

<b>SUBJECT:</b>	<b>MEDIUM TERM FINANCIAL PLAN and BUDGET PROCESS 2019/20 to 2022/23</b>
<b>MEETING:</b>	<b>CABINET</b>
<b>DATE:</b>	<b>7<sup>th</sup> November 2018</b>
<b>DIVISION/WARDS AFFECTED:</b>	<b>WHOLE AUTHORITY</b>

## **1. PURPOSE:**

- 1.1 To highlight the context within which the Medium Term Financial Plan (MTFP) will be developed for 2019/20
- 1.2 To agree the assumptions to be used to update the MTFP, and provide an early indication of the level of budget savings to be found.
- 1.3 To update Members with the implications arising from the provisional settlement announcement of Welsh Government.
- 1.4 To agree the process for developing the MTFP and budget for 2019/20

## **2. RECOMMENDATIONS:**

- 2.1 That the budget assumptions outlined in paragraphs 3.18 to 3.20 in the report are agreed and updated during the budget process should better information become available.
- 2.2 That Cabinet approves the draft response to the Welsh Government on the provisional settlement.
- 2.3 That Cabinet receives the draft MCC financial strategy 2019 onwards for information
- 2.4 That the budget process as outlined in paragraph 3.24 is adopted including member budget scrutiny and consultation conducted with Select Committees, and consultation with the public, businesses, JAG, schools budget forum and the Inclusion Group.

## **3. KEY ISSUES:**

### **Context**

- 3.1 Members will know that we have faced and will continue to face significant financial challenges. Over the last four years the Council has had to manage a reduction in the total budget of £19.5 million. Funding from Welsh Government has reduced over the period whilst inflation has been rising therefore making the real terms reduction much greater. At the same time pressures on the budget have been increasing in terms of demographic growth, demand and expectations in children's services, contract price inflation and redundancy costs.
- 3.2 Whilst setting the budget annually within the context of a MTFP, the development of multi-year budget proposals has been difficult. An ongoing forecast resource gap is being

predicted however with the absence of future year's indicative settlements from Welsh government, planning for the future is challenging.

- 3.3 Work has been continuing on the business transformation themes which emerged from the Future Monmouthshire initiative several years ago and are captured in the MTFP where possible. This work however recognizes that the challenges faced by the County and Council are not limited to financial pressures and these should be seen in the round with other significant challenges. Taking a holistic approach to this work will ensure that the needs of our communities that we serve are put first within the financial constraints that we operate.
- 3.4 The year end position for 2017/18 and the current year monitoring continues to demonstrate the tightening of our financial position. The reports also assess the delivery of the savings we have previously identified. Overall the outturn position was just under budget, but means that there was a limited opportunity to replenish our reserves.
- 3.5 A review of the earmarked reserves position was brought to Cabinet on 6<sup>th</sup> July 2016. The report highlighted that as reserves have been used extensively and there is less opportunity to replenish reserve balances as budgets get tighter, ear marked reserves need to work harder to help the Authority through the financial challenges and risks it faces. Reserves should not be used to plug the funding gap and fund on going expenditure, they are needed to help with one off investments to transform services so that they can operate within a reduced financial envelop. Having clearer protocols and responsibility assigned can help to ensure the return from the use of reserves in the future is maximised.

### **Current approach to the 2019/20 budget**

- 3.6 Taking significant levels of resource out of the budget year on year has been a massive achievement. In reviewing this process, questions have been raised about whether it is sustainable going forward. The business transformation work is on going and key themes are being worked on. This has dovetailed into the production of the Corporate Plan setting out our five organizational goals supported by 22 commitments to action over the next five years. A financial strategy has therefore been developed and a draft is attached for members information at Appendix 3. This will be updated as the budget process for next year takes shape and 3 year service business plans are aligned and reflective of the forecast resources available over the medium term.
- 3.7 Clearly the need to still set annual budgets within our Medium Term Financial strategy will need to sit alongside the work described above. In order to encourage all services to engage with this work, all services in the organisation have been asked to consider how their services would look within a range of reductions in the resources available to them. The principles adopted through the business transformation work will form an important back drop for services to explore the options available to meet the more immediate budget challenges.
- 3.8 In rolling forward the current MTFP, a review of all the existing assumptions, savings and pressures previously agreed for inclusion in the model has been undertaken and provides a basis on which to scenario plan for the future, whilst recognizing that we are building from an extremely challenging starting point.

## **MTFP assumptions**

### **Review of Savings already included in the MTFP**

- 3.9 Some previous mandates identified multiple year savings and these have been captured in the MTFP and now reviewed as part of the 2019/20 process. The result has been captured in the table below:

Disinvestment by Directorate	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Children & Young People	(23)	0	0	0
Social Care & Health	(725)	(189)	(189)	0
Enterprise	230	0	0	0
Resources	(970)	(50)	(62)	(75)
Appropriations	(162)	0	0	0
<b>Totals</b>	<b>(1,650)</b>	<b>(239)</b>	<b>(251)</b>	<b>(75)</b>

### **Review of Pressures already included in the MTFP**

- 3.10 Previously identified pressures and new pressures have also been reviewed and the results identified in the table below:

Pressures by Directorate	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Children & Young People	1,292	560	0	0
Social Care & Health	1,124	857	70	0
Enterprise	833	180	240	20
Resources	217	59	60	62
Chief Executives Unit	35	0	0	0
Corporate Costs & Levies	910	844	2,201	2,418
Appropriations	349	0	0	0
<b>Totals</b>	<b>4,760</b>	<b>2,500</b>	<b>2,571</b>	<b>2,500</b>

- 3.11 There are a myriad of other potential pressures which have not yet been factored in as they are currently being assessed. Included in this list would be any further changes in demand for services, legislation changes, living wage impact on social care contracts, changes to specific grant funding streams and welfare reform. If specific grants cease, it is expected that the activity will cease. Continuance of an activity following grant funding ceasing, would require a business case to assess each case on its merits.
- 3.12 The budget monitoring reports will also be assessing the achievability of delivering the savings identified for 2018/19, and the scale of other pressures manifesting in this year of account. An assessment will need to be made about whether these pressures extend into 2019/20 notwithstanding any efforts to manage and mitigate the pressures in year

### **Assumptions used in the MTFP – Aggregate External Finance Provisional settlement**

- 3.13 The provisional settlement was announced on the 9<sup>th</sup> October 2018. The overall increase in the Welsh Government revenue budget for 2019/20 is 5.6%, and following decisions by WG on its budget, the Local Government settlement was announced with an overall reduction in the revenue settlement (Aggregate External Finance) across Wales of 0.3%. However, this includes additional funding for free school meals of £7m, £20m for social

care, £13.7m for teachers' pay which, depending on how you view these new responsibilities could make the gap much wider.

- 3.14 For Monmouthshire the provisional settlement has delivered a reduction in the Authority's Aggregate External Finance (AEF) of 1% after taking into account new responsibilities and transfers into and out of the settlement. The AEF across Wales range from a 0.4% increase in Cardiff to reduction of 1% in Monmouthshire, Powys, Flintshire, Conwy and Isle of Anglesey. All of these authorities having been caught by the funding floor. A response to WG regarding the Provisional Settlement is attached as Appendix 1. A table showing each authorities position resulting from the provisional settlement is included at Appendix 2 to this report. Monmouthshire remains at the bottom of the table in terms of AEF per head of population.
- 3.15 In terms of Specific Grants the detail requires to analyse specific grants will be announced on 23 October when the WG publishes the detailed budget breakdown.
- 3.16 Overall General Capital Funding was maintained at £143 million for the whole of Wales. In terms of the provisional settlement for Monmouthshire there was very little change to the anticipated funding included in the capital MTFP. It is proposed that the capital reserve is used to make up any minor differences, rather than reduce capital budgets any further.
- 3.17 The medium term prognosis is still of concern, there are no indicative settlement figures published, and even though the Welsh budget had a cash increase it was difficult to forecast how would be distributed by Welsh Government. The WLGA has modelled a 'pessimistic' scenario where the NHS and other non LG budgets are protected for inflation. In such a scenario the AEF for LG would reduce by 1.8% in 2019/20. This has now been confirmed as a reduction of 1% for 2019/20, but for the remaining years of the MTFP a reduction of 1.8% has been forecast in the absence of any indicative settlements from WG. These reductions will be used in the MTFP so that planning can be undertaken on a prudent basis, however this may be revised when the MTFP is updated after the 2019/10 budget is set.

### **Other MTFP assumptions**

- 3.18 All the assumptions in the underlining MTFP model have been reviewed and the following are recommended for modelling purposes:
- Council Tax – 4.95% for 2019/20, 3.95% for rest of MTFP
  - Other external income – 0%, individual services to determine price increases
  - Pay inflation – 2% for 2019/20, 1% for rest of MTFP
  - Non pay inflation – 0%
  - Vacancy factor – 2% (except schools)
  - Superannuation – 23.1%, rising 1% each year of the MTFP
  - Teachers superannuation – 16.48% rising to 23.6% at 1<sup>st</sup> Sept 2019
- 3.19 Reserves – It is assumed that additional reliance on reserves, except for one off investment that has a net on going benefit to the revenue budget, will be avoided in the MTFP. Ear marked reserves are an important part of the MTFP strategy for managing the changes required and are key to financial resilience in times of extreme financial challenge.
- 3.20 Capital financing - Capital financing costs are currently based on the approved Capital MTFP, the funding budgets will need to be reviewed following the development of the next capital MTFP taking into account any slippage. Other Corporate Costs, such as precepts and levies, will also be updated as information becomes available.

3.21 The assumptions highlighted above are based on the best information available at the current time, however they will be subject to variation as new information comes to light and our forecasting techniques are refined. The current assumptions show the following gap in the MTFP model:

3.22

<b>Year</b>	<b>MTFP Gap £'000s</b>
2019/20	4,621
2020/21	7,719
2021/22	10,629
2022/23	13,880

What is clearly shown in the table above is that there will be a significant gap in the MTFP to find. Further potential pressures may be identified that will potentially increase this gap, however work will be undertaken to validate these and assess how they can be managed or mitigated. At the moment £13.88 million will be a working target until more information becomes available.

### **Process**

3.23 The process this year has been revised and reconfigured so that individual service planning is run in parallel to the MTFP work and will map the links to the Corporate Plan and 22 commitments to action.

3.24 The process for developing proposals for next year's budget within the context of the Corporate Plan and MTFP has included the following:

- All services to provide budget proposals to meet a 6% reduction in their budgets and considering the following issues in line with the Future Monmouthshire principles, and ensuring the Future Generation Act and Equality Act requirements are applied:
  - A continued drive for efficiency and focusing on what matters to citizens, by involving those with an interest and seeking their views
  - Longer term considerations are provided as well as short term budget proposals, moving to putting resources into preventing problems occurring or getting worse
  - Service Redesign including demand management, use of technology to enable digital access to services.
  - Moving to enabling services to be delivered via an array of alternative commissioning arrangements and delivery models and/or collaboration to ensure integrated services are delivered to shared objectives
  - Income generation – taking opportunities to commercialise services, maximize income generating potential from all the authorities assets and seeking and sourcing new income streams
  - As a last resort service reduction, including stopping or closing some services
- The process has also included capturing cross cutting issues that may deliver savings across the whole authority
- Identification of pressures, including an assessment of any ongoing pressures in the current year's budget.

- The identification of savings proposals or pressures will consider and provide evidence of how they relate to Future Generations Act and Equality Act requirements, including ensuring that the 5 ways of working contained in the FG Act have been applied in bringing the proposals together.
- A challenge processes to ensure the necessity of pressures, the robustness of proposals and achievability for 2019/20 and the account taken of Future Generations and Equality Acts during the process
- It is expected that the draft budget proposals will be available for a special Cabinet on 19th Dec 2018
- Final settlement from WG received – 19<sup>th</sup> Dec 2018
- The consultation period with the public, businesses, JAG, schools budget forum, Inclusion Group and Select Committees will then run from 19<sup>th</sup> December until beginning of Feb 2019
- Select dates:  
  - Economy and Development – 10th January 2019
  - Children and Young People – 24th January 2019
  - Adults - 29th January 2019
  - Strong Communities – 31st January 2019
- Deadline for receipt of Community Council precepts – 31<sup>st</sup> January 2019
- Final budget proposals following consultation will go to a special Cabinet on 20th Feb 2019
- Council Tax and budget setting will then take place at Full council on 7th March 2019.

#### **4. REASONS:**

- 4.1 To ensure that short and medium term budgets are constructed to maximize available resources in favour of the Council's priorities and based on the best available knowledge of local and national funding and expenditure pressures.
- 4.2 To provide the opportunity for consultation on and scrutiny of budget proposals and processes.

#### **5. RESOURCE IMPLICATIONS:**

The report outlines the framework within which next year's budget will be constructed, including the assumptions to be used, pressures and savings incorporated in the model leading to an estimated gap over the MTFP.

#### **6. SUSTAINABLE DEVELOPMENT AND EQUALITY IMPLICATIONS:**

The Future Generations process has been completed and the form is attached at Appendix 4

There are no significant impacts identified at this stage. As part of the budget process, individual budget proposals will be assessed for their implications as they are developed.

Consultation with the protected characteristics will be covered as a minimum by engagement with the Authority's Inclusion Group.

**7. SAFEGUARDING AND CORPORATE PARENTING IMPLICATIONS:**

None

**8. CONSULTEES:**

Strategic Leadership Team  
All Cabinet Members  
Head of Legal Services  
Head of Finance

**9. BACKGROUND PAPERS:**

Provisional Settlement papers from Welsh Government

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Appendices

Appendix 1 Response to Welsh Government on the Provisional settlement  
Appendix 2 AEF per head of population 2019/20  
Appendix 3 Draft Financial strategy  
Appendix 4 Future Generations evaluation