

<b>SUBJECT:</b>	<b>REVENUE MEDIUM TERM FINANCIAL PLAN and BUDGET PROCESS 2021/22 to 2024/25</b>
<b>MEETING:</b>	<b>CABINET</b>
<b>DATE:</b>	<b>21<sup>st</sup> October 2020</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 2021/22 to 2024/25
- 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 2021/22.

## **2. RECOMMENDATIONS:**

- 2.1 That the budget assumptions outlined in paragraphs 3.15 to 3.21 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 3.29 is adopted and that includes 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 proposals totaling £22.0 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 2020/21 and acknowledged in the medium term financial plan, based on consistent modelling assumptions, an indicative gap in resourcing of circa £13.9m million to meet that gap over the following 3 years of the plan.
- 3.3 Since entering 2020 the Council has faced significant and unprecedented challenges notably the flood response and recovery resulting from Storms Ciara and Dennis in February 2020 and the subsequent COVID-19 pandemic and the impact of the lockdown restrictions that were put into effect on 23rd March 2020.

- 3.4 Each of these draws significantly on the Council's resources, both in terms capacity and finances and continues to place an unprecedented strain on the Council.
- 3.5 Putting the Council's finances into context, pre COVID-19 pandemic, the Council had:
- Brought forward budget savings proposals for 2020/21 of £8.5m to manage budget pressures of £9.5m and alongside a disappointing Welsh Government settlement where the extent of pressures on services was not recognised;
  - Benefitted from a significant one-off VAT receipt and flexible use of capital receipts to arrest a £3.76m net over spend against services in 2019/20; and
  - Finalised its draft accounts for 19/20 with useable capital receipts of only £3.2m, a Council Fund balance of £8.5m and useable earmarked reserves of £6.4m (of which there is planned use that will reduce earmarked reserves to £5.4m at the end of 2020/21).
- 3.6 The Council had tactically generated headroom of £1.8m in its Council Fund balance as part of the outturn strategy for 2019/20. This will at least enable the Authority to mitigate in part the risk of any under recovery in COVID-19 funding from Welsh Government as well as allowing the Authority the flexibility to respond to the potential significant financial pressures brought about by the pandemic or otherwise in the current year or over the medium term. However, this only provides a finite and limited level of reserve cover.
- 3.7 The Council continues to deal with unprecedented amounts of uncertainty with its finances, both in terms of the current year as the pandemic response and recovery continues, as well as next year and over the medium term where there remains significant uncertainty as to the funding outlook for local authorities in Wales.
- 3.8 The month 5 forecast separately reported on this agenda displays a significant overall over spend of £7.42m, with some £6.19m of the deficit directly associated with the extraordinary financial pressures attached to COVID-19. Cabinet continues to make strong representations to Welsh Government for full reimbursement for these additional COVID-19 costs and income losses.
- 3.9 Whilst the Council is taking recovery action and bearing down on non-essential expenditure in the current year the inherent pressures, estimated in excess of £3m, will clearly have a bearing on the budget for 2021/22 and over the medium term unless suitably mitigated through much needed additional funding from Welsh Government.

### **Funding context**

- 3.10 The overall picture in public sector resourcing is an uncertain one. Before the pandemic the Council was awaiting the UK Government's Comprehensive Spending Review and to understand the opportunities that this might present Welsh Government to provide a fairer settlement for local government in Wales and one which enabled the Council to have greater certainty on its modelling assumptions for the next three years.
- 3.11 However, the pandemic had very much put things on hold as UK Government and Welsh Government have had to focus on responding to the pandemic and with unprecedented levels of government support and funding. The pandemic continues to bear down

significantly on public finances and it remains unclear as to the knock-on consequences for public funding over medium term.

- 3.12 It appears that there will be no formal Autumn Budget from the Chancellor this year but there will be a Spending Review announcement that is likely to have a one year planning horizon given the current and ongoing state of uncertainty with the impact of the pandemic on UK Government finances.
- 3.13 Welsh Government themselves await clarification on the funding it will receive next year and to that extent and given the funding decisions that will subsequently need to be made this leaves it very difficult to accurately make settlement predictions for next year. Discussions with Welsh Government officials have suggested a 0% cash flat-line would be a sensible and prudent modelling assumption at this time for Aggregate External Financing (AEF). AEF represents the core funding that Local Authorities receive from Welsh Government every year. In addition, it is as yet unclear as to the continued impact of the pandemic beyond this financial year and the level of any additional funding that Welsh Government might provide to local authorities to mitigate such additional costs or continued income losses.
- 3.14 The further challenge amidst this uncertainty is one of timing. The provisional settlement is expected in the week commencing 14<sup>th</sup> December. The same week that draft budget proposals will be released on consultation by Cabinet. This follows the Welsh Government's draft budget which is anticipated to be published on 8<sup>th</sup> December. Welsh Government's final budget is then anticipated to be published on 2<sup>nd</sup> March 2021 and the final local government settlement the day following. Again in the same week that the Council will be looking to set its budget for 2021/22. Furthermore, all settlement dates are dependent on the UK Government's Spending Review and subject to potential change.

### Assumptions for developing the Medium Term Financial Plan (MTFP)

- 3.15 The Authority has developed a MTFP model which is reviewed annually and is continually updated through the budget process. 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.
- 3.16 The revenue financial planning assumptions in the roll over MTFP from 2020/21 were as follows:

BUDGET ASSUMPTIONS - INCREMENT FACTORS	2021/22	2022/23	2023/24	2024/25
<b>Expenditure:</b>				
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	23.10%	24.10%	25.10%	26.10%
Non-pay inflation	0.00%	0.00%	0.00%	0.00%
ADM	0.00%	0.00%	0.00%	0.00%
<b>Income and Efficiencies:</b>				
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%
<b>Funding:</b>				
WG Aggregate External Funding (AEF) RSG/NDR	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%

3.17 A first review of the assumptions contained in the MTFP has been undertaken and a number of prudent and proposed changes are advocated:

- Maintain core Welsh Government funding (AEF) at 0% - as highlighted in paragraph 3.13 above it is proposed that AEF is maintained at a cash flat-line through the MTFP and until further information is forthcoming and that might suggest further amendment. A 1% change in AEF has a £978k impact on the budget model and this illustrates the impact that an improved funding settlement can have in addressing the budget shortfalls and pressures facing the Council.
- Increase pay award assumption for non-teaching staff to 2.75% - Pay awards for non-teaching staff have most recently moved from a 2% pay award for each of the two preceding years (2018/19 and 2019/20) to 2.75% for the current year. There are no current indications that pay awards will reduce and therefore it is prudent to make provision based on current pay award levels across the MTFP. The previous modelling assumption had been for the pay award to revert to 1%. However, most recent pay negotiations have not suggested that levels will revert back to these levels.

It is also worth noting that UK Government have not passed any consequential funding through to Welsh Government in recent times to enable them to fund these pay award increases though it remains a Welsh Government decision to consider and adequately fund the pressures facing local government in Wales.

- Increase pay award assumption for teaching staff to 3.1% - Pay awards for teaching staff have similarly seen increases in recent years and the current expectation is that such pay award levels will continue. Welsh Government do have delegated responsibility for setting pay levels for teachers, unlike with non-teaching (LGE) staff. Welsh Government has funded pay award increases in recent years but there is no guarantee that this will continue and therefore the prudent assumption taken is that this remains unfunded or is incorporated into the settlement assumption.
- Superannuation rate change – no change advocated but to note that 2021/22 represents the second year of the freeze in the employer's pension contribution rate of 23.1% for staff in the Local Government Pension Scheme (LGPS). Subsequently this reverts to a 1% year-on-year increase in the contribution rate from 2022/23 and in line with most recent actuarial assessments.
- Council tax – the council tax rises built into the MTFP and solely for modelling purposed was 3.95% over the MTFP period. However, as a result of the challenging funding settlements and budget shortfalls in recent years, council tax rises in recent years have been 4.95% in 2018/19, 5.95% in 2019/20 and 4.95% in 2020/21. Whilst council tax rises are a matter for Cabinet to preside over, for modelling purposes and given the continued financial challenges over the medium term have been increased to 4.95% for each year of the MTFP.
- Maintain staff vacancy factor – the vacancy factor was initially removed but then re-introduced as part of the budget proposals for 2020-21 in order to contribute to

overall budget savings. The budget assumption will require further review as part of the budget process as the month 5 budget monitoring forecasts suggests that certain frontline service areas are not generating the vacancy saving as vacancies are being immediately filled to maintain priority front line services.

- 3.18 Contingency for evidence based pressures - Historically pressures tend to be volunteered by services through the budget process. Last year provision was made in the MTFP, for modelling purposes, for “unidentified pressures” of £5m in each of the 4 years of the MTFP and based on the level of pressures that have historically presented themselves and been accommodated as part of the budget process. Upon undertaking an initial review of recurrent budget pressures contained within the most recent month 5 forecast a £4.7m remaining contingency for 2021/22 has been reduced to £3.5m. This will evolve as the budget process progresses with the contingency being replaced with actual pressures needing to be accommodated in the budget proposals.
- 3.19 The effect of these changes on the deficit balance are anticipated to adjust illustrative shortfall requiring financing/savings to £5.3m in 2021-22, and culminating in a need to delivered a mixture of cost efficiencies and savings totaling £22.5m in aggregate by the end of the 4-year MTFP period.

Rollover MTFP Cumulative Deficit Balance	Full cost adjustments	Reduction in Unidentified Pressures	LGE Pay Award at 2.75% in each of 4 years	Teachers Pay award at average 3.1% in each of 4 years	Council Tax at 4.95% in each of 4 years	Revised Cumulative Deficit Balance to manage	Year specific savings to fund
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
5,085	(40)	(1,166)	1,344	644	(573)	5,294	5,294
9,655	(73)	(1,166)	2,754	1,314	(1,198)	11,286	5,992
13,838	(127)	(1,166)	4,234	2,011	(1,877)	16,913	5,627
17,779		(1,166)	5,786	2,736	(2,614)	22,521	5,608

- 3.20 So following the described revisions above, the medium term financial plan at this early stage of the budget process is built upon the following assumptions for modelling purposes:

- 2.75% pay award for non-teaching staff
- 3.1% pay award for teaching staff
- 0% non-pay expenditure inflation
- 0% income inflation – to be considered by service managers through the budget process
- 2% staff vacancy factor for services and a 0% staff vacancy factor for schools
- A freeze in the employer’s superannuation contribution for 2021/22 followed by 1% increases for the remainder of the MTFP period
- 0% cash flat-line in Welsh Government settlement (AEF)
- 4.95% increase in Council tax receipts

- 3.21 The Council also receives specific grant funding in the provision of services and beyond the core funding it receives from Welsh Government via the local government settlement.

The level of these can be difficult to predict, and are not always even available/apparent by the start of the forthcoming financial year, which will always tend to undermine accurate financial planning and therefore presents a further ongoing financial and budgetary risk.

- 3.22 Additionally, Welsh Government also considers at times the transfer of specific grants into core settlement funding. Core funding via the settlement is traditionally unhypothecated meaning that it is allocated without restrictions on how it should be spent.

### **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 core funding and Aggregate External Financing (AEF) 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 As highlighted above there are significant and ongoing financial challenges facing the Council in the current year, next year and over the medium term. There is also an additional level of complexity brought about by the pandemic and its continued impact as well as the resultant uncertainty that this has on Welsh Government funding for local authorities in Wales.
- 3.16 It is anticipated given the level of both the challenge and uncertainty that the budgets for 2021/22 and over the medium term may need to draw on a planned and managed contribution from reserves and capital receipts. The outturn position for 2019/20 tactically enabled a sum of £1.8m to be contributed to the Council Fund and that is now held as headroom above the minimum prudent balance. It is planned for a revised reserves and capital receipts protocol to be produced as part of the budget process and to ensure that earmarked reserves and capital receipts can also adequately support financial planning over the medium and long term.
- 3.17 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.
- 3.18 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.
- 3.19 There are a myriad of other potential pressures which have not been factored in due to the difficulty in estimating the impact. Notwithstanding the continued impact of the pandemic these include further changes in demand for services, legislation changes, the impact of Brexit, WG requirements to protect schools or social care budgets, review of the structure of local government across Wales, changes to specific grant funding streams and welfare reform. This list is not intended to be exhaustive.
- 3.20 The month 5 budget monitoring report separately considered by Cabinet on this agenda 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**

- 3.21 Schools and frontline social care, have traditionally remained and continue to be 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.
- 3.22 In the last three 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.
- 3.23 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 current 2020/21 net budget is around the £171 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 £142 million. A pressure of £22.5 million over the next 4 years year illustratively would mean:
- Reductions of around 15.9% if spread across all services
  - Reductions of around 25.1% if full protection is applied to school budgets
  - Reductions of around 57.5% if full protection is applied to schools and social services budgets
- 3.24 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.
- 3.25 Services will need to consider year on year budget reductions, alongside the need to deliver remedial savings in 2020/21 to address the current predicted over spend against services reported for month 5.
- 3.26 The traditional and very successful approach of relying primarily on service managers volunteering savings is having a diminishing contribution.
- 3.27 The process of delivering necessary savings is an increasing challenging one. Work is continuing to develop budget proposals and given the capacity constraints on staff and leadership the focus is on developing a smaller number of substantive proposals that collectively have the potential to deliver the required savings. To that end senior officers will 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**

- 3.28 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 evolve so that services operate with circa £22.5m less funding or be contracted by 15.9%.

3.29 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 Monmouthshire communities 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 2021/22, and would follow the steps outlined below:

- The initial catalyst for savings development will result from the MTFP budget assumptions in this report along with provision being made for identified and unidentified pressures being agreed by Cabinet. And that in turn informs the level of savings to be identified to manage the budget shortfall in 2021/22 and over the medium.
- 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 weeks. Where necessary this will involve necessary up front engagement with key stakeholders ahead of draft budget proposals being released 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 to benefit the 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, including positive and effective changes to service provision that have been made in responding to the pandemic.
- Building upon the success of the most recent budget processes equal rigor and process will be applied to any new pressure that is added into the MTFP and budget process, 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 continue to be developed to contribute to the MTFP gap. Draft budget proposals for the 2021/22 budget will be presented to a Special Cabinet meeting on 16<sup>th</sup> 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.
- Formal consultation on the draft budget proposals will then take place through the normal Select committee cycle in January, including one overall scrutiny meeting to consider the budget proposals as a whole.
- Public consultation will also take place subsequent to the Special Cabinet meeting on 14<sup>th</sup> December and will run until the end of January. This will present some unique challenges as it is as yet unclear as to level of restrictions in place due to



the pandemic and the extent of any social distancing requirements. To that end more significant consideration is likely to have to be given to virtual and online consultation. Though accessibility options will also need to be explored to ensure that nobody is disproportionately disadvantaged in their ability to respond during the budget consultation period.

- Final budget proposals will be presented back to Cabinet on 17<sup>th</sup> February 2021 after consideration of consultation feedback. The budget will then go to Council on March 4<sup>th</sup> to meet the statutory requirement to set a Council Tax for the following year. This presents a challenge for setting next year's budget, as Welsh Government intends to only release final settlement information shortly before 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 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 30<sup>th</sup> March 2016.
- 4.2 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 re-shaped its pre-decision evaluation tool to reflect the well-being goals and the principles which it sets out.
- 4.3 Whilst there are no significant impacts identified at this stage it is important to outline the process by which the Council intends to respond to these issues by building considerations of equality, diversity and sustainability into the planning and delivery of its budget process by:
- Requiring Chief Officers to undertake a Future Generation evaluation of all savings proposals that are offered for their service area to contribute towards the Council's overall savings target.
  - Producing an overall FGE assessment of the revenue budget proposals and publishing this as part of the revenue budget proposals for consultation.
  - Undertaking a FGE assessment 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.

- Deciding that once the final shape of the budget is agreed by Council in March 2021, 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 both draft and final budget proposal reports and published on the Council's website so that residents can understand the factors that went into the planning of the 2021/22 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.
- 4.3 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:**

- 7.1 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.
- 7.2 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 £5.3m for 2020/21 and £22.5m over the four years of the medium term financial planning period.
- 8.2 As described above the budget process will see draft 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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