

Report

Cabinet



Part 1

Date: 20 December 2017

Subject **2018/19 Budget and Medium Term Financial Plan (MTFP)**

Purpose To present the draft proposals for the 2018/19 budget. Cabinet are asked to agree the draft proposals to start the budget consultation process for this year. Consultation results and final proposals will be presented back to Cabinet in February, when Cabinet will be asked to recommend a final budget and council tax level to full Council.

Author Head of Finance

Ward All

Summary Further reductions in resources have been confirmed in the Council's indicative grant notification for 2018/19 which could, potentially, worsen again when the final grant settlement is known on 20th December 2017. Alongside pressures on the Council's budget which require new investment, these require savings to be considered to produce a balanced budget in 2018/19.

The draft 2018/19 budget proposals are explained and detailed in this report and its appendices.

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Proposal

1. **Cabinet is asked to agree the following draft proposals for public consultation:**
 - i) Budget savings proposals in Appendix 2 (summary table) and Appendix 6 (detailed business cases).
 - ii) Proposed increases to fees and charges in Appendix 7
 - iii) The position regarding the proposed school funding for 2018/19 in paragraphs 5.1– 5.6
2. **Cabinet is asked to note:**
 - i) The position on developing a balanced budget for 2018/19, acknowledging that the position will be subject to ongoing review and updates,
 - ii) and agree that the Head of Service decisions in Appendix 3 will be implemented with immediate effect.
 - iii) That Fairness and Equality Impact Assessments have been completed for all proposals requiring one.

Action by Directors / Heads of Service

Timetable Immediate:

1. Head of Service decisions in Appendix 3 to be implemented with immediate effect.
2. Cabinet / Cabinet Members budget savings proposals, fees and charges, and schools funding position to form the basis of the budget consultation process.

This report was prepared after consultation with:

- Directors
- Head of Law and Regulation
- Head of People and Business Change

1 Our financial challenge

- 1.1 The Council provides over 800 services, for over 147,800 people, living in over 65,000 households. Newport's population is growing, with the largest growth for children under five, and people aged over 65. The Council also provides employment for over 6,000 people.
- 1.2 Financial pressures and demands on our services are increasing due to:
- Ageing population
 - Increases in demand led services
 - Care for the elderly and children
 - Schools funding
 - National Minimum Wage
 - Inflationary costs
- 1.3 Over the last five years, the council has made savings of £41m. To achieve this we have
- reduced the number of staff we employ by around one quarter
 - sold land, buildings and property we no longer use or need
 - set up a property services joint venture
 - set up a charitable trust for leisure services
 - reviewed our services to become more efficient
 - developed shared services such as IT
 - helped people to live independently

But ongoing public sector austerity measures, coupled with continuing financial pressures and demands mean that even more savings must still be found – at least £30m by 2022.

Implementing the new Corporate Plan

- 1.4 Following the elections in May 2017, the council has developed a new Corporate Plan which sets out a clear set of aspirations and plans for the future. This is the first budget setting period within this strategic plan. There is work ongoing to develop our new change programme and ensure that the necessary investment (revenue and capital) is available to achieve the priorities set out in the corporate plan.
- 1.5 The Council's future plans and its change programme will need to ensure a strategic approach is taken on the future direction of Council services. This means that it will need to meet the medium term financial sustainability challenge, meet key priorities set out in the Corporate Plan and our duties under the Well-Being of Future Generations Act in terms of sustainability and well-being objectives. The new Corporate Plan is rightly ambitious and whilst this presents significant financial challenges within the current climate of austerity, the Authority has made a commitment to address key priorities over the plan's lifespan.
- 1.6 Of particular importance is the need to bring forward plans to stabilise and manage the current areas of significant in year budget overspending – Community Care, Special Education Needs and Children's Placements, whilst managing the budget risks they represent in the shorter term before those plans can be implemented. The costs and investments in doing these will need to be factored into the Medium Term Financial Plan (MTFP) when known.
- 1.7 Factoring in any cost implications of the new Corporate Plan over and above existing revenue and capital budgets, as well as any costs required to deal with stabilising the three areas of significant demand/cost overspending shown above, will need to be factored into the MTFP when there is more information available on these and this will need to be completed as soon as possible. Clearly, in the current financial climate, the Council will need to minimise the cost implications wherever possible.

2 Setting the budget

2.1 There are two main elements to the council's financial planning:

- strategic planning: the MTFP
- within that, the annual council budget.

2.2 The Council is required by law to set a balanced budget every year. At the same time, we review and update our MTFP, to help plan our savings and investments across the next four years. For a number of years now we have faced continued financial pressures together with reducing funding allocations from central government, so we have had to find savings to meet the funding gap between the income we receive through our grants and council tax collection, and our expenditure on the wide variety of services we provide.

2.3 To meet this gap, in putting together the budget proposals each year we review:

- i) budget commitments (both investments and savings) agreed in the MTFP last year
- ii) new areas in need of investment and growth
- iii) new proposals for savings and efficiencies
- iv) new proposals on our fees and charges

2.4 As in previous years, Cabinet will be asked to keep the medium term position in mind, and in February will agree the full package of new medium term savings and investments, to be added to what has already been approved within the MTFP.

National budget position

2.5 The Chancellor's Autumn UK budget in November continued the significant reductions to public services funding over a number of years, and local government in particular. Lower GDP growth and productivity means UK borrowing is now forecast to be considerably higher over the next few years than was the case in the March 2017 budget, and the fiscal target to eliminate the deficit by the middle of the next decade looks much more difficult to meet. Brexit, of course, provides another layer of uncertainty at this time.

2.6 In this context, the downward pressure on public services funding continues. Crucially, no new funding for Social Care was announced, an area which is very challenging, in particular Children's services. In addition, the Green Paper review of the future funding for Adult Social Care services has been delayed. It provided no prospects for change to the Council's indicative grant settlement for 2018/19, which was announced on 10 October and is discussed below.

2.7 The Chancellor's UK Autumn budget provided an additional c£1.2bn funding to the Welsh Government budget over the next 3 years, which is all capital funding apart from around £350m allocated for revenue funding. No decisions have been announced yet on how this additional funding will be used.

Welsh Government funding settlement

2.8 Welsh Government funding accounts for the largest part of the council's budget, equating to around 80 per cent of its total net revenue budget funding. This funding is provided through non-hypothecated grants – the Revenue Support Grant (RSG). In addition to this, other grants provide funding for specific purposes.

2.9 The council received its [provisional RSG settlement from Welsh Government](#) (weblink) on 10 October 2017. Overall, it confirmed that the council would receive £211,682k for 2018/19. After allowing for net specific grant transfers into the RSG, and new responsibilities being funded, this is a 'cash decrease' of £873k (-0.4%) from current funding. Our final settlement from Welsh

Government is due on 20 December 2017, and we are waiting for further information on the receipt of specific grant income.

- 2.10 In terms of the final settlement, the main cause of changes from the draft settlement is in relation to changes to a council's tax-base, i.e. its ability to raise its own council tax income. If a council's tax-base changes by more or less than the Welsh average, their final grant settlement will be increased or decreased accordingly. This 'equalisation' is a key feature of the Local Government grant settlement process, but provides some challenges to those Councils, like Newport, who have significant cost pressures resulting from housing and population growth.
- 2.11 The Head of Finance has set the tax-base for 2018/19 and it will increase by almost 1.5%, significantly higher than the all Wales average of 0.5%-0.8% over the last few years. We do not know what impact this will have until we receive the final budget settlement, but it is likely that the council could suffer a further decrease in its grant settlement, with the possibility of this being significant.
- 2.12 The current budget assumptions have not been adjusted for this increase in the tax-base in Newport and the increased council tax income it brings, on the assumption, at this point, that we'll lose at least the equivalent in Welsh Government grant. The Head of Finance will provide a verbal update on this in the Cabinet meeting, when the final settlement will be known.
- 2.13 The outcome of the draft settlement, along with extensive work by officers to develop robust savings proposals since July, has seen the budget gap in 2018/19 reduce to a position where the budget for 2018/19 is finely balanced. The position can only be confirmed with confidence after receipt of the final settlement, on 20 December.

3 Financial planning assumptions

Revenue Support Grant (RSG)

- 3.1 The draft grant settlement for 2018/19 is currently known at a -0.4% reduction, which may change at final settlement stage. An average -1.5% reduction has been indicated by WG for the following year 2019/20 but this may decrease slightly following the UK budget announcement in November. The MTFP will be updated for the February 2018 Cabinet when details are known with more certainty.

Inflation

- 3.2 Pay, contract and income inflation has been included within the MTFP based on specific inflationary factors:
- National pay award inflation is included at 1%, in line with the 'public sector pay cap', but the Cabinet will know that this pay cap is under intense scrutiny and pressure across the UK public sector and therefore represents a risk in terms of the budget.
 - Lower pay grades and external contracts affected by the Minimum and Living wage increases have been uplifted by increases in these rates, which in percentage terms, are significant and provide a relatively large, and unfunded, pressure on budgets.
 - Unavoidable inflation pressures equate to £2,273k in 2018/19 and £13,074k over the four year period to 2021/22.

Investments

- 3.3 In addition to the unavoidable inflationary increase, the Council has to also consider and fund unavoidable budget pressures from increasing demand, unfunded UK/ Welsh policy changes and

other issues resulting in significant savings being required from in the base budget in order to balance the budget.

3.4 For 2018/19 specifically, the Council is currently planning on investing around £11.3m in the draft budget over and above an allowance for inflation on pay and prices. Around £4m of these pressures relate to specific grants that have been transferred into RSG. More details on proposed investments are included in Appendix 1 and some of the key items include:

- £3,985k grants transferred into the RSG
- £1,313k costs associated with new schools
- £1,135k for pension deficit
- £1,100k permanent transfer of funds to schools
- £800k for increasing number of children in out of County placements
- £427k reduction in external funding in respect of Supporting People (Adult & Community Services) and Sustainable Waste grant (Streetscene & City Services)
- £350k of pressure from implementing national policy of increasing 'capital limit' before any contributing is payable for residential care charges.

Council tax

3.5 It is well documented that Newport's council tax is low compared to others in Wales, generating approximately 20 per cent of our income, compared to around 25 per cent for most Welsh councils. The Welsh Government uses the standard spending assessment (SSA) to calculate the level of spending required to deliver a 'standard level' of service in each council area. However, our actual spend is well below our SSA (around £8.3m in 2017-18), which is mainly due to our low level of council tax funding.

3.6 A base 4% increase is already included in our MTFP each year. This year, the budget proposals include an additional 1% increase to council tax in 2018/19 (Appendix 2) bringing the proposed increase to 5%. This is subject to consultation, and a final recommendation to Council on the council tax level will be confirmed in the Cabinet's February meeting.

4 Budget savings

4.1 The savings identified for 2018/19 total £7,408k. Table 1 below provides a summary of the savings for 2018/19.

4.2 Under the constitution and our scheme of delegation, some budget decisions have to be taken by the Cabinet collectively or individual Cabinet Members. These proposals, totalling £2,393k for 2018/19 and £2,919k over the life of the MTFP, will form the basis of the public consultation on the budget this year.

4.3 Some lower level, more operational and efficiency type budget proposals are delegated to senior officers for decision and implementation. These proposals, totalling £2,947k for 2018/19 and £3,049k over the life of the MTFP are listed in Appendix 3. These Head of Service decisions are listed for reference and will be implemented separately from the public consultation. Regardless of their categorisation, the normal protocols for staff, unions and any other required consultation are being adhered to in respect of all savings.

4.4 The savings already agreed last year are either in progress or due to be implemented in 2018/19. Links to their business cases are provided in the appendix. No further details are shown for these savings, as they have already been approved, although it should be noted that in some cases the timings or value of savings have been updated in light of experience gained in their implementation. The net impact of these adjustments for 2018/19 is £12k fewer savings.

Table 1: 2018/19 summary of savings

Savings Decision Type	2018/19 (£'000)	2019/20 (£'000)	2020/21 (£'000)	2021/22 (£'000)	Staff Impact FTE
Budget savings for full Cabinet decision (Appendix 2 & 6)	1,548	269	0	0	-11.5
Budget savings for Cabinet Member decision (Appendix 2 & 6)	845	257	0	0	-65.2
Budget savings delegated to officers (Appendix 3)	2,947	76	26	0	-7.1
Total new budget savings	5,340	602	26	0	-83.8
Previously agreed budget savings (Appendix 4)	2,068	1,580	20	0	-35.1
TOTAL BUDGET SAVINGS	7,408	2,182	46	0	-118.9

Fairness and Equality Impact Assessments (FEIAs)

4.5 All budget proposals have been reviewed, where needed, to ensure the Council understands and mitigates, where possible, fairness and equality issues. FEIAs seek to identify whether proposals will have a positive or negative impact in relation to the protected characteristics, as defined by the Equalities Act. Within Newport, they also include an assessment against the principles of fairness, as presented by Newport's Fairness Commission. Where required, proposals include mitigating measures needed to ensure we meet our equalities responsibilities. Officers have identified those specific proposals where an FEIA would be required and these have been completed. Compliance with the Equalities Impact Assessment and the Equalities Act 2010 is a legal obligation and is intended to result in better informed decision-making and policy development and services that are more effective for users.

5 School funding

- 5.1 The current position assumes there is no reduction to school's funding, unlike other parts of the Council's budget where significant savings are being made. Cabinet are asked to consider the level of funding that will be delegated to schools for 2018/19. The current draft budget proposals for schools include funding for the following items:

Table 2: School budget pressures 2018-22

School Pressures	2018/19 (£'000)	2019/20 (£'000)	2020/21 (£'000)	2021/22 (£'000)	Total (£'000)
Inflation	-	1,163	1,181	1,199	3,543
Demographic Growth	-	539	826	807	2,172
Schools Reorganisation	1,028	1,307	1,006	1,050	4,391
Social, Emotional and Behavioural Difficulties (SEBD) school	285	200	-	-	485
Teaching Staff Increments	-	736	612	484	1,832
Continuation of one off funding	1,100	-	-	-	1,100
Total Pressures	2,413	3,945	3,625	3,540	13,523
Savings	(240)	0	0	0	(240)
Net Budget Pressure	2,173	3,945	3,625	3,540	13,283

- 5.2 This report proposes that the schools budget is kept at the current level for 2018/19, with the exception of:
- funding to cover the running costs of new schools; including a new Social, Emotional and Behavioural Difficulties (SEBD) school
 - continuation of the £1.1m one-off funding which was made available in 2016/17 from revenue budget underspends.
- 5.3 Overall, the total existing schools budget will be 'cash-flat' and schools will need to absorb cost pressures such as inflationary pay awards / pay increments etc. The existing budget will not be expected to absorb the cost of new schools as new, additional funding is included for this.
- 5.4 This is undoubtedly a challenging position for schools and is further compounded by reduced funding from their external grant. Although final allocations are yet to be determined across the Education Achievement Service (EAS) region, there is a headline cut to the Education Improvement Grant (EIG) of £3m (11.2%). We are yet to receive figures for the Post-16 grant, however projections of close to £0.5m reduction have been tentatively acknowledged by Welsh Government as being broadly accurate.
- 5.5 In recognising the challenges the draft budget assumptions give, school funding in overall terms is better than other parts of the Council, and has increased, on average, over the last few years. The table below sets out the proposed percentage change to cash limits in 2018/19 for both schools and other areas of the Council. This excludes the impact of specific grants that have transferred into the RSG (£3,985k) but includes new responsibilities (£321k).

Table 3: Budget changes for schools and other areas of the council

	2017/18 Base Budget (Apr '17)	Inflation	Other Pressures	Savings	2018/19 Est Cash Limit	Growth/ (Reduction) in Cash Limit	Growth/ (Reduction) as % of net budget
Schools	90,297	-	1,313	- 240	91,370	1,073	1%
Other	176,075	2,273	4,940	- 7,168	176,120	45	0%
	266,372	2,273	6,253	- 7,408	267,490	1,118	

5.6 The table below shows how the overall schools budget has increased by over 7% over the last 4 years.

Table 4: School budget changes 2013-18

Year	Nursery	Primary	Secondary	Special	Total
2013/14	656	50,193	46,152	2,959	99,960
2014/15	585	52,234	47,165	2,894	102,878
2015/16	519	52,924	47,480	3,724	104,647
2016/17	494	54,627	48,619	4,040	107,780
2017/18	512	54,959	47,505	4,247	107,223
Increase in funding over 5 year period (incl specific grants)					7.3%
Increase in funding (excl specific grants & delegations)					7.7%

6 Budget process and consultation

6.1 This report presents the draft proposals for the 2018/19 budget. The report asks Cabinet to note:

- The position on developing a balanced budget for 2018/19, acknowledging that the position will be subject to ongoing review and updates,
- and agree that the Head of Service decisions in Appendix 3 will be implemented with immediate effect.
- That Fairness and Equality Impact Assessments have been completed for all proposals requiring one.

6.2 The report also asks Cabinet to agree a series of proposals for public consultation. This includes

- The budget savings proposals in Appendix 2 (summary table) and Appendix 6 (detailed business cases).
- The proposed increases to fees and charges in Appendix 7
- The position regarding the proposed school funding for 2018/19 in section 5.

6.3 Seeking to capture and understand the opinions needs and suggestions of the public, specific service users and other stakeholders has been an important part of the Council's budget setting process in recent years. Each year the budget is informed by extensive consultation, which allows our knowledge and understanding to grow over time. Over the last three budget cycles we received more than 5,600 responses from the public with over 2,600 in the last financial year.

- 6.4 In addition to external public consultation, proposals will be reported to Scrutiny Committees, the Fairness Commission, Unions, School Forum and Third sector/Business community throughout December / January. As already noted, further work is required on the Council's Corporate Plan, Change programme and proposals to balance the overall MTFP both in total and over individual years.
- 6.5 A second budget report will be presented Cabinet on 14 February 2018. This will ask Cabinet to agree its final proposals for the 2018/19 budget and the resulting recommended level of council tax to fund that. The February report to Cabinet will include:
- The results of the public consultation process
 - Details and analysis of the final grant settlement from Welsh Government
 - Any updates from Welsh Government about future grant settlements
 - Any emerging details on specific grants which have financial implications.
- 6.6 Setting the Council Tax level and resulting total net revenue budget is the responsibility of full Council, so Cabinet's recommendations will be presented to the Council meeting on 27 February for approval and adoption.
- 6.7 Below is this year's timetable for consulting on and approving the 2018/19 budget:

Table 5: Budget consultation timetable 2018/19

Cabinet agrees budget proposals as a basis for consultation	20 December 2017
Consultation period	21 December 2017 to 31 January 2018
Cabinet considers feedback from consultation and agrees final budget proposals for recommendation to Council	14 February 2018
Council approves the 2018/19 budget and council tax level	27 February 2018

7 Report Review and Statutory Comments

7.1 Risks

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Planning parameters around inflation are incorrect	M	M	<ol style="list-style-type: none"> 1 Use of contingency, where required 2 Use of reserves, where appropriate 	Head of Finance SLT
Planning parameters around Welsh Government	H	M	<ol style="list-style-type: none"> 1. Use of contingency, where required 2. Keep the assumptions under constant review 	Head of Finance

revenue grant are incorrect over medium term			3. Use of conservative assumptions	
Increasing budget pressures over medium term	M	M	<ol style="list-style-type: none"> 1. Manage demand, where possible 2. Keep MTFP under constant review 3. SLT review of all budget pressures within MTFP 	SLT

* Taking account of proposed mitigation measures

7.2 Links to Council Policies and Priorities

The overall aim of the budget and MTFP is to ensure resource allocation is based on priorities, supports the delivery of the Council's change programme and saving proposals and protects the financial health of the Council.

7.3 Options Available and considered

There are few options available as the Council is required to consult on its budget where decisions do not fall under delegated authority and therefore needs to agree the basis of its consultation.

7.4 Preferred Option and Why

To consult on the new medium term package to ensure that savings are deliverable from the earliest opportunity.

7.5 Comments of Chief Financial Officer

The main financial issues are contained within the body of the report. Of particular importance is the need for the Council to develop a strategic approach to change the way services are delivered, within the context of a new, updated Corporate Plan. The on-going financial challenges will require significant changes in how services are delivered. In the meantime, the significant budget pressures in Social Care and SEN education will need to be managed before plans are brought forward to mitigate and stabilise.

In its February 2017 budget setting meeting, further details on financial resilience and capacity to meet performance targets and mitigate risk will be included. These issues were set out comprehensively when agreeing the main budget setting planning parameters in the September budget report to Cabinet and will be reviewed again as the final budget is agreed.

7.6 Comments of Monitoring Officer

There are no specific legal issues arising from the Report at this stage. Cabinet is being asked to approve draft savings proposals set out in the attached business cases in order to deliver a balanced budget for 18/19, as the basis for public consultation, where those business cases are not delegated to Heads of Service, in accordance with the Council's scheme of delegation. Cabinet and Cabinet Members (as appropriate) will then take the final decisions on those business cases in the light of the responses to the public consultation, prior to making a recommendation to Council regarding the budget for 18/19.

The implementation of all these business cases are executive matters, with the exception of any consequential staffing proposals which are non-executive matters delegated to Heads of Service. However, whichever decision-making process applies, all of the business cases have been the subject of equality and fairness impact assessments to ensure that the Council has regard to its public sector

equality duties under the Equality Act and is also acting fairly in terms of the impact of the proposed changes on service delivery. In addition, where specific proposals require more focussed consultation with staff and key stakeholders, this will be carried out prior to the implementation of any proposed changes.

The setting of the overall base budget and council tax rate for 18/19 is a matter for full Council as these are non-executive reserved matters under the Constitution.

7.7 Comments of Head of People and Business Change

The report presents a series of proposals to Cabinet and Cabinet Members for consideration, prior to consultation with the public, partners and staff. The staffing implications of each proposal, along with those decisions delegated to Head of Service, are highlighted within the report in terms of head count and full time equivalent (FTE). There are also other impacts on staff that are detailed within individual business cases, whether positive or negative. Whilst the Council continues to do all it can to limit the impacts of staff reduction it also has a binding duty to manage the delivery of services within ever tightening financial constraints.

Over the last four years extensive public engagement has been undertaken in relation to setting service delivery priorities and identifying which services matter most to people, and contribute to their wellbeing. Cabinet have considered the results of this engagement and this has been reflected in the budget programs taken forward in 2015/16, 2016/17 and 2017/18.

The Wellbeing of Future Generations Act 2015, which came into force in April 2016 provides a framework for embedding sustainable development principles within the activities of Council and has major implications for the long-term planning of finances and service provision. A corporate training and development program was undertaken to ensure that senior management and elected members were aware of the implications of the Act and the part they should play in embedding its principles and ways of working. Key documents and processes have been revised so that they incorporate sustainable development and wellbeing principles. The Business Cases used to develop savings proposals now require the consideration of the “five ways of working”, and similar revisions have been made to report templates and the Fairness and Equality Impact Assessment format.

7.8 Comments of Cabinet Member

The Chair of Cabinet has approved the report for consideration by Cabinet.

7.9 Scrutiny Committees

The constitution requires that Scrutiny Committees are consulted on Cabinet’s draft budget proposals.

7.10 Equalities Impact Assessment and the Equalities Act 2010

This is referenced in paragraph 4.5 of the report.

7.11 Children and Families (Wales) Measure

All proposals will be consulted on widely, as required.

7.12 Wellbeing of Future Generations (Wales) Act 2015

The Act is referenced in the report.

7.13 Crime and Disorder Act 1998

Section 17(1) of the Crime and Disorder Act 1998 imposes a duty on the Local Authority to exercise its various functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent, crime and disorder in its area.

Dated: 13 December 2017

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