

REPORT

SUBJECT:	Revenue and Capital Budget 2019/20 – Final proposals following scrutiny and public consultation
MEETING:	Cabinet
DATE:	20th February 2019
DIVISION/WARDS AFFECTED:	ALL

1. PURPOSE:

- 1.1 To update Cabinet with the consultation responses to the draft budget proposals issued by them on the 19th December in respect of the Capital and Revenue budgets for 2019/20.
- 1.2 To update members with implications arising from the Final Local Government 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 2019/20.
- 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 2019/20 revenue budget as attached in **Appendix I**.
 - The 2018/19 to 2021/22 capital programme as attached in **Appendix J1**.
- 2.2 That Cabinet approves changes to the draft capital budget proposals and programme for 2019/20 and as outlined in paragraph 3.17.
- 2.3 That a 5.95% increase in the Band "D" equivalent Council Tax for the County continues to be used as the planning assumption in the budget model and to apply for County purposes in 2019/20.
- 2.4 That Cabinet approves the revised saving and pressure proposals, updated following public consultation, scrutiny and more up to date information being made available since the draft proposals were released on consultation on 19th December 2018.
- 2.5 That Cabinet recognizes the risks resulting from the lack of clarification from Welsh Government and UK Government around the funding of teacher's pensions increases and approves the mitigation strategy and approach proposed in paragraph 3.22.

- 2.6 That Cabinet makes an offer to Welsh Government to actively work with them to examine options for the longer term reform of local taxes and to make sure such a system is progressive, fair and transparent.
- 2.7 That Cabinet notes the movements anticipated in respect of earmarked reserves during 2019/20 culminating in forecast earmarked reserve balances of £5.73 million at the end of 2019/20.
- 2.8 That Cabinet recommends Council to dispose of assets identified in the exempt background paper at best value.
- 2.9 That Cabinet considers the Responsible Financial Officer's report on the robustness of the budget process and the adequacy of reserves issued under the provisions of the Local Government Act, 2003
- 2.7 That Cabinet adopts the Responsible Financial Officer's report on Prudential Indicators.
- 2.8 That Cabinet approves the following:
- Further work is undertaken to develop a balanced Medium Term Financial Plan (MTFP) over the 3 year period 2020/21 to 2022/23.
 - Regular review of the MTFP to ensure it remains up to date, that including an assessment of evidence based pressures and risks, underlying modelling assumptions and the affordability implications of the Corporate Plan.

3. KEY ISSUES:

BUDGET CONSULTATION

- 3.1 Cabinet issued its budget consultation proposals on 19th December 2018 thereby allowing a period for public consultation and scrutiny. The proposals were scrutinized by the Children's and Young People Select Committee, Strong Communities Select Committee, Adult Select Committee, and Economy and Development Select Committee, the Schools Budget Forum, the Joint Advisory Group (JAG) and the four Area Committees.
- 3.2 Furthermore, budget consultation was undertaken through two public meetings, a meeting of the Access for All forum, a young person's session, and where the opportunity arose Town and Community Council Cluster meetings.
- 3.3 Extracts of the draft minutes from the Committees are included as **Appendices A1 to A8** respectively and a summary or minutes of the engagement events together with feedback received are included in **Appendices A9 to A13**.
- 3.4 In terms of public engagement the use of the website and social media as a mechanism for sharing information and getting feedback has continued with active engagement and responses received. An overview of the Council's budget engagement is included in **Appendix A14**.
- 3.5 As might be expected, responses to consultation varied, and in the main there have been no strong objections made to the overall shape of the budget proposals, with a number of questions clarified via the Select Committee meetings and other consultation meetings. These questions particularly concerned changes to waste and recycling arrangements and where clarification was provided at meetings and via FAQs made available on the Council's website.

- 3.6 In terms of issues being raised which seek to affect the revenue budget proposals specifically, these principally revolved around proposed changes to car park charging arrangements and proposals to remove two SpLD (Specific Learning Difficulties) teachers in favour of school staff being trained.
- 3.7 It is recommended as a result of the consultation and upon subsequent reflection of concerns raised that the following revisions are made to the savings proposals:
- a) Revisions to car parking charging arrangements by way of removal of proposed charges for blue badge holders (£45k), re-introduction of free Xmas parking (£20k), introduction of a 2-hr concession for Sunday parking (£20k) and removal of charging for HGVs at Abergavenny Bus Station (£2k). Furthermore to commit to improving car parking enforcement arrangements and to allocate specific capital funding to improve signage and associated infrastructure for disabled parking users.
 - b) To defer the saving to remove two SpLD teachers (£58k) for future consideration and pending a further and fuller review of the implications and risks of its introduction.
- 3.8 The process in general has worked well, with thorough debate having taken place through scrutiny and public consultation events. The Council was disappointed with the poor attendance at the two public meetings and that had been scheduled as a result of social media response. Constructive feedback was however provided on how the budget consultation could be improved and this will be taken on board as part of ongoing improvement in the process.
- 3.9 On capital account, general support was expressed about the need to continue to invest in 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

- 3.10 The final settlement was announced on the 19th December 2018. 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 decrease in the Authority's Aggregate External Finance (AEF) of 0.3% after taking into account transfers into the settlement. Across Wales settlements varied from a 0.3% reduction in Monmouthshire (and others) to 0.9% increase in Cardiff.
- 3.11 When the MCC final settlement is compared to the provisional settlement, the Authority is better off by circa £606k. However, all but £138k of this increase had been factored into the draft budget proposals and upon early notification of the First Minister's intentions in November 2018.
- 3.12 The main adjustments to our AEF resulted from a contribution to affording the teacher's pay award, the transfer of free school meals grant into the settlement and a transfer of funding (£63k) for a local discretionary business rate scheme. Again allowance had already been made for the pressure and funding for the teacher's pay award.
- 3.13 It is proposed that £83k budget provision is made to support and manage the targeted increase in free school meal numbers. It is also proposed to make budget provision of £100k to support the design and delivery of a local discretionary business rate scheme as well as committing resources to constructively working with Welsh Government and the Monmouthshire business community to inform Welsh Government stated intention to reform the business rate system in Wales. To that end the Council proposes to offer

itself forward as pathfinder or pilot Authority to testbed new or alternative arrangements for businesses.

- 3.14 A table showing each authorities position resulting from the final settlement is included at **Appendix B** to this report. Monmouthshire again remains at the bottom of the table in terms of AEF per head of population.
- 3.15 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 year's budget even more difficult. The current position on Welsh Government specific grants is included in **Appendix C**. There are a number of significant grants where the Authority remains unclear as to the amount to be received and resultant terms and conditions attached.
- 3.16 The medium term prognosis is still of concern, there are no indicative settlement figures published and which significantly impedes and impacts on forward planning of budgets over the medium term. The MTFP for 2019/20 onwards continues to factor in funding reductions of 1.8%, so that planning can be undertaken on a prudent basis.
- 3.17 There is still a need to think differently about the even greater challenges of the medium term and this work and engagement will continue in the coming months, and notably with other local authorities, Welsh Government and the Welsh Local Government Association (WLGA) and where funding distribution and projections are concerned.

BUDGET PROCESS CONTEXT

REVENUE BUDGET

- 3.18 Subsequent to Cabinet's budget consideration on 19th December 2018, proposals went on consultation indicating a need to close a £4.6 million gap with an unfunded gap of £594k still needing to be found. The budget at that time included £5.7 million of pressures and £5.9 million of saving proposals. Work has continued to review and revise existing and new savings and pressures in the light of further engagement and analysis. All the original proposals are available as part of the draft budget proposals. Summary details of revised savings and pressures and the movement from draft to final proposals are included in **Appendix D** and **E**.

3.19 Summary Movements

Pressures	Amount
	£'000
Draft proposals	5,688
Revisions and additions in intervening period	333
Final proposals	6,021

Savings Proposals	Amount
	£'000

Draft proposals	(5,853)
Revisions and additions in intervening period	(927)
Total	(6,780)

3.20 The revisions and additions to pressures are summarized as follows:

- The removal of the £100k pressure relating to the potential loss of the MHA (Monmouthshire Housing Association) grounds maintenance contract as a consequence of increased confidence in the revised contract award being awarded to the Authority and any resultant pressures being managed and mitigated;
- As referred in 3.13 above that £83k budget provision is made to support and manage the targeted increase in free school meal numbers together with the creation of a £100k budget to support the design and delivery of a local discretionary business rate scheme as well as committing resources to constructively working with Welsh Government around the business rate reform agenda;
- Provision for the South Wales Fire Authority precept increase of £214k, contingent on funding not being forthcoming to the Fire Authority from UK government in respect of increases in Firefighter pension contributions; and
- An increase in treasury budgets of £36k as a consequence of additional borrowing being afforded to fund an in-year 2018/19 overspend on the 21st Century Schools capital programme, a proposal to increase the Disabled Facility Grant budget again by £300k for 2019/20 and to fund necessary additions to the capital programme for two sewerage treatment plants.

3.21 The revision and additions to savings are summarized as follows:

- As outlined in paragraph 2.7 above the removal of the saving proposal relating to the removal of SpLD teachers, with a £58k reduction in savings;
- To make full provision for the funding of the teacher's pension increases and to ensure the revised saving matches the associated pressure with an increase in the budgeted funding of £309k;
- As outlined in paragraph 2.7 above the revision and withdrawal from originally proposed changes to car parking charging arrangements, with an £87k reduction in savings;
- A delay in the introduction in the move to reusable bags for recycling with a consequential reduction in saving of £45k, together with a slight delay in the introduction of waste permits (£6k);
- A reduction in the savings proposed for the Passenger Transport Unit of £136k in 2019/20 as a result of an updated in-year forecast being available;
- A review that has allowed £812k of revenue highways maintenance expenditure to be transferred to the capital programme and be funded from additional Welsh Government grant as it more appropriately constitutes capital expenditure.

- As noted in paragraph 3.11 above additional funding of £138k as a consequence of the Final Settlement announcement confirming a 0.3% reduction in funding rather than the 0.5% reduction modelled as part of the draft budget proposals.

3.22 Significantly the consequence of funding not being forthcoming from UK Government and Welsh Government to meet the cost of teacher's pension increases could introduce a potential unbudgeted pressure of up to £784k. Recommendation is made that schemes assigned to be funded from additional Welsh Government funding for highways capital maintenance are put on hold until such time as funding certainty is known. If funding is forthcoming then schemes will progress. To the extent that funding is not forthcoming the capital financing arrangements will be reviewed in order allow further revenue savings to be generated to contribute to funding any resultant pressure. A further report would need to be forthcoming if this eventuality occurred and to approve the necessary changes to the capital programme and any earmarked reserve funding or other adjustments required.

Council Tax

3.23 The 5.95% increase in the Band "D" equivalent Council Tax for the County continues to be used as the planning assumption in the budget model and to apply for County purposes in 2019/20, reverting to 3.95% increase in each of the subsequent 3 years.

OVERALL REVENUE BUDGET POSITION

3.24 The current revenue position for each of the next 4 years is included in **Appendix I**. The proposed position for 2019-20 specifically is,

Services	Indicative Base 2019/20
	£000
Children & Young People	50,926
Social Care & Health	46,099
Enterprise	22,515
Resources	6,688
Chief Executive's Unit	4,619
Corporate Costs & Levies	23,104
Sub Total	153,951
Transfers to reserves	444
Transfers from reserves	(535)
Treasury	7,911
Appropriations Total	7,821
Total Expenditure Budget	161,772
Aggregate External Financing (AEF)	(92,623)
Council Tax (MCC)	(53,937)
Council Tax (Gwent Police)	(11,779)
Council Tax (Community Councils)	(2,676)
Contribution to/(from) Council Fund	0
Disinvestment	(756)
Sub Total Financing	(161,771)
(Headroom)/Shortfall	0

CAPITAL BUDGET

- 3.25 On December 19th Cabinet approved an initial Capital Strategy Assessment ahead of a full Capital Strategy being developed and implemented in 2019/20. The capital MTFP strategy remains as 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.
- 3.26 During the financial year, any new schemes volunteered can only be added to the programme if the business case demonstrates that they are self-financing or if the scheme is deemed a higher priority than current schemes in the programme and therefore displaces it.
- 3.27 When considering the relative merits of projects and potential displacement, a priority matrix will be applied, either endorsing or amending it for onward consideration by full Council.
- 3.28 The final settlement and subsequent grant notifications included notable changes to the anticipated funding included in the capital MTFP budget proposals. £812k of additional General Capital Grant and flexibility afforded by Welsh Government to apply two years' worth of Highways maintenance capital grant (£1.2m in total) has provided flexibility to assist the capital and revenue budgets.
- 3.29 The proposed changes to capital programme since the draft proposals were on consultation by Cabinet on December 19th, based on feedback from public consultation and scrutiny as well as the benefit of additional Welsh Government capital grants, have resulted in a proposed increase in the capital programme of £2.887m. These changes are summarized as follows:
- A continuation of the increase in the Disabled Facility Grant budget, as has been the case for the last two years, by £300k and funded through prudential borrowing, and to meet an evidenced backlog of applications that will benefit applicants whilst alleviating pressure on social care;
 - To fund two sewerage treatment plant replacements at Shirenewton and Penyrhiw (£200k), afforded by prudential borrowing;
 - To make provision from capital receipts to afford £75k condition survey work to update historic condition survey information and capital budget provision of £300k to assist with the business case affordability of Severn View Residential Home replacement.
 - To fund additional highways maintenance capital scheme, funded by WG grant, of £1.2m. The commitment to these schemes and the application of funding is reserved until such time as certainty is reached around the funding of Teacher's pension increases as noted in paragraph 3.22.
 - To apply £812k additional Welsh Government General Capital Grant funding to revenue expenditure that is deemed eligible to be capitalized.
- 3.30 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**.

- 3.31 **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 risks attached to some receipts materializing as shown in **Appendix J4**. The revised forecast receipt schedule is provided as exempt background papers to this report for Members approval as **Appendix J6**.

THE PRUDENTIAL CODE

- 3.32 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 2018/22 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

- 3.33 The level of the Council Fund, The Council's general reserve, is at £7.1m million, subject to 2018-19 year end, but at present it 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 2019/20. The total planned net earmarked reserve utilization in support of the 2019/20 revenue and capital budget is £0.11m. **Appendix H1** shows the call on and contributions to reserves for the 2019/20 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 2018-19 the balance of earmarked reserves is likely to be £5.84 million. The further call in 2019/20 means that the earmarked reserves will fall to £5.73 million. In addition the Priority Investment reserve will need to be replenished to fund any future projects identified as going forward. It should be noted that this reduces the flexibility the Council has in meeting the challenges of scarce resources going forward.
- 3.34 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**.
- 3.35 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 on 7th March 2019.

FUTURE GENERATIONS EVALUATION/EQUALITY IMPACT ASSESSMENT (EQIA)

- 3.36 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. Two member seminars had been held to ensure that they are aware of the requirements of The Act, this has been followed by training sessions for officers who are responsible for writing reports.

3.37 The Council has continued to respond to these issues by building considerations of equality, diversity and sustainability into the planning and delivery of its 2019/20 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. This evaluation has since been updated to reflect the final budget proposals and individual evaluations are linked to each budget proposal. These can viewed via the attached link.
- Producing an overall FGE assessment of the revenue budget proposals and publishing this as part of the revenue budget proposals for consultation. This is attached as **Appendix K** and the assessment has been updated as a result of budget consultation and the final revenue budget proposals being presented to Cabinet for consideration.
- Undertaking a FGE of the capital budget proposals and publishing this as part of the capital budget proposals for consultation.
- Enabling the Council's Cabinet Members to consider initial savings proposals with the benefit of the FGEs, 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 2019, 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 2019/20 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 2019/20, and the resultant Council Tax recommended to be set for County purposes, taking into account the public consultation and scrutiny in 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:

- a) Directorate Budget builds, detailed capital programme and associated papers
- b) Draft revenue budget proposals, draft capital strategy assessment and draft capital budget proposals – released on consultation by [Cabinet](#) on 19th December 2018
- c) Final Local Government Settlement
- d) The CIPFA Prudential Code for Capital Expenditure

8. AUTHORS:

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Borrowing Appendices

- A1 Extract of draft minutes of Economy and Development Select committee – 10th Jan 2019
- A2 Extract of draft minutes of Children and Young People Select Committee – 24th Jan 2019
- A3 Draft minutes of Adults Select Committee – 29th January 2019
- A4 Draft minutes of Strong Communities Select Committee – 31st January 2019
- A5 Extract of draft minutes of Lower Wye Area Committee (extract) – 23rd January 2019
- A6 Extract of draft minutes of Severnside Area Committee (extract) – 23rd January 2019
- A7 Extract of draft minutes of Central Monmouthshire Area Committee (extract) – 30th January 2019
- A8 Minutes of North Monmouthshire Area Committee (extract) – 30th January 2019
- A9 Draft Minutes of Schools Budget Forum – 24th January 2019
- A10 Minutes of JAG (Joint Advisory Group) – 16th January 2019
- A11 Summary of Young People’s event – 30th January 2019
- A12a Access for All meeting – 25th January 2019 – Summary feedback
- A12b Access for All meeting – 25th January 2019 – Extract of minutes
- A13 Summary of responses from members of the public and business community
- A14 Overview of Monmouthshire County Council budget engagement
- B Final Settlement Data
- C Specific Grants 2019/20 (All Wales)
- D1 Summary of evidence based pressures
- D2 Summary of pressures – movement from draft to final budget
- E1 Summary of budget savings proposals
- E2 Summary of savings – movement from draft to final budget
- F Responsible Financial Officers Opinion
- G Prudential Indicators
- H1 Use of reserves for Revenue Budget Purposes
- H2 Reserve Balances
- I Revenue Budget Summary
- J1 Capital Budget Summary
- J2 Schools Capital Budget Summary
- J3 Capital Receipts Summary
- J4 Receipt Risk Factors
- J5 Capital Pressures
- J6 Capital Receipts (Exempt – supplied under separate cover)
- K Overall Wellbeing and Future Generations Evaluation