

SUBJECT:	MEDIUM TERM FINANCIAL PLAN and BUDGET PROCESS 2017/18 to 2020/21
MEETING:	CABINET
DATE:	2nd November 2016
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 2017/18 to 2020/21
- 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 2017/18

2. RECOMMENDATIONS:

- 2.1 That the budget assumptions outlined in paragraphs 3.19 to 3.21 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 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 Equality and Diversity 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 service budgets of £18.1 million. Funding from Welsh Government has reduced over the period and austerity looks set to continue for the foreseeable future. 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 a challenge. 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 Reports to Cabinet, earlier this year, have outlined the work which has been started on Future Monmouthshire. This recognizes that the challenges faced by the County and Council are not limited to financial pressures, but 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 2015/16 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 6th 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 costs to invest and 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 2017/18 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. Whilst the Future Monmouthshire work is making progress and establishing key themes to work on it was never intended to identify the new shape of the Council in time for setting next year's budget. Therefore a one year approach has been taken albeit within the context of the MTFP, and with the expectation that a more medium term approach can be adopted next year once the Future Monmouthshire work is further progressed.
- 3.7 The Mandate process to setting the budget has been a largely successful up to now, but it is getting harder and has tended to rely on the same individuals and services each year rather than being proportionately spread across all service areas. In the **short term**, the ongoing challenge is to set off on the new path clearly understanding demand, current trends & reducing costs through greater efficiency, sharing services, greater productivity and limiting or stopping some services. Clearly the need to still set annual budgets within our Medium Term Financial Planning framework will need to sit alongside the Future Monmouthshire work. In order to encourage all services to engage with this work, the process for identifying budget proposals has been modified so that 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 Future Monmouthshire 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 2017/18 process. The result has been captured in the table below:

Review of savings previously agreed	2017/18 £000	Revised savings £000	Comments
B20 ALN	150	150	No Change
34 Adult soc care	600	600	Savings relating to managing demand and changing practise to remain in the MTFP, whilst recognising the pressures in the adult social care budget
B1 Leisure ADM	254	0	Full businss case being developed, savings unlikely in 2017/18
B4 ICT	100	0	Further analysis of a move to cloud has established that this target savings is not able to be made
B6 CIL	50	0	This saving is unlikely to be achieved in 2017/18, however opportunities in this area will be kept under review for future years
B18 Strategic Property review	100	0	This savings was predicated on consolidation of office buildings, which is not likely to materialise in 2017/18
Garden waste income	40	50	Plans in place to implement an increase in charge for 1st April based on revised estimate
Total	1,294	800	

Review of Pressures already included in the MTFP

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

Review of pressures in MTFP	2017/18 £000	2018/19 £000s	2019/20 £000s	2020/21 £000s	Comments
Pension auto enrolment	187	0	0	0	Pension auto enrolment has been reviewed as the process to auto enrol has been implemented, the pressure only remains in schools and CYP directorate, other Directorates have budget to cover pesnion contributions. Therefore pressure has been reduced to from £1.005 million to £187k
Waste	311	0	0	0	Increasing contract costs and additional households, no change
PTU	30	47	72	0	Additional school transport costs associated with the new Welsh school at Duffryn, no change
Apprenticeship levy	346	0	0	0	Announcement in the Chancellors Autumn statement last year introduced an Apprenticeship levy on employers from April 2017 to fund the plans to create 3 million new apprenticeship roles by 2020. The levy is 0.5% of an employer's pay bill, no change
Unallocated pressures	1626	2453	2428	2500	In most years over £5 million of pressures emerge and are included in the MTFP, however most are not specifically identified until the year before. Services are aware of the need to mitigate and manage as many pressures as possible so for the purposes of modelling a gap, a total of £2.5 million pressures per year has been assumed.
Total Pressures	2500	2500	2500	2500	

- 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 2016/17, 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 2017/18 notwithstanding any efforts to manage and mitigate the pressures in year

Assumptions used in the MTFP – Aggregate External Finance Provisional settlement

- 3.13 The funding reductions projected in the MTFP brought forward was 4.3% across the period. For 2016/17 the funding reduction was 3.1% and some of the indications/predictions being considered for 2017/18 have highlighted that there may be further improvement, so for modelling purposes a reduction of 2.3% was being considered. In addition the recent publication of a programme for government included a commitment to provide funding to put in place a floor for future government settlements.
- 3.14 The provisional settlement was announced on the 19th October 2016. The overall increase in the Welsh Government revenue budget for 2017/18 is 3.5%, and following decisions by the WG on its budget, the Local Government settlement was announced with an overall slight increase across Wales of 0.1%. However, this includes additional funding for new responsibilities. These relate to the raising the capital limit for residential care to £30k and a full disregard of the War Disablement Pension (WDP) in financial assessments for charging for social care. The sparsity changes to the formula recommended by the Distribution Sub Group have been phased over two years. The Welsh Government's statement also makes reference to the settlement including '£25 million to support the delivery of strong social services' and an 'additional £25 million through the settlement to support the delivery of vital services'; these should be regarded as within the funding envelope announced. This also applies to other initiatives mentioned in the Cabinet Secretary's statement such as the £1 million for school transport or the £3 million for a pilot scheme to support town centre car parking, where further clarity is needed in due course.
- 3.15 For Monmouthshire the provisional settlement has delivered a reduction in the Authority's Aggregate External Finance (AEF) of 0.12% after taking into account new responsibilities and transfers into and out of the settlement. The AEF across Wales range from a 0.9% increase in Gwynedd to reduction of 0.5% in Powys, Torfean, Merthyr Tydfil, Wrexham and Blaenau Gwent. Some of these authorities having been caught by the funding floor. There have been several transfers of grant into the settlement. When the provisional AEF is compared to the figure modelled in the MTFP of a 2.3% reduction the Authority is better off by £2 million. 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.

- 3.16 In terms of Specific Grants the provisional settlement also only included the notifications of some specific grants at an all Wales level. Out of the 60 specific grants that existed in 2016-17, 14 grants consolidate into new grants, 5 grants transfer into the settlement or to Social Care Wales and 1 grant ceases. There was no information on 11 grants at the time of publication. For those that have been announced and are comparable to 2016-17, there is a reduction in the total amount of around 1%. There are notable increases in the pupil deprivation grant and Pioneer Schools of 7%, and a notable decrease in the Single Revenue Grant (Environment) of 7%. The table of grant information at an all Wales level is provided in Appendix 3.
- 3.17 On capital account, the provisional settlement saw 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.
- 3.18 The medium term prognosis is still of concern, there are no indicative settlement figures published, even though the Spending review showed the Welsh budget with slight cash increases it is difficult to forecast how this will be distributed by Welsh Government. 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 2.6% in 2018/19 and 1.8% in 2019/20. 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 2017/18 budget is set.

Other MTFP assumptions

- 3.19 All the assumptions in the underlining MTFP model have been reviewed and the following are recommended for modelling purposes:
- Council Tax – 3.95%
 - Other external income – 2.5%
 - Pay inflation – 1%
 - Non pay inflation – 0%
 - Vacancy factor – 2% (except schools)
 - Superannuation – 21.1% (Actuarial review pending)
 - Schools Budget – 0%
- 3.20 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.
- 3.21 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 and the requirement to increase the capital budget for the Future Schools programme (Council report – 20th October 2017). Other Corporate Costs, such as precepts and levies, will also be updated as information becomes available.
- 3.22 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:

Year	MTFP Gap £'000s
2017/18	2,509
2018/19	5,985
2019/20	8,250
2020/21	10,502

What is clearly shown in the table above is that there will be a significant gap in the MTFP to find. Further potential pressures have already been identified that will potentially increase this gap, however work is being undertaken to validate these and assess how they can be managed or mitigated. At the moment £10.5 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 the Future Monmouthshire work could start to be established and this has enabled a set of principles to be developed to ensure that any work and decisions that need to be made in the short term can be consistent with ongoing work to establish the medium and long term picture.
- 3.24 The process for developing proposals for next year's budget within the context of the MTFP has included the following:
- All services to provide 5% and 10% budget proposals considering the following issues in line with the Future Monmouthshire principles:
 - A continued drive for efficiency and focusing on what matters to citizens
 - 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
 - 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. These will be rigorously reviewed and challenged.
 - External and internal challenge processes to ensure robustness of proposals and achievability for 2017/18
 - It is expected that the draft budget proposals will be available for a special Cabinet on 16th Dec
 - The consultation period with the public, businesses, JAG, schools budget forum, Equality and Diversity Group and Select Committees will then run from 16th December until beginning of Feb 2017.

- Select dates:
 - Economy and Development – 5th January 2017
 - Children and Young People – 12th January 2017
 - Adults - 24th January 2017
 - Strong Communities - 26th January 2017
- Deadline for receipt of Community Council precepts – 31st January 2017
- Final budget proposals following consultation will go to a special Cabinet in mid Feb 2017
- Council Tax and budget setting will then take place at Full council on 9th March 2017.

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 Equality and Diversity 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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11. CONTACT DETAILS:

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