

REPORT

SUBJECT:	Revenue and Capital Budget 2017/18– Final proposals following public consultation
MEETING:	Cabinet
DATE:	15th February 2017
DIVISION/WARDS AFFECTED:	ALL

1. PURPOSE:

- 1.1 To update Cabinet with the consultation responses to the budget proposals issued by them on the 16th December 2016 in respect of the Capital and Revenue budgets.
- 1.2 To update members with implications arising from the Final Settlement announcement of the Welsh Government.
- 1.3 To make recommendations to Council on the Capital and Revenue budgets and level of Council Tax for 2017/18.
- 1.4 To receive the Responsible Financial Officer's Prudential Indicator calculations for capital financing.
- 1.5 To receive the statutory report of the Responsible Financial Officer on the budget process and the adequacy of reserves.

2. RECOMMENDATIONS:

- 2.1 That Cabinet considers the responses to consultation and recommends to Council:
 - The 2017/18 revenue budget as attached in Appendix I
 - The 2017/18 to 2020/21 capital programme as attached in Appendix J1.
 - That 3.95% increase in the Band "D" equivalent Council Tax for the County continues to be used as the planning assumption in the budget model for to apply for County purposes in 2017/18
- 2.2 That Cabinet approves the necessary saving proposals and the release of £1.653 million from earmarked reserves to deliver the changes required to support the 2017/18 revenue and capital budget and notes the critically low level of earmarked reserves of £4.85 million left at the end of 2017/18.
- 2.3 That Cabinet recommends to Council that headroom in the revenue budget is maintained to enable the delivery of the key capital commitments already made, as further information becomes available and the schemes are approved. The Treasury Equalisation reserve will be used to maintain this headroom if necessary.
- 2.4 That Cabinet recommends Council to dispose of assets identified in the exempt background paper for not less than the best consideration that can reasonably be obtained.

- 2.5 That Cabinet considers the Responsible Financial Officers report on the robustness of the budget process and the adequacy of reserves issued under the provisions of the Local Government Act, 2003.
- 2.6 That Cabinet adopts the Responsible Financial Officer's report on Prudential Indicators.
- 2.7 That Cabinet approves the following:
- Further work is undertaken to develop a balanced MTFP over the 3 year period 2018/19 to 2020/21
 - Regular review of the MTFP to ensure it remains up to date

3. KEY ISSUES:

BUDGET CONSULTATION

- 3.1 Cabinet issued its budget consultation proposals on 16th December 2016 thereby allowing a period for consultation and scrutiny. The proposals were considered by the Children's and Young Persons, Strong Communities, Adult Services, and Economy and Development, the Schools Budget Forum and JAG. A Joint Select was also held on 31st January 2017. Extracts of the draft minutes from the meetings where available are included as **Appendices A/1 to A/8** and a summary of the comments from Select committees are included at **Appendix A/5**. A note of the response from the public consultation sessions is attached at **Appendix A/7**.
- 3.2 As might be expected, responses to consultation varied, however there have been no strong objections made to the overall shape of the budget proposals. There were however a number of questions clarified via the Select Committee meetings and other consultation meetings. In terms of public engagement the use of social media as a mechanism for sharing information and getting feedback has continued, however there has been a low level of response this year.
- 3.3 In terms of issues being raised which seek to affect the budget proposals specifically, there were no recommendations. The process in general had worked well, with thorough debate having taken place at the individual selects. There were concerns from some Members that some of the proposals lack the detail necessary for them to form a view. However, there is acknowledgement that the Joint Select meeting presented an opportunity for the proposals to be aired and scrutinised, as opposed to being agreed, which is a matter for full Council. The Joint Select meeting enabled discussion and challenge of the priorities across the range of services and therefore scrutiny of the budget in so far as it can be at that time. The process will be reviewed to inform that of the successor Council.
- 3.4 On capital account, general support was expressed about the need to invest in Future schools whilst recognizing that there are possible pressures to be managed. The risk on the rest of the capital programme is noted and the risks associated with the need to achieve the sale of assets at a time when market prices are less than could be achieved in the height of the property boom is also understood.

FINAL SETTLEMENT

- 3.5 The final settlement was announced on the 21st December 2016. The Local Government settlement was announced with an overall small increase (after adjusting for transfers) across Wales of 0.2%. For Monmouthshire the final settlement has delivered a slight increase in the Authority's Aggregate External Finance (AEF) of 0.03% after taking into

account transfers into the settlement. The changes in AEF across Wales range from a reduction of 0.5% to several authorities caught by the floor mechanism to an increase of 1.1% in Gwynedd. When this is compared to the provisional AEF included in the previous budget reports the Authority is better off by £29k. The main adjustment to the AEF resulted from the inclusion of £6 million of funding for the prevention of homelessness as a new burden for Authorities. From the 1st April Authorities managing temporary accommodation will no longer be able to recover their management fee via housing subsidy arrangements. For MCC it is estimated that this equates to £175k of income. The settlement transfers £148k to offset this but leaves a pressure of £27k to manage. There is also a potential impact on housing associations contracted by MCC to let temporary accommodation in the same way, but this is currently being worked through.

- 3.6 Notification has also been provided of an additional £10 million for the impact of the national living wage on the domiciliary care sector and an additional £10 million for non-domestic rates relief for businesses on the high street. The details of the allocation of these funds has yet to be announced.
- 3.7 A table showing each authorities position resulting from the final settlement is included at **Appendix B2** to this report. Monmouthshire remains at the bottom of the table in terms of AEF per head of population.
- 3.8 The final settlement also only included the notifications of some specific grants at an all Wales level. There are still a number of grant announcements to be made and this position is extremely disappointing as it makes planning for next years budget even more difficult. The Single Environment Grant has been notified at an all Wales level, indicating a 6.7% reduction in the grant and this has been factored into the Waste budget for next year. The current position on grants is included in **Appendix C**.
- 3.9 On capital account, the final settlement saw no change to the anticipated funding included in the draft capital MTFP budget proposals.
- 3.10 The medium term prognosis is still of concern, there are no indicative settlement figures published, even though the Spending review showed the Welsh budget with slight cash increases it is difficult to forecast how this will be distributed by Welsh Government. It is expected that the slightly better 2017/18 settlement will not be repeated in future years. The MTFP for 2018/19 onwards continues to factor in funding reductions of 2.6% then 1.8%, so that planning can be undertaken on a prudent basis, however this may be revised when the MTFP is updated after the 2017/18 budget is set. There is still a need to think differently about the even greater challenges of the medium term and this work and engagement is continuing through the Future Monmouthshire work in the coming months.

CABINETS RECOMMENDATIONS TO COUNCIL

REVENUE BUDGET

- 3.11 The Cabinet budget report of 16th December 2016 identified proposals to close a £4.5 million gap. The report highlighted that £243k still needed to be found in the budget for 2017/18. The budget at that time included £4 million of pressures and £2.3 million of corporate finance contributions and £1.8 million service saving proposals. Work has continued to develop further proposals and revise the existing savings and pressures in the light of further engagement and analysis. All the proposals are available as part of this budget report. There are some minor amendments to the previously presented

pressures and proposals which are highlighted in yellow in Appendix D and Appendix E4. The main changes identified are outlined in the following paragraphs.

Additional Pressures

3.12 The following additional pressures are identified for the budget for 2017/18:

New pressures	£000s	Comments
Accountable body City Deal	62	On going annual running costs of the City Deal programme
Grass cutting savings - at risk	100	Issues have been raised about this saving as MHA are not prepared to reduce their cuts as well this year. There is need for more lead in time to introduce this saving and so it has been moved to 2018/19.
Commercialisation mandate unachievable	100	Whilst this has been recognised as unachievable in the current year monitoring report and is therefore taken out of the budget for 2017/18, work on a commercial strategy and approach is being developed and whilst opportunities will be brought forward it is premature to factor these in at this stage.
Childrens social services - Cabinet report	86	Reserve funded if necessary
Temporary accommodation subsidy	27	This was a late transfer into the final settlement, we received £148k, but will lose about £27k more than this in management fee income in relation to the leased properties being managed for temporary accommodation purposes. In addition, a local housing association is also contracted to provide similar accommodation and they will also lose £188k approx. Still working through figures, but will consider reserve funding on a one off basis for remaining pressure, whilst the contract with the housing association is being revised, if necessary.

Additional Savings

The following additional savings have been identified to meet the gap in the 2017/18 budget:

New savings	£000s	Comments
Income from Solar farm to meet debt costs	-160	The cost of financing the capital spend had been factored into the budget, but this will be met from the income from the solar farm and this hadn't been factored into the budget
Recycling plant	-70	Purchase of new plant leads to reduced tarmac costs
Social Services income charges rise from £60 to £70	-150	Increase in rates allowable notified by Welsh Government, not known when proposals put together
Allocation of £10m extra for NLW for social care	0	As the amount is currently unknown and Social services may yet have more demand to deal with in 2017/18, any additional receipt of grant for this purpose will be windfall in 17/18 and can be built into the budget in 18/19
Procurement	-100	Based on a high level review of procurement there is an expectation that savings can be achieved, amount delivered may be more than this but as specifics are not know at this time a prudent approach has been taken
Whole Place	-100	Rationalisation of the resources in this area
Pension contributions	-160	Underspend against budgetted pension contributions for staff in Operations

3.13 Updated Capital MTFP and interest rates

The updates to the Capital MTFP outlined below, together with a review of the forecast interest rates for borrowing in 2017/18 have resulted in the creation of some headroom in the Appropriations budget that will enable the commitments to various capital schemes to be included in the Capital programme once the further work has been completed. This headroom will be maintained in the base budget until needed to fund the additional borrowing. As in previous years the Treasury Equalisation reserve will be used to smooth the revenue impact of the increased capital investment.

Council Tax

3.14 The 3.95% increase in the Band “D” equivalent Council Tax for the County continues to be used as the planning assumption in the budget model for to apply for County purposes in 2017/18.

3.15 A summary of the original budget pressures and budget savings proposals are identified in **Appendix D and E**. The relevant FGEs are also available. The summary position on the budget is now as follows:

Gap as per Budget report to Cabinet 16th Dec 2016	243
New pressures	595
New savings	-740
Reserve funding	-86
Use of some of the headroom in appropriations	-12
Balanced Budget	0

CAPITAL BUDGET

3.16 The capital MTFP strategy is one which seeks to work towards a financially sustainable core capital programme without recourse to further prudential borrowing or use of capital receipts so that these resources can be directed towards the Council’s priority of the future schools programme. The Summary Capital MTFP is shown in **Appendix J1**. There remain significant pressures of a capital nature that cannot be afforded within the capital MTFP and these are outlined in **Appendix J5**. There have been no other changes to the Capital budget since it was released for consultation. There is a commitment to a number of schemes that will be added to the capital programme once more information is available. Headroom in the Treasury budgets has been maintained to ensure the costs of borrowing can be met without any further impact on the revenue budget. The schemes include, Monmouth Pool, Abergavenny Hub, City Deal, and Disabled Facilities Grants.

3.17 **Appendix J3**, the capital receipts summary shows the expected level of receipts and planned usage and highlights the balances available in the next couple of years. Future investment in capital schemes, is in part dependent on future success of achieving capital receipts and there are significant risks attached to some receipts materializing. The revised receipt schedule is provided as exempt background papers to this report for Members approval as **Appendix J6**.

THE PRUDENTIAL CODE

3.18 Under the Prudential Code, local authorities are required to publish Prudential Indicators produced to demonstrate that capital programmes are prudent, sustainable and

affordable in the longer term. The indicators for 2017/21 are contained at **Appendix G** to this report, assuming eventual Council approval of Cabinet's budget and Council Tax recommendations.

THE ROBUSTNESS OF PROCESS AND RESERVES

- 3.19 The level of the **general reserve** at £7.1m million is within the range of 4-6% of net revenue budget and considered to be at a prudent level. The final revenue budget proposals do not include a requirement to use any of the general reserve to balance the budget in 2017/18. The total planned **earmarked reserve** utilization in support of the 2017/18 revenue budget is £1.653 million. There is a small contribution planned for 2017/18 in support of the capital programme. **Appendix H1** shows the call on and contributions to reserves for the 2017/18 budget and **Appendix H2** shows the reserve balances projected for the medium term. Total planned reserve utilization in support of current year revenue and capital budgets means that by the end of 2016-17 the balance of earmarked reserves is likely to be £6.2 million. The further call in 2017/18 means that the earmarked reserves will fall to the critically low level of £4.85 million. In addition, the Priority Investment reserve will need to be replenished at the end of 2016/17 in order to fund the projects identified going forward. Members need to be aware that the low level of earmarked reserves will severely reduce the flexibility the Council has in meeting the challenges of scarce resources going forward.
- 3.20 Under the provisions of the 2003 Local Government Act, the Responsible Financial Officer has to provide conclusions on the robustness of the budget process and the adequacy of reserves. Those conclusions are shown at **Appendix F**.
- 3.21 The effect of Cabinets revenue budget recommendations is shown at **Appendix I**. The effect of Cabinets capital recommendations is shown at **Appendix J**. Final Council Tax setting is reserved for decision of Full Council.

FUTURE GENERATIONS EVALUATION/EQUALITY IMPACT ASSESSMENT (EQIA)

- 3.22 There is a requirement placed on Local Authorities to comply with the general equality duties set out in the Equality Act 2010 and the specific equality duties such as the statutory responsibilities to assess the equality impacts of their budgetary decisions. The Equality Act 2010 places a General Duty on Monmouthshire County Council to eliminate discrimination according to nine "protected characteristics" (age, belief and non-belief, disability, gender, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, and sexual orientation). Also we need to comply with the Welsh Language Act 1993 and the Welsh Language Measure 2011 through which the Welsh Language Commissioner has shaped the Welsh Standards which will come into force from 30th March 2016. The Wellbeing of Future Generations Act requires public bodies to improve social, economic, environmental and cultural wellbeing, by taking action in accordance with the sustainable development principle aimed at achieving the Wellbeing Goals. The authority was an early adopter of The Act and has re-shaped its pre-decision evaluation tool to reflect the well-being goals and the principles which it sets out.
- 3.23 The Council has responded to these issues by building considerations of equality, diversity and sustainability into the planning and delivery of its 2017/18 budget. It has done this by:
- Requiring Chief Officers to undertake a Future Generation evaluation of all the original savings proposals they offered for their service area to contribute towards the Council's overall savings target. These can be viewed in Appendices K1 to K6.

- Undertaking a FGE of the capital budget proposals and publishing this as part of the capital budget proposals for consultation. This is attached as **Appendix L1** as the assessment has not changed since it was undertaken.
- Enabling the Council's Cabinet Members to consider initial savings proposals with the benefit of the FGEs in December 2016, and to make initial decisions based on this information. The budget proposals reflect Cabinet's key priorities and therefore key services that support equalities – such as social care and schools
- Deciding that once the final shape of the budget is agreed by Council in March 2017, Council service areas carry out more detailed work to mitigate and manage any equalities or Future Generation issues that have been identified
- Including the FGEs as part of this report and published on the Council's website so that residents can understand the factors that went into the planning of the 2017/18 budget
- Ensuring that where proposals will be the subject of further reports it is expected that further FGEs will be undertaken at that time and where savings are being made from decisions already taken then those implementing those decisions should consider mitigating any negative impacts where necessary.

4. REASONS:

- 4.1 To make appropriate recommendations to Council on the revenue and capital budgets for 2017/18, and the resultant Council Tax recommended to be set for County purposes, subject to the results of the public consultation in early January.
- 4.2 To sustain the Capital programme and establish capital resources to support the programme by the sale of surplus assets.
- 4.3 As required by statute, to consider the Responsible Financial Officers provisional conclusions on the robustness on the budget process and the adequacy of reserves going forward.
- 4.4 To approve the Prudential Capital Indicators calculated by the Responsible Financial Officer.

5. RESOURCE IMPLICATIONS:

As identified within the report and appendices.

- 6. CONSULTEES:** Cabinet, Strategic Leadership Team

7. BACKGROUND PAPERS:

Directorate Budget builds, detailed capital programme and associated papers Provisional Local Government Settlement

Final Local Government Settlement

The CIPFA Prudential Code for Capital Expenditure

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Appendices

- A/1 Minutes of Economy and Development Select committee – 5th January 2017
 - A/2 Minutes of Children and Young People Select Committee – 12th January 2017
 - A/3 Minutes of Adults Select Committee – 24th January 2017
 - A/4 Minutes of Strong Communities Select Committee – 26th January 2017
 - A/5 Joint Select Committee – 31st January 2017
 - A/6 Draft Minutes of Schools Budget Forum – 26th January 2017
 - A/7 Report on public engagement events in January 2017
 - A/8 Minutes of JAG on 30th January 2017
 - B Final Settlement Data
 - C Specific Grants 2017/18
 - D Summary of Evidence Based Pressures
 - E Summary of budget proposals 2017/18
 - E/1 CEO Proposals
 - E/2 Children & Young People Proposals
 - E/3 Enterprise Proposals
 - E/4 Operations Proposals
 - E/5 Resources Proposals
 - E/6 SCH Proposals
 - F Responsible Financial Officers Opinion
 - G Prudential Indicators
 - H/1 Use of reserves for Revenue Budget Purposes 2017/18
 - H/2 Reserve Balances
 - I Revenue Budget Summary 2017/18
 - J/1 Capital Budget Summary 2017/18 to 2020/21
 - J/2 Schools Capital Budget Summary 2017/18 to 2019/20
 - J/3 Capital Receipts Summary
 - J/4 Receipt Risk Factors
 - J/5 Capital Pressures
 - J/6 Exempt Capital Receipts
 - K/1 CEO Future Generations Evaluation
 - K/2 Children & Young People Future Generations Evaluation
 - K/3 Enterprise Future Generations Evaluation
 - K/4 Operations Future Generations Evaluation
 - K/5 Resources Future Generations Evaluation
 - K/6i SCH Future Generations Evaluation – transport policy
 - K/6ii SCH Future Generations Evaluation – Day Services Meal Charges
- L/1 Future Generations evaluation on the capital programme