In addition to the authority’s own expenditure pressures, there is an urgent need to expand support to local businesses to support

economic recovery. This is primarily capital grant expenditure and is discussed in the separate capital programme report to be considered on the agenda today. However, as there is insufficient additional capital funding available, the draft revenue budget includes a £1 million one-off allocation to support this expenditure.

3.5. Schools Delegated Budgets

3.5.1 The last two budgets have provided in full for known pressures to school budgets including inflationary costs and pay awards. Over that time, school balances have continued to worsen. Prior to the pandemic, there was a significant focus on addressing the root causes of this, and to support individual schools to return to financial sustainability. It was recognised this would inevitably take some time to see the full effect of the changes being made. The unrelenting pressure on schools which the pandemic has caused has delayed this significantly. During the spring and summer, there was a moratorium on school redundancies, and the Autumn term has seen TTP activity for school staff grow to an unimagined scale. In recognition of this, next year's budget provides funding for known pressures in full. This includes the full year effect of the September 2020 pay award, and funding will be retained centrally against the any unfunded award in September 2021.

Members should however note that schools funding in 2020/21 received additional one-off support from the "Accelerated Learning Programme" in response to Covid-19 of £16.6m across Wales. WG have been able to continue this grant, though the value drops by around 30%. No information is yet available for the equivalent sixth form funding.

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:

- Uncertainty around the true economic impact of the new trading arrangements with Europe
- The pace of deployment and efficacy of Covid-19 vaccine upon the need for continuing public health restrictions
- Future inflation/interest rates
- The timing and severity of fiscal or expenditure measures brought in by Westminster Government to balance public sector finances.
- Additional pressure on demand lead Services

In addition as mentioned previously Welsh Government have only been able to provide a one year settlement and we have no knowledge of future settlement, which therefore means it is difficult to construct multi-year budgets in the absence of any clear forecasts.

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

	1 st Apr 2020 £'000	31 st Mch 2021 £'000	31 st Mch 2022 £'000	31 st Mch 2023 £'000
Schools Reserves	-2,001	-3,496	-2,496	-1,496
General Reserves	11,221	11,490	11,490	11,490
Earmarked Reserves	91,617	75,887	37,028	29,369

3.6.4. School Reserves

- 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.
- 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 2020, 45 primary, 6 secondary and 1 special schools were in deficit.

3.6.5. General Reserves

- 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
- 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 2020/21 budget was set on the basis of no transfers from the General Reserves. Based upon the October Budget monitoring (outlined in paragraph 3.1.2 above) there could be a small increase of £269k to General Reserves and a worsening of £1.5m on school deficit balances at the end of the current financial year.
- Given ongoing impact of the pandemic response on our budgets and the uncertainty of continued WG support into next year, therefore it is deemed imprudent at this stage to assume any further support for future years budgets from the current General Reserves.
- Taking account of reduction in overall reserves forecasted, consideration needs to be given to how these balances are built back up over future years.

3.6.6. Earmarked Reserves

- 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 2020 £'000	31 March 2021 £'000	31 March 2022 £'000	31 March 2023 £'000
Insurance	12,194	12,944	13,694	14,944
Capital Funds	47,234	41,285	8,449	2,241
Development Fund (inc. Schools Dev Fund)	1,637	440	815	2,090
Corporate Retirement Fund	4,299	4,299	3,299	2,299
Joint Ventures	1,306	418	350	316
Other	24,947	16,501	10,421	7,479
TOTAL	91,617	75,887	37,028	29,369

- 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
- The budget proposals therefore assume nil contribution from reserves in support of the revenue budget in 2021/22 and 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.
- Taking account of the proposals within this report, the Director of Corporate Services confirms that overall the estimated level of financial reserves (as indicated above) is adequate for the financial year 2021/22, with the General Reserves being at the minimum that could be supported. However the Director is very conscious of the ongoing commitment to capital projects and of the demand on future services

and therefore feels the reserves will need to be monitored closely going forward.

4. IMPACT ON THE AUTHORITY'S BUDGET STRATEGY

The table below provides an updated position on the current financial outlook taking account of the provisional settlement and also other recent validation changes.

4.1. The Current Financial Outlook (updated for the Provisional Settlement) is set out in the table below:

	Current MTFP		Proposed Financial Model		
	2021/22 £'000	2022/23 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Previous Year's Budget	371,593	382,147	371,593	387,328	398,356
General Inflation	2,462	2,462	2,451	2,534	2,728
Pay Inflation	6,688	6,849	6,512	6,848	7,035
Transfers in & other*	1,334	1,326	3,094	1,355	1,367
Growth	6,000	5,500	6,189	5,500	5,500
Savings proposals	-5,297	-4,694	-2,511	-4,911	-3,544
Further savings to be identified	-633	-515	0	-298	-1,664
Net Expenditure	382,147	393,075	387,328	398,356	409,778
Funded by:					
Revenue Settlement	279,643	285,235	284,820	290,517	296,327
Council Tax Receipts	102,505	107,840	102,507	107,839	113,451
Council Tax Increase:	4.89%	4.89%	4.89%	4.89%	4.89%

*includes funding allocation to Economy Recovery capital (paragraph 3.4.4)

4.2. The total of cost reductions now required for 2021/22 is £2.5m and for the 3 year period are estimated at £13m.

4.3. The 2021/22 draft budget currently includes a contingency sum of £1.5m in respect of risks around Brexit, Covid-19 and further pressures. Should the level of risk or uncertainty reduce before the final budget setting, it may allow members scope to consider additional information forthcoming in respect of:

4.3.1. Responses to the consultation process

4.3.2. Clarification of specific grants

4.3.3. Further growth pressures not currently addressed

5. CONSULTATION

Budget consultation has been planned for the coming month and a summary of the individual approaches are as follows:

5.1. Members seminars. (18-22 January 2021)

5.2. The consultation process will commence online from 18 January 2021.

5.3. Town & Community Councils and commercial ratepayers consultation in January 2021.

5.4. Consultation with Scrutiny Committees during January 2020.

5.5. Consultation with the Schools Budget Forum on 11 February 2021.

5.6. Trade Union Consultation meeting on 22 January 2021

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

Governance

15. Building a Better Council and Making Better Use of Resources

7. CONCLUSION

- 7.1.** Currently the budget proposals assume the full delivery of all of the savings proposals submitted, together with the identification and delivery of the shortfall in savings proposals 2022/23 and 2023/24.
- 7.2.** Further cost reductions need to be identified for years 2022/23 and 2023/24 to be able to maintain the current Budget Strategy and level of council tax. The savings to be identified in years 2 and 3 of this Strategy amounts to £1.96 million and departments will be working over the forthcoming year to identify these savings.
- 7.3.** It is recognised the critical importance of minimising the Council Tax increase for our residents whilst maintaining a balanced budget in these unprecedented and challenging times.
- 7.4.** Given the scale of the current budget gap forecast, Council Tax increases have been maintained at the previous MTFP levels of 4.89% in each of the three financial years. This provides at least some mitigation to the savings proposals which the council needs to consider deferring to future years of the Medium Term Financial Plan.
- 7.5.** Over the coming weeks and part of the refining of the Medium Term Financial where the Authority gets further clarification on costs and grant funding and feedback on the consultation, the Authority will aim to limit the Council Tax increase as far as possible.

8. RECOMMENDATION

- 8.1.** That Executive Board:
- 8.2.** Note the contents of the report and approve the three year Budget Strategy as a basis for consultation. Specifically seek comments from consultees on the efficiency proposals in Appendix A.
- 8.3.** Give consideration as to what additional savings proposals can be identified to deliver a balanced budget over the full 3 year financial planning period.