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| SUBJECT: | REVENUE MEDIUM TERM FINANCIAL PLAN and BUDGET PROCESS 2020/21 to 2023/24 |
| MEETING: | CABINET |
| DATE: | |
| DIVISION/WARDS AFFECTED: | WHOLE AUTHORITY |

1. PURPOSE:

- 1.1 To highlight the context within which the Medium Term Financial Plan (MTFP) will be developed for 2020/21 to 2023/24
- 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 agree the process and timetable for developing the MTFP and specific budget for 2020/21.

2. RECOMMENDATIONS:

- 2.1 That the budget assumptions outlined in paragraphs 3.6 to 3.13 in the report are agreed and updated during the budget process should better information become available.
- 2.2 That the budget process and timetable as outlined in paragraph 3.26 is adopted including member budget scrutiny and consultation conducted through all-member seminars, Member and Officer Working Groups, Community Engagement, Select, and Consultation meetings (for Business Rate purposes).

3. KEY ISSUES:

Background

- 3.1 Members will know that the budget and Medium Term Financial planning process has had a consistent theme over recent years. Since the financial crisis in 2008 the level of resources available to public services has been under pressure and over the last 4 years the Council has adopted savings and funding proposals totaling £23.2 million.
- 3.2 The process that has been adopted has sought to maintain a medium term view on the financial position and plan savings targets over a 4 year period. This is essential given the lead in time for making some of the changes required. In March Cabinet approved the budget for 2019/20 and acknowledged in the medium term financial plan, based on consistent modelling assumptions, an indicative gap in resourcing of circa £9.6m million to meet that gap over the following 3 years of the plan.
- 3.3 The 2018/19 year end outturn position reported to Cabinet in June and the subsequent 1st period 2019/20 monitoring report both provided an indication of the tightening of our financial position. For 2018/19 we came in just under budget, but without the normal buffer that we have consistently relied upon to replenish our reserves. The period 1

(month 2) forecast reported a significant over spend of £2.4m against services and where significant demand led pressures that had been managed in 2018/19 had continued into the current year and with greater significance. Whilst the Council is taking recovery action and bearing down on non-essential expenditure the pressures will clearly have a bearing on the budget for 2020/21 and over the medium term unless suitably mitigated through much needed additional funding from Welsh Government.

Funding context

- 3.4 The overall picture in public sector resourcing is a mixed one, with Health (NHS) concerns benefitting disproportionately from inflation busting government settlement decisions to the detriment of local authorities. Indications are that this period of financial restraint in public sector is set to continue for some time to come. Early indications from central government were that it was unlikely to find the necessary time to undertake their scheduled multi-year spending review this October, with the suggestion that in the interim settlements would overall need to be cash flat-lined with grant funding bearing the volatility in balancing the overall positions across the sector.
- 3.5 However, since the new Prime Minister has taken office and established his new Cabinet, the chancellor announced a one year spending review on 4th September by way of the Treasury carrying out an accelerated exercise and which provides Welsh Government with greater financial certainty they need to deliver their plans on public services next year. The Welsh block grant is expected to grow by £600m next year, a 2.3% real term increase. Approximately a quarter of the increase is related to increased pension costs for public sector employers in Wales. The big budgetary decision for Welsh Government will still revolve around how much to allocate to the NHS. Should the Welsh Government decide to match the increase in English NHS spending for 2020-21 of 3.1%, it would leave an increase of around 1.4% in real terms for all other public services. While this budget should probably allow all public services to avoid real terms cuts next year, increases are still likely to be modest in most areas, especially in the context of rising cost and demand pressures. Leaders and the WLGA will continue to provide evidence of the pressures facing local authorities and to call on Ministers to deliver on the promise that local government would be “first in the queue” for any additional funding. The multi-year Spending Review is now expected to be carried out in 2020. Whilst not affording Welsh Government or local authorities any level of funding certainty over the medium term at the very least it is hoped that the previously notified dates for publication of the Welsh Government budget and settlement for local government will be brought forward and take account of the pressures being faced by the sector.

Assumptions for developing the Medium Term Financial Plan (MTFP)

- 3.6 The Authority has developed a MTFP model which is reviewed annually. The financial model contains the base budgets of the Authority. This is updated each year in the light of a review of assumptions and known sensible changes to enable the gap between resources and expenditure to be highlighted.
- 3.7 The revenue financial planning assumptions in the roll over MTFP from 2019/20 MTFP were as follows,

| | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|--------------------------------|---------|---------|---------|---------|
| Expenditure: | | | | |
| Pay award (non-teaching staff) | 1.00% | 1.00% | 1.00% | 1.00% |
| Pay award (teaching staff) | 1.00% | 1.00% | 1.00% | 1.00% |
| Superannuation rates | 24.10% | 25.10% | 26.10% | 27.10% |

| | | | | |
|---------------------------------------|---------|---------|---------|---------|
| Non-pay inflation | 0.00% | 0.00% | 0.00% | 0.00% |
| ADM | 0.00% | 0.00% | 0.00% | 0.00% |
| Income and Efficiencies: | | | | |
| Staff vacancy factor (non-schools) | (2.00)% | (2.00)% | (2.00)% | (2.00)% |
| Staff vacancy factor (schools) | 0.00% | 0.00% | 0.00% | 0.00% |
| Funding: | | | | |
| Aggregate External Funding (AEF) RSG | 1.80% | 1.80% | 1.80% | 1.80% |
| Aggregate External Funding (AEF) NNDR | 1.80% | 1.80% | 1.80% | 1.80% |
| Aggregate External Funding (AEF) OAG | 0.00% | 0.00% | 0.00% | 0.00% |
| Council Tax (MCC) - Band D increase | (3.95)% | (3.95)% | (3.95)% | (3.95)% |
| Council Tax Collection Rate | 99.00% | 99.00% | 99.00% | 99.00% |

Members may recall that the Council has afforded a 2 year 2% pay award deal which ends in March 2020, so the assumption for the next 4 years reverts to a standard 1% increase per annum in each of next 4 years, although it is recognized the actual agreement is still to be negotiated and may cause additional volatility through the process where additional savings prove necessary to afford.

Similarly Council tax increases for next year and onwards reflect historic rise assumptions of 3.95% per annum, as members' extraordinary annual uplifts more recently (4.95% and 5.95%) have only been 1 year considerations.

3.8 A first review of the assumptions contained in the MTFP has been undertaken and five prudent and proposed changes are advocated:

- Adopt an improved settlement assumption, from 1.8% steady decline to 1% decline, consistent with 2019-20 activity and the reported central government end to austerity measures. Reflection of other Councils and WLGA suggests widespread differences in assumptions being made, largely reflective of their individual historic awards. Gwent wise authorities tend to presume an average stand still zero % assumption overall, but given MCC tends to derive the worse settlement per capita, it's prudent/practical to assume minus 1% ahead of provisional settlement for the purposes of providing sufficient early savings provocations to directorates with a potential degree of flexibility to SLT/Cabinet subsequently, rather than introduce a more volatile savings process and need to introduce further savings during the process by mistakenly using to beneficial a financial planning assumption.
- Removal of the automatic staff vacancy factor (2%) applying to APT&C staff, and instead make the arrangement consistent with that of schools. The vacancy saving has historically been commonly regarded as an additional and increasing "hidden" cut by services which is difficult to deliver as staffing establishments get more economic and capacity issues potentially caused by staff vacancies instead result in a short term use of temporary staff or more of a back to back recruitment exercise. The revised arrangement is more transparent, and is anticipated to reduce the potential for inbuilt adverse variances in budget monitoring needing to be addressed through in year remedial savings. The consequence though is that this will obviously necessitate more explicit savings upfront to accommodate the change. It may be through the budget process that the Council will not be able to eradicate the full extent of the 2% vacancy saving in 1 year, instead as an illustration reducing it by 1% in each of next 2 years.

- Historically pressures tend to be volunteered by services to the next annual budget process through the process. In recent years provision of £2.5m has been made, for modelling purposes, for “unidentified pressures” and based on the level of pressures having to be accommodated as part of the budget process. Upon undertaking a review of such historic pressures, such provision has been increased in the MTFP by £2.5m per annum and which adds a flexibility to process and mitigates potential volatility in savings levels required by Directorates. As the budget and MTFP process evolves the provision for “unidentified pressures” will be reduced with actual pressures and in the event of any balance remaining ahead of budget proposals being finalized this will be released.
- Affording of Future schools band B aspiration by way of increased unsupported borrowing costs. The prediction of such revenue cost assumes traditional capital funding rather than MIM, and a current 65% intervention rate and an illustrative £43m capital expenditure results in £15.05m Council borrowing to be afforded over circa 50 years at predicted 3% would result in necessary annual revenue headroom of circa £580k needing to be added to MTFP model. The actual effect will be phased over next 4 years, as minimum revenue provision on the repayment of debt only occurs once the project is completed, and it is the intention to minimize the interest consequence of borrowing by using Welsh Government resourcing first.
- Additional Passenger transport pressures consequential to the April Cabinet report.

3.9 The effect of these changes on the deficit balance are anticipated to adjust illustrative shortfall requiring financing/savings to £5.4m in 2020-21, and culminating in a need to delivered a mixture of cost efficiencies and savings totaling £21m by 4 years hence.

| | Rollover MTFP Cumulative Deficit Balance | £2.5m added to 2020-21 unidentified pressures, and thereafter in each year | Suspension of vacancy assumption increase (2%) from 2020-21 | Effect of adjusting AEF funding from -1.8% to -1% in each of 4 years | £530k necessary pa to afford Future schools tranche B | Catchment review PTU consequence (April 19 Cabinet report) | Revised Cumulative Deficit Balance to manage | Year specific savings to find |
|---------|--|--|---|--|---|--|--|-------------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| 2020-21 | 2,325 | 2,500 | 1,223 | - 746 | - | 88 | 5,390 | 5,390 |
| 2021-22 | 5,466 | 5,000 | 1,244 | - 1,471 | 10 | 150 | 10,399 | 5,009 |
| 2022-23 | 8,740 | 7,500 | 1,265 | - 2,175 | 220 | 150 | 15,700 | 5,301 |
| 2023-24 | 11,959 | 10,000 | 1,288 | - 2,860 | 530 | 150 | 21,067 | 5,367 |
| | | | | | | | | 21,067 |

3.10 Please note the following items have not been revised in the medium term financial plan.

- Late in last year’s settlement process, Welsh Government agreed to affording the 2019 increase to teachers pension costs introduced by the 2016 central government budget. This came through in the form of an ad hoc grant, but that isn’t really a prudent or sustainable form of funding for recurrent expenditure of this nature. It is anticipated that WG will instead move this into the revenue support grant and core

funding for 2020/21. However should such funding remain a grant, there is a risk of future funding becoming less certain, although given the significance and previous commitment, the probability of Welsh Government explicitly retreating from this matter remains remote.

- Recent correspondence suggests national schools pay award has been agreed at a 2.75% increase. The extra 1.75% effect of such has not yet been modelled in MTFP, but neither has any additional funding been presumed, despite receiving grant funding to assist with teacher salary growth in 2018/19 and 2019/20. The extent of net liability will become clearer through the budget process.
- Presently the MTFP includes no presumption about Monlife aspirations and its affordability. It is anticipated such information will become available during the budget process and upon Council considering a report at its September meeting.
- Social care (both adult and children) affordability and sustainability remain an issue nationally, and a significant challenge apparent in month 2 2019/20 monitoring.
- It is expected that general fund reserve levels will be held at 4%-6% range.

3.11 It is anticipated that Monlife, the net liability for teacher pay award, and social care pressures will in the first instance need to form the majority call upon the extra £2.5m headroom per annum volunteered above.

3.12 So following the described revisions above, initially the “rollover” medium term financial plan utilizes the following base budget factors,

- 1% salary growth inflation
- 0% non-pay expenditure inflation
- 0% income inflation - to be considered by service managers through budget process
- 0% staff vacancy factor (to match 0% for schools)
- 1% annual Superannuation increase communicated by last actuarial assessment
- 1% decline in Welsh Government settlement
- 3.95% increase in Council tax receipts

3.13 The Council also utilizes specific grant funding in the provision of services. The level of these can be difficult to predict, and are not always even available/apparent by the start of forthcoming financial year, which will always tend to undermine accurate financial planning.

Additionally Welsh Government will also consider the transfer of specific grants into settlement funding. This has an advantage to them in being able to report decline in government funding being less than the reality. Settlement funding is traditionally unhypothecated and for local authority Council members to allocate, however there is an increasing practice for Welsh Government ministers to transfer resources into the settlement but also write to Councils asking them to honour the original grant intent, or suggest that they have earmarked funding within the settlement for a particular purpose, when instead Council members should be unfettered in their budget priorities.

Financial Planning Methodology

- 3.14 Pragmatically in terms of financial planning, the basic premise is to assume that existing grants will continue at levels as currently, unless notified explicitly otherwise. If grants are transferred into Revenue support grant then these will not be automatically hypothecated to the purpose for which the grant was given. If specific grants cease, it is expected that the activity will cease. Continuance of an activity following grant funding ceasing, would require the service providing a business case to assess each case on its merits.
- 3.15 The budget for 2020/21 will be constructed without drawing on council fund balances for ongoing expenditure, however, a prudent use of earmarked reserves will commonly form an essential part of the MTFP going forward. However, as per the revised reserves protocol agreed by Cabinet in July 2015, and unless for reasons of good financial management there will be a requirement for any draw on earmarked reserves to assist the budget process to be recovered by associated savings (i.e. on an invest to save basis).
- 3.16 Services are expected to manage their own pressures in the first instance, ensuring that any significant impact on the public, council policy or performance is explicitly identified and approved. Pressures that are introduced into the budget process will undergo a rigorous challenge process consistent with that for any savings proposals introduced.
- 3.17 The assumptions highlighted above are based on the best information available at the current time, however they could be subject to variation as new information comes to light and our forecasting techniques are refined.
- 3.18 There are a myriad of other potential pressures which have not been factored in due to the difficulty in estimating the impact. Included in this list would be any further changes in demand for services, legislation changes, the impact of Brexit, WG requirement to protect schools budgets, review of the structure of local government across Wales, changes to specific grant funding streams and welfare reform.
- 3.19 The budget monitoring report considered by Cabinet before the August recess introduces considerable financial challenge to achieve a balanced position by the end of financial year, and where not resolved potentially adds a volatility consideration to the 2020/21 process.

How we take this forward

- 3.20 Schools and frontline social care, have traditionally remained of primary importance to Members through the budget process, but even then resourcing is not sufficient for them to have been unaffected/protected in full. Savings and alternate ways of working within Adults Social Care has provided a benefit both in addressing budget gap previously but also importantly in addressing cost avoidance caused by an increasingly elderly demographic. Similarly schools had during the 2016/17 and 2017/18 process experienced a cash flat line budget rather than cuts/savings environment experienced by other Council services, this had the effect that schools have had to afford their own salary growth and teaching and learning award decisions. However, in the last two financial years schools have seen growth in their budgets and in affording them full funding of pay and pension increases. Whilst the general effect of such hasn't resulted in reduced budgets this has still resulted in a larger call on their school reserves.

- 3.21 In terms of how we take the budget process forward this year, it is important to understand the scale of the challenge being faced. The Council's net budget is around the £162 million level, however part of this budget is 'fixed', such as the precepts for other organisations including the Police, Fire Authorities, costs of servicing debt, payments to those in receipt of Council Tax Reduction support, the cost of levies etc. Therefore the influenceable part of the budget is much more like £134 million. A pressure of £21 million over the next 4 years year illustratively would mean:
- Reductions of around 15.5% if spread across all services
 - Reductions of around 23.5% if full protection is applied to school budgets
 - Reductions of around 48.8% if full protection is applied to schools and Social services budgets
- 3.22 Given the scale of the financial challenges faced Cabinet and Council will need to pay particular regard to the affordability considerations of future decisions. The scale of this challenge in terms of the capacity of the organisation to deliver and the difficult choices that may have to be made are also important considerations.
- 3.23 Services will need to consider year on year budget reductions, alongside the need to deliver remedial savings in 2019/20 to address the current predicted over spend against services reported for period 1.
- 3.24 The traditional and very successful approach of relying primarily on service managers volunteering savings is having a diminishing contribution.
- 3.25 The process of delivering necessary savings is an increasing challenging one, but experience suggests the need to provide services with a target challenge to meet in the first instance to stimulate thought and consider practical consequences, otherwise, and not unreasonably, experience suggests managers presume that others will be finding the significance of savings. To that end Cabinet are encouraged to set indicative targets and senior officers will working continue to work closely with Cabinet to ensure that budget proposals being developed are palatable, achievable and well considered, and are aligned with the aims and aspirations of the Corporate Plan.

Process

- 3.26 There is a both a requirement and a pressing need to manage this issue, given the scale of the funding gap which is potentially emerging in addition to the in-year forecast overspend position being managed. It is clear in modelling the extent of savings into the medium term that members may value an early understanding that the existing traditional operating models operating within the Council would need to be refined so that they operate with circa £21m less funding or be contracted by circa 16%. Setting a sustainable path for the Council into the future with a much reduced and further reducing resource base will need to be identified. This is not going to be an easy task and will involve difficult decisions that allows Cabinet to continue to deliver the aims and aspirations set out in the Corporate Plan whilst ensuring that services can sustain themselves into the future. The work required needs to involve Members and the community as early in the process as possible. It is therefore suggested that the process for developing proposals for the MTFP run in parallel to budget proposals for 2020/21, and would follow the steps outlined below:
- The initial catalyst for savings development will result from indicative savings targets being set by Cabinet
 - The process for developing ideas into active projects (through structured steps, including an early assessment of wellbeing and future generation and equality

impacts) will take place over the coming months. Where necessary this will involve necessary up front engagement with key stakeholders ahead of for consultation.

- Whilst proposals for next year are key deliverables in a shorter timescale, a longer term horizon is also advocated, as savings can often be dismissed where they can't be practically delivered by next budget period.
- The Council should also take advantage of any tangible proposals that have been or are being explored outside of the usual annual budget setting process.
- Building upon a review of the success of the 2019/20 budget process, it is acknowledged that far more emphasis was placed upon managers to describe savings intentions, whilst pressures were more readily acknowledged and added to the deficit to resolve, hence the use of "unidentified pressures" to mitigate where possible a volatility in savings target level required. A refinement to this year's process will require equal rigour and process to be applied before any new pressure is added to MTFP, as it is anticipated it may in fact be easier to avoid or mitigate a pressure than it is to find an equivalent saving.
- The ideas that are sufficiently developed during this process will be captured for contributing to the MTFP gap and the profile of savings estimated. Specific proposals for the 2020/21 budget will be captured and presented to Cabinet in December. The underlying MTFP model will also be updated to include new information as it becomes available, specifically information from Welsh Government on the settlement. In this respect the provisional settlement is expected on 10th December though this date will undoubtedly be reconsidered by Welsh Government in light of recent Treasury announcements.
- Formal consultation on the budget proposals will then take place through the normal Select committee cycle over December and January cycle, including one overall scrutiny meeting to consider the budget proposals as a whole.
- Final proposals will be presented to Cabinet in mid February after consideration of consultation feedback. The budget will then go to Council at the end of February to meet the statutory requirement to set a Council Tax for the following year. This presents a unique challenge this year, as Welsh Government has initially notified Welsh Local Government Association of their intent to only release final settlement information after this date. As stated that may change, but where necessary may involve the final budget proposals containing potential options to mitigate the potential for any adverse final settlement revision.

4. EQUALITY AND FUTURE GENERATIONS EVALUATION (INCLUDES SOCIAL JUSTICE, SAFEGUARDING AND CORPORATE PARENTING):

- 4.1 There are no significant impacts identified at this stage. As part of the budget process, individual budget proposals will be impact assessed early and as they are developed. If the impacts identified on individual proposals are significant then a full impact assessment will be required and this may affect the timescales for the introduction of any such proposal.
- 4.2 There is an intention to enhance the impact assessment process going forward with profiles of typical Monmouthshire residents being used to better anticipate the compounded effect of multiple proposals.

5. OPTIONS APPRAISAL

- 5.1 This report looks to provide an overview of the process for the budget setting and MTFP process. When budget proposals are developed and brought forward for consultation an option appraisal will be completed for each substantive saving and pressure.

6. EVALUATION CRITERIA

- 6.1 Whilst the nature of this report does not require any evaluation, the annual budget process is reviewed on an ongoing basis and based on feedback received from the public, members and officers. Cabinet and the Strategic Leadership Team review the process and feedback and recommendations for improvement.
- 6.2 The changes incorporated as a result of this year's approach are referenced throughout the report and significantly include the updating of the budget modelling assumptions and the approach being taken to develop savings proposals over the medium term.

7. 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 full and informed engagement, consultation on and scrutiny of budget proposals and processes.

8. RESOURCE IMPLICATIONS:

- 8.1 This report aims to ensure that the medium term outlook is assessed and the financial implications modelled and assessed for financial planning purposes. Based on the revised assumptions now applied the report illustrates a budget shortfall of £5.39m for 2020/21 and £21.07m over the four years of the medium term financial planning period.
- 8.2 As described above the budget process will see budget proposals developed and brought forward to Cabinet for consideration and ahead of release on consultation and to ensure that feedback is sought and appropriately reflected in final budget proposals considered by Cabinet next February. Council tax and the final budget proposals will be approved by Council next March.

9. CONSULTEES:

Strategic Leadership Team
All Cabinet Members

10. BACKGROUND PAPERS:

Nil

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