Report

Cabinet

Part 1

Date: 14 February 2018

Item No:

Subject 2018/19 Budget & Medium Term Financial Plan

Purpose To present the consultation results and final proposals for the 2018/19 budget; and ask Cabinet to recommend a final budget and council tax level to full Council on 27 February 2018.

Author Head of Finance

Ward General

Summary The proposed budget for 2018/19 has again been prepared against a background of continuing challenges in local government funding.

Despite this Newport City Council continues to manage its finances effectively, targeting resources to the key priorities set out in the Corporate Plan.

In particular we have:

- Delivered savings of £41m over the last five years whilst improving service outcomes for our communities;
- Targeted over £30m of investments in front line services over the last four years over and above inflation;
- Proposed a budget for 2018/19 which includes a further £10m investment into key services, whilst managing the ongoing challenge of an overall funding cut.

The proposals for 2018/19 have been subject to detailed consultation which is outlined in the report.

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

Section:

6 Schools position
7 General and specific reserves, contingencies and financial risks
8 Budget consultation and fairness and equality impact assessments (FEIAs)
9 Risk and performance
10 2018/19 proposed council tax
11 Capital programme
12 Treasury management strategy & prudential indicators 2018/19

Appendix:

Appendix 1	Minutes from the Employee Partnership Forum
Appendix 2	Extracts from Scrutiny Committees
Appendix 3	Extracts from Schools Forum minutes
Appendix 4	Public budget consultation responses and feedback
Appendix 4a	Fairness Commission review
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Appendix 5	Service area draft budgets
Appendix 6	Budget investments
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Appendix 8	Capital programme and budget 18/19 to 2022/23
Appendix 9	Treasury management strategy and Prudential Indicators
Appendix 10	Medium term financial plan (MTFP)
Appendix 11	Reconciliation of movements since budget consultation
Appendix 12	Equalities issues
Appendix 13a	Financial resilience snapshot
Appendix 13b	Projected earmarked reserves
Appendix 13c	Summary of invest to save spend and forecast
Appendix 14	Fees and charges
Appendix 15	Corporate risk register

Proposal

Cabinet is asked:

Medium Term Financial Plan and Capital programme (paragraphs 2 – 10 and 11)

1. To note the formal consultation meetings on the budget as outlined in paragraph 8 and the feedback received, shown in appendices 1 to 4.

2. To note the equalities impact assessment summary on the budget proposals, shown in appendix 12.

3. To agree the implementation of the full four year change and efficiency programme, including all budget investments and saving options (appendices 6 - 7), as summarised within the medium term financial plan (appendix 10), and the new capital programme (appendix 8). Noting they are subject to on-going review and updating.

4. To agree the 2018/19 fees and charges of the council shown in appendix 14.

Overall revenue budget and resulting council tax 18/19 (paragraph 10)

5. To note the Head of Finance's recommendations that minimum General Fund balances be maintained at £6.5million, the confirmation of the robustness of the overall budget underlying the proposals, and the adequacy of the general reserves in the context of other earmarked reserves and a revenue budget contingency of c£1.5million and People services specific budget contingency of £2.2m.

6. To note the current level of council tax for Newport City Council and the monetary value of various percentage increase and how this compares to levels of council tax at other councils as shown in paragraph 10.3.

7. To review changes to the draft budget proposals shown in appendix 11, and which are included in the list of budget investments and savings in appendices 6 and 7.

8. To recommend an overall net budget for the City Council and resulting council tax to the Council, noting that a formal resolution including the Gwent Police and Community Councils' precepts will be presented to Council on the 27 February.

9. To approve expenditure and use of the Invest to Save reserve in line with summary shown in appendix 13c, noting they are based on detailed business cases reviewed by Cabinet in their December 2017 meeting.

Capital budget & schemes 2018/19 to 2022/23 (paragraph 11)

10. To agree the capital expenditure budget for 2018/19 to 2022/23 as shown in appendix 8, while acknowledging this will be subject to ongoing change through the life of the programme to reflect new schemes within the affordable MTFP.

11. To note the estimated future capital programme that could be afforded within existing resources, noting corporate priorities and programmes.

12. To agree to keep future capital expenditure within the budgets set out in the MTFP in relation to minimum revenue provision, while making use of other resources and tools to maximise the capital programme (as per Paragraph 11.9). This is subject to on-going review.

13. To agree additions to the 2017/18 capital programme which includes amounts that span into the new programme.

Treasury Management and Annual Investment Strategies, Minimum Revenue Provision Policies and Prudential Indicators (paragraph 12)

14. To recommend the Treasury Management policies to Council (appendix 9).

15. To recommend the Annual Investment Strategy to Council (appendix 9).

16. To recommend the Council's counterparty list (external bodies for Council investments) to Council (appendix 9).

17. To recommend the Prudential Indicators to Council (appendix 9).

18. To recommend the Minimum Revenue Provision (MRP) policy to Council (appendix 9).

Action by Head of Finance

Timetable Immediate

This report was prepared after consultation with:

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

Signed

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 £26m by 2022.

Setting the budget

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

- strategic planning: the medium term financial plan (MTFP)
- within that, the annual council budget.

1.5 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 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.

1.6 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

A 'joined up approach'

1.7 As in prior years, and in line with best practice for the budget setting process, Cabinet is asked to consider the key budget issues collectively and:

- recommend a 2018/19 revenue budget and resulting council tax to the Council;
- recommend the Council's treasury management and investment policies, plus its prudential indicators, to the Council;

1.8 In addition, Cabinet is asked to take a strategic and medium term view and agree the implementation of the Council's 2018/19 and future budget proposals, as summarised within the MTFP and the next five year capital programme which will be approved at February's Council, noting that this, in particular will develop further over the five years.

1.9 A key part in considering and agreeing the annual budget and MTFP is a consideration of key financial resilience issues and how the budget deals with its improvement plans and risks. These are outlined below for Cabinet's review.

2 The Medium Term Financial Plan

2.1 Following the elections in May 2017, the Council has approved 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.

2.2 As highlighted within the Corporate Plan, our mission is 'Improving People's Lives'. To deliver this the council must be modern and forward looking and aligned with the aspirations of the Well-being of Future Generations Act.

2.3 Under our mission to deliver this, we have outlined 20 commitments for change relating to the following four areas;

- Resilient communities
- A thriving City
- Aspirational people
- A modernised council

These are the four themes that will drive our council in the years towards 2022. The detailed commitments can be found within the Corporate Plan taken to Council in November 2017. These will represent a significant budget challenge on the MTFP.

2.4 The Council's future plans and 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.

2.5 Factoring in any cost implications of the new Corporate Plan over and above existing revenue and capital budgets will need to be factored into the MTFP when there is more information available. Clearly, in the current financial climate, the Council will need to minimise the cost implications wherever possible.

2.6 The latest MTFP is shown in appendix 10 and is the articulation of the financial challenges and the current organisational change programmes and savings over the next four years. It includes those service changes/ savings which have already been approved for these years from the February 2017 Cabinet meeting as well as new proposals. Whilst the Council is required to set a balanced budget for 2018/19, this is to the backdrop of sustaining over £40m of savings over the last five years and future uncertainties such as the impact of future pay awards and Welsh Government (WG) financial settlements. It should be noted that this 'plan' will inevitably develop and change as assumptions are updated or confirmed for future years.

2.7 The detailed assumptions used in the MTFP were noted in the December 2017 Cabinet meeting when the draft budget and MTFP were agreed for consultation.

2.8 Following this consultation period, Cabinet is recommended to agree the implementation of the full four year plan including all budget investments and saving options (appendix 6 and 7), as summarised within the MTFP (appendix 10).

3 Welsh Government Funding Settlement and Tax Base

3.1 WG funding accounts for the largest part of the council's funding, equating to around 78% of its total net revenue budget. This funding is provided through the non-hypothecated grant – the 'Revenue Support Grant (RSG)'. In addition to this, other grants provide funding for specific purposes.

3.2 The Council received its final RSG settlement from Welsh Government (weblink) on 20 December 2017. Overall, it confirmed that the council would receive £212,790k for 2018/19. After allowing for net specific grant transfers into the RSG, and new responsibilities being funded, this is a cash decrease of £64k (-0.03%) from current funding. Further information is awaited in respect of specific grant income.

3.3 WG have indicated that it is likely, in the future, that there will be on-going reductions to the RSG. An average -1% has been indicated by WG for the following year (2019/20) though has not been formally confirmed at time of writing. This is a slight improvement (c£1m in cash terms) on the -1.5% indicated with the draft settlement from WG in October 2017 and follows the improvement in the WG budget expectations set out in the final settlement which indicated an additional £40m across Wales in 2019/20. No indication of future settlements beyond this is available from WG and whilst not ideal from a medium term planning perspective, we have maintained at 1% reduction per annum after 2019/20. This is based on;

- On-going increases in general population and in school pupil numbers in Newport. Although still challenging, this should ensure the settlement is more favorable than average;
- Previous settlements for this council, even after taking account of the re-basing impact of the 2017/18 settlement.

3.4 Also included within the final settlement was an additional £1.3m funding across Wales for business support - to provide targeted relief to support local businesses which would benefit most from additional assistance. There is no obligation for Councils to use it for this purpose as the RSG is un-hypothecated and the Cabinet have considered this. Given:

- A revenue budget of £60k already exists to support businesses
- Other grant schemes for making of loans etc. are also available
- Discretionary rates relief schemes, both national and local exist
- The council supports businesses and re-development through other routes such as making of loans etc.

It was decided not to make further allocations.

3.5 Cabinet should note the inherent uncertainty and risk associated with future funding assumptions and that Welsh Local Government Association (WLGA) and others continue to push for medium term settlements or indicative future funding. Whilst not ideal or helpful, it does not necessarily prohibit medium term planning.

3.6 Funding from the tax base has also been finalised following confirmation of the final settlement, the tax base is the estimated number of Band D equivalent properties within the City. As this number increases, it generates additional income through council tax, however, a reduction is made to the council's settlement from WG if any increase is disproportionate to average increases across Wales. The Head of Finance has set the tax-base for 2018/19 and it will increase by almost 1.5% (57,619.96 in 2017/18 to 58,465.51 in 2018/19), significantly higher than the all Wales average of 0.5%-0.8% over the last few years. This has had an impact upon the final settlement and has been taken account of within the 0.03% reduction.

4 Revenue Outturn 2017/18

4.1 Although the financial management challenges facing the council are currently more complex than ever and constantly shifting, Newport have demonstrated good financial management over the last five years with an average of 0.9% variance against net budget at year end.

4.2 A key component in setting the 2018/19 budget is the financial performance in the current financial year. Of particular importance is the need to bring forward plans to stabilise and manage the current areas of significant in year budget overspending as being indicated in the latest monitoring report – Adults community care, Special Education Needs and Children's out of area placements, whilst managing the budget risks they represent in the shorter term before those plans can be implemented. These areas are overspending by £3.7m in the current year due to increasing need and whilst these areas have overspent in previous years the levels of overspend has continued to increase year on year;

- Childrens social care - 'out of area placements' - £2.3m overspend
- Adults social care – 'community care' - £0.3m overspend
- Education – 'special education placements' - £1.1m overspend

4.3 Whilst the above reflects the 2017/18 forecast position, some of these issues are applicable to this financial year only. The recurring impact of issues in 2018/19 are as follows:

- Childrens social care 'out of area placements' – after £800k proposed investment in 2018/19 and taking account of the age profile of the children a £1.2m budget pressure is anticipated. This will continue to be monitored as this is an extremely volatile budget.

- Adults social care – the area has benefitted from one off grant funding in year which has seen the overspend reduce from £0.9m to £0.3m. The gross overspend of £0.9m is likely to continue into 2018/19.
- Education - c£0.8m pressure anticipated to continue although officers are working to ensure that this is minimised wherever possible.

4.4 Whilst the budget investment proposals include £1,601k for Children's services (including £474k transfers into RSG) the scale of the challenge has continued to worsen over the last few months and the impact shown above is 'after' this investment.

4.5 The service areas will need to look at ways of reducing the pressures in these areas during 2018/19, however it is identified that there will be a lead time to any achievement of reducing these pressures and therefore overspending will still remain in 2018/19 in these areas. Therefore, it is proposed that a budget investment of £2.2m will be centrally allocated as a specific financial risk contingency for People services, while work is progressed to identify ways that these overspends can be reduced. When plans are finalised, this will be allocated to specific budgets as needed, though clearly, plans will need to reduce current level of costs. In summary, this budget investment will provide budget risk cover whilst plans are implemented and then be used to provide investment to implement solutions, as risks reduce thereafter.

4.6 Whilst these overspends, in the current 2017/18 year have been partially offset by, (i) c£1m of staffing underspends across services, and (ii) non service area savings of c£2.2m in respect of council tax rebates and council tax surplus this level of underspending cannot be relied upon over the medium term. In saying this, the council tax reduction scheme saving in this current year is expected to continue into 2018/19 at least.

4.7 The 2018/19 budget, in overall terms, has been signed off as robust by the Head of Finance. As said above, Cabinet are asked to note that the above three areas will be subject to significant continued overspending in 2018/19 but that the specific People services budget contingency of £2.2m, held centrally, is available to cover most of these and invest in these areas when final details are known as regards how these areas will move forward at lower cost.

5 2018/19 Budget Requirement

5.1 Funding levels for service areas, based on the draft proposals, are shown in appendix 5 with the detailed budget investments / pressures and savings shown in appendix 6 and 7 respectively. Proposals for 2018/19 include c£13.5m of budget investments / pressures over and above the costs of inflation. The most significant areas of additional expenditure are linked to:

- £3,985k specific grants transferred into RSG – mainly social care related
- £1,135k pension deficit
- £1,100k permanent transfer of funds into schools
- £1,313k new schools, including a new social, emotional and behavioural difficulty school
- £800k out of authority residential placements
- £777k non-teaching staff increments
- £671k new responsibilities as set out in RSG – homelessness prevention and increasing capital limits for residential care

5.2 As is the case each year, WG transfers some specific grants into the council's overall grant settlement. The proposals make the assumption that these are included in those service area budgets which were funded from the specific grants. This allows continuation of those services in the first year. These transfers have been significant this year and are almost £4m. Service funding levels in appendix 5 reflect these changes.

5.3 For 2018/19, the WG also transferred 'new responsibilities' to local councils and the settlement included provision for the cost of this. The new responsibilities relate to homelessness prevention and increasing capital limits for residential care. Cabinet should be aware that pressures are included at that level which officer's estimate will be required and has been based on known, current costs.

5.4 Significant specific grants are received from WG each year and at this time we still await the finer details of funding levels for 2018/19. It is highly probable that we will see decreases in some of these grants. It is proposed, in line with the council's current working policy, that service areas deal with these matters with Cabinet Members in terms of identifying issues as they become aware of them and developing necessary solutions to resolve them. This may involve reducing / stopping services that WG specific grants no longer fund.

5.5 The need to identify a significant level of savings to balance the budget, both for 2018/19 and the next three years was recognised at the early stages of budget preparation and a robust process has identified new savings of c£8.0m of savings over the four years, of which c£7.4m is for 2018/19. These are in addition to already agreed savings of c£3.6m of savings over the next four years, of which just over £2.0m is for 2018/19. The savings are shown in appendix 7.

5.6 The budget process has continued since Cabinet agreed the detailed budget proposals for consultation in December 2017. Since then, the council has received its final grant notification and have considered further budget savings and pressures. A full reconciliation of movements since December Cabinet can be found in appendix 11.

5.7 The position reported at Cabinet in December was finely balanced, since then, the position improved through the final settlement and the increased tax base. However, offsetting this was the pay award made to the local government (LG) workforce (exc. teachers) in December which was higher than the 1% included at the draft budget stage, and indicated a pay award averaging 2.7%. For non-schools staff, this is estimated to be c£1m and is included within the 2018/19 budget. Although the pay award has not yet been accepted by Unions, an average of 2.9% pay award in 2019/20 has also been included within the medium term budget. This is an estimate at this stage and the position will continue to be monitored over the coming months.

5.8 There has been over £30m of service area investments between 2013/14 and 2017/18 over and above inflation. This has been incorporated into budget planning and investment allocated to services to ensure that the best possible services are provided to the people of Newport. The necessary investment seeks to continue as the Authority faces more and more difficult decisions.

6 Schools Position

6.1 Cabinet considered the schools' funding position during their December meeting and included;

(i) providing permanent core funding for the 2017/18 one year funding of £1.1m
(ii) funding of the estimated cost of new schools.

6.2 Aside from this, the December position assumed a cash flat position for schools with no reduction to schools funding.

6.3 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.

6.4 This is undoubtedly a challenging position as this level of increase gives rise to significant saving requirement in 2018/19 for schools to produce balanced budgets. As stated above, schools will need to cover 2018/19 cost increases over and above the increased funding shown but also Cabinet will be aware that in the current year, schools approved budgets are drawing down on c£3m of reserves and this will not be possible for most schools to do again in 2018/19, requiring further savings to be made.

6.5 In addition to the above, there are further financial challenges coming from education specific grants. Anticipated grant reductions are noted below for which no budget investments are proposed to substitute and therefore schools will need to account and cover for these shortfall's themselves. Headline figures from the Education Achievement Service (EAS) region, suggests a cut to the Education Improvement Grant (EIG) of c£220k (3.7%). We are yet to receive figures for the Post-16 grant, however projections of close to £0.5m reduction have been tentatively acknowledged by WG as being broadly accurate. A further risk is the uncertainty surrounding the future of the Minority Ethnic Achievement Grant (MEAG) which is no longer funded through the EIG grant. This is a regional service hosted by Newport City Council. Newport allocation of grant to fund this is currently nearly £1.5m.

6.6 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 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 (£671k).

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	- 6,824	176,464	389	0%
	266,372	**2,273**	**6,253**	**- 7,064**	**267,834**	**1,462**	

*Estimated cash limit excludes pension uplifts funded centrally and permanent transfer of funds

6.7 Schools receive significant specific grants on top of their council funded core budget/funding. The council has increased their element of the total schools funding over the last few years. The table below shows how the overall schools budget has increased by over 7% over the last four years both with and without specific grant funding.

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%

While it is recognised there have been increases since 2013 relative to other service areas in the council, the position remains challenging for schools due to increasing demand pressures and cost increases.

7 General and Specific Reserves, Contingencies and Financial Risks

7.1 The proposed budget incorporates a number of assumptions in terms of levels of income and expenditure in future years. There are, therefore, inevitably a number of financial risks inherent in the proposed budget. The key financial risks are highlighted below.

7.2 Any overspend in 2018/19 over and above the revenue contingency budget would be an issue. However, after taking account of the revenue contingency budget, no overspend is currently forecast during 2017/18. Having said that, two significant issues and assumptions are drawn to Cabinets attention;

(1) Cabinet will know that there are three areas of significant over-spending, at levels over and above investments in these areas and general contingency for 2018/19. Key forecasted over-spending are £2,9m in 2018/19 at current service levels with mitigation forecasted higher at £4.7m (general contingency £1.5m, People services specific contingency £2.2m, underspend in council tax reduction scheme c£1m) thereby providing more than enough budget cover in overall terms.

(2) The Schools budget challenge is very significant and will require savings to be implemented for 2018/19. Individual Schools are using all/ most of their reserves to fund their current 2017/18 financial year spending and this will not be available again for most schools in 2018/19. The view on the robustness of the budget makes the assumption that schools will make the necessary savings required at this point but is a significant on-going risk.

7.3 In relation to (1) above, it will be important that the council brings forward robust plans to reduce current spend here so that the People services contingency can then be used to permanently fund that reduced spend. If this is not possible, further investment in the services may be required to be able to set the 2019/20 and future budgets, likely requiring further saving in other areas to fund.

7.4 New saving proposals and additional income proposals over the four year period amount to approximately £8.0m of which most is in 2018/19 and will need to be delivered in order to achieve a balanced budget for 2018/19. This will result in implementation costs and inevitable financial risk around delivery of all savings. Realistic part year assumptions have been made where implementation cannot be immediate but there is an inherent financial risk around achieving service changes in time to deliver the planned savings.

7.5 Inflationary increases in budgets have been set at a low level, consistent with most other Local Authorities. Invariably, this introduces a degree of financial risk as key inflationary pressures are not known with certainty at this time but this financial risk is no higher than in any other year. Although additional funding has now been included in the MTFP in 2018/19 for the pay award, this still remains a risk as the current offer has not yet been accepted by the Unions.

7.6 In terms of any contingencies and reserves, the Head of Finance needs to review these in their totality in conjunction with the base budget and the financial risks which face the Authority. In addition, this review should incorporate a medium term view and take into account key developments that may impact on the need for and use of one off resource. In this respect, Cabinet will be aware that the current base budget has a c£1.5million general contingency budget.

7.7 In light of the financial risks highlighted above, a robust view is being taken on managing budget risks and protecting the financial health of the council. In that respect, the council's financial resilience is a key consideration and appendix 13 shows the current 'snapshot' of key data and information, alongside the current and projected position on the council's reserves.

7.8 The financial resilience 'snapshot' shows that the council is mitigating potential risks through a number of avenues, there are sufficient levels of general reserves (discussed further below) and there are a number of earmarked reserves which are set aside to mitigate against specific risks such as the insurance reserve. There are also earmarked reserves set aside to fund expected future increases in costs for projects and furthermore a reserve set aside for the smoothing of the funding associated with these projects, the most significant example being the Private Finance Initiative (PFI) reserves. These contribute to a strong balance sheet position that is shown in the 'snapshot'.

7.9 The council has also been able to show strong financial control and has managed within its budget over a number of years, despite the high level of savings. This is projected to be the case for 2017/18 which, again, is summarised in the financial resilience 'snapshot' appendix.

7.10 Significant one off costs will be required to implement the budget saving proposals set out in the MTFP. Forecasts indicate that there will be sufficient funds within this reserve to meet the one off costs over the medium term. A summary of the position is shown in appendix 13 based on the detailed business cases for budget proposals agreed by Cabinet in December 2017. Cabinet is requested to approve this expenditure, funded from the reserve, noting it will be regularly reported to Cabinet as part of revenue budget monitoring.

7.11 A 'rule of thumb' analysis for determining the level of general reserves suggests this is at least 5% of net revenue expenditure (excluding schools' budgets); unless a formal risk assessment justifies a lower level. This implies a level of c£8.8million for Newport.

However, taking the approach outlined above:

7.12 Whilst it is accepted that as significant budget reductions are made it invariably introduces financial risks, Newport has a reputation of managing within its budget. Budget risks have been addressed within the detailed business cases. In 2018/19, a

People service contingency provides short term mitigation for anticipated over-spending whilst plans are finalised to reduce costs.

7.13 Protection against budget risks is provided through earmarked reserves and contingencies of which the People services contingency outlined above is new for 2018/19. In addition, the council has a number of earmarked reserves for known, but not always easily quantifiable, financial risks.

7.14 In the context of the above and the financial risks inherent in the proposed budget, it is recommended that the minimum level of general reserves remain at its current level of £6.5m, supported by the base general budget contingency of £1.5m and a People services contingency of £2.2m.

7.15 The base general budget contingency, specific People services budget contingency, and the significant anticipated under-spending on council tax reduction scheme, alongside the level of recommended general and earmarked reserves reflect the overall potential financial risk associated with delivering the budget in 2018/19. With general reserves, these provide sufficient capacity to cover financial risks. In light of this approach, the Head of Finance, as part of his S151 responsibilities, is content that the 2018/19 overall budget as proposed is robust.

8 Budget consultation and Fairness and Equality Impact Assessments (FEIAs)

8.1 The budget proposals agreed by Cabinet in December have been consulted on through a range of stakeholder groups and formats which are as follows:

- With Trade Unions via the Employee Partnership Forum on 11 January 2018 (minutes included within appendix 1);
- With all Scrutiny Committees in their January 2018 meetings where Members discussed the detailed change and efficiency programmes plus the MTFP. Their reports and conclusions are included in appendix 2;
- With the Schools' Forum on 16 January 2018. Responses are included in appendix 3;
- With the public from 21 December 2017 to 31 January 2018. An analysis of responses is included at appendix 4;
- Newport Fairness Commission has reviewed the proposals in terms of their parameters of fairness – their response is included in appendix 4a;

In summary, there was a general acknowledgement of the financial pressures facing the Council. Whilst comments were made on a wide range of budget proposals, the main focus of comments was as follows:

Public Consultation

8.2 During the 2018/19 formal budget consultation stage 416 people were engaged, which is a 21% increase on the previous year (343 responses). This is thought to be as a result of an improved collaborative approach to consultation which was developed during consultation on the wellbeing assessment, which itself received over 5,000 responses.

8.3 During the budget consultation we have carried out a number of awareness exercises with the public, which included:

- A series of engagement activities connected to the Wellbeing of Future Generations Act work which has involved over 5,000 people.
- Carrying out an awareness survey via the public Wi-Fi on Newport buses that reached 6,131 people.
- Holding a budget event at the Newport Market attended by 47 people who interacted with council staff. Part of this included a budget presentation which was attended by 14 people, most of whom were parents of children with additional learning needs. The points raised in this event have been included in this report along with the education services proposals they relate to.
- Holding service user meetings around particular budget proposals (adults and children's services). Around 75 people attended these sessions and their feedback is shown within the appendices under the relevant proposal.
- Holding Ward meetings in Malpas, Shaftesbury and Allt-Yr-Yn.
- Promotion via the media to all households using Newport Matters, Council Facebook & Twitter and Council Website.
- Requesting partner networks to circulate details of the consultation e.g. One Newport Network, Partnership Engagement Group and Voluntary Sector Network.
- Consultation with Newport Fairness Commission – their response is included as appendix 4a.

Equalities Impact Assessments (EIA)

8.4 In delivering its services, the Council has to be mindful of its duties to discharge its statutory obligations for Equal Pay, Disability Discrimination Act (DDA) and other equalities legislation including The Race Relations (Amendment) Act 2000 and the Equality Act 2006.

8.5 The council carries out an impact assessment to identify equalities issues across the breadth of the budget as part of the MTFP and annual budget setting process to inform spending decisions. As part of the budget process, equalities implications are considered for all budget proposals and an EIA is carried out by the relevant service manager, supported by the council's policy team.

8.6 Appendix 12 provides an overarching impact assessment as well as the impact assessment for all those new saving proposals individually listed in appendix 7, showing any issues, after mitigation, of any equalities issues that Cabinet and Council need to be aware of.

9 Risk and Performance

9.1 As part of setting the councils budget, key consideration is given to the risks the council faces and the improvement objectives that the council has put in place. The council maintains a corporate risk register and an Improvement Plan, this next section looks at these and identifies how they are dealt with currently in setting out the councils 2018/19 and medium term budgets.

9.2 The council maintains a corporate risk register which is regularly reviewed by the Corporate Management Team and Cabinet, as well as the Audit Committee from a procedural/ risk management framework viewpoint. The council's budget strategy and MTFP framework needs to reflect risks and incorporate appropriate financial mitigation, where required. The corporate risk register and associated mitigation is included within appendix 15.

9.3 The impact of these challenges are reviewed as part of the financial monitoring process and through the corporate risk register both of which are reported regularly to the Cabinet, Senior Leadership Team and the council's Audit Committee.

10 2018/19 Proposed Council Tax

10.1 Following the final settlement which as previously highlighted included an improved grant position and an increase in council tax base funding, which has given a credit balance of £713k. Cabinet will decide on how this credit budget is to be utilised to give a balanced position.

The table below shows the available and required budget funding with a 4% increase in council tax. Cabinet will be aware that there has been a 4% increase implicit in our MTFP planning parameters and in the draft budget proposals. In setting council tax, the Council needs to be aware of the need to set a balanced budget.	
Council Tax at Band D at 4% (further 1% included within savings proposals)	£1,049.07
Budget requirement	**£000**
Base Budget 2017/18	266,372
Inflation & Re-pricing adjustments	3,523
Transfer from Reserves	(1,200)
BASE BUDGET 2018/19 (before investments/savings)	**268,695**
Budget investments – (£13,538k shown in list of pressures plus increase of £642k required in council tax benefit based on 4% council tax increase)	14,180
Budget savings ***(including a 1% council tax increase on top of the base 4% assumed below)***	(9,464)
DRAFT BASE BUDGET 2018/19	**273,411**
Funding available	
Final WG Settlement	212,790
Current Council Tax at new tax base	58,975
Increased Council Tax @ 4%	2,359
Total	**274,124**
Balance available 'in hand'	**(713)**

10.2 Before Cabinet can recommend a budget to Council, it now requires decisions based on the figures shown in the above table. These decisions include:

- Delete specific saving items;
- Providing additional capacity within services;
- Fund new initiatives and policies;

- The level of council tax increase required to balance the budget. A 0.1% change in council tax equates to £47k. The current MTFP assumes a base increase of 4% and, in addition, a further 1% as a specific savings proposal, therefore the total increase on council tax for 2018/19 is 5%.

Cabinet will also need to make decisions based on how to allocate the £713k 'in hand'.

10.3 For contextual purposes, the table below shows the monetary impact of different percentage increases in council tax and current values at other Welsh Councils. Given the low starting point on Newport council's tax, it will still be lower than most (if not all) of the council's shown, even at a 5% increase and the actual monetary increases in tax are low in themselves. Newport City Council proposed tax increase will maintain its position as one of the lowest in Wales.

Percentage Increase	**1%**	**2%**	**3%**	**4%**	**5%**
Newport Band D Tax 2018/19	£1,018.81	£1,028.89	£1,038.98	£1,049.07	£1,059.16
Increase per annum	£10.09	£20.17	£30.26	£40.35	£50.44
Increase per week	19p	39p	58p	78p	97p
Comparison with existing Band D Council Tax (rounded) Current year (2017/18) before any increase					
NEWPORT	£1,009				
Caerphilly	£1,012				
Wrexham	£1,052				
Cardiff	£1,100				
Torfaen	£1,183				
Swansea	£1,208				
Monmouthshire	£1,183				

11 Capital Budget

11.1 The council's capital resources come from four main sources:

(i) Supported borrowing allocation from Welsh Government;
(ii) Unsupported or "Prudential" borrowing;
(iii) Capital receipts from the sale of Council owned assets;
(iv) WG General Capital Grant / other external grants and contributions.

11.2 In reality, there is little difference between (i) and (ii) as they are both 'borrowing' and the council is required to identify a revenue budget to fund the financing costs that result from this type of capital expenditure (i.e. capital principle repayment – MRP, and interest charges).

11.3 2017/2018 marks the final year of the current four year programme. A new five year capital programme covering the period 2018/19 – 2022/23 has been produced and set out in appendix 8.

11.4 The current capital programme which finishes this year is forecasting to have spent £132,292m over the four years. Through Newport City funding, grant funding and S106 monies, as well as capital receipts the programme has enabled a number of important projects to be developed and completed within the city which have aimed to improve the lives of the residents living and working in Newport.

11.5 The 2014/15 to 2017/18 programme has seen the commencement of the 21st century schools programme, with the Band A programme almost reaching its conclusion. This has allowed the building of the new Welsh Medium Secondary School - Ysgol Gyfun Gwent Is Coed, and the refurbishment of John Frost School. The scheme has also improved conditions within a number of schools across the City with the demountable replacement project as well as improving Special Education Needs provision with the building of a new autistic spectrum disorder (ASD) facility and the Maes Ebbw Special School expansion. Band A is also funding a new school at Caerleon Lodge hill which will continue into 2018/19.

11.6 Grant funded programmes such as Vibrant and Viable places have facilitated a number of ambitious schemes contributing to the regeneration of the city centre, such as the development of 123-129 Commercial Street, the Yates Hotel, Newport Market, the Kings Arms and the Potters as well as the Kings' Hotel Development. The programme has also been responsible for other schemes such as Super connected Cities which was finished in 2015/16. As well as the continued support for the ongoing annual programmes such as asset maintenance, fleet replacement and disabled facilities grants.

11.7 A number of schemes included in the new five-year programme are (i) existing, already approved projects expenditure slippage from 2017/18 and (ii) new schemes, not yet approved, with spending profiles predominantly in 2018/19 onwards but which, apart from one scheme, will have some small levels of expenditure in the current 2017/18 year. These new schemes require approval therefore as new 2017/18 schemes. Therefore it is recommended the following items in the table below are approved for addition in 2017/18 which subsequently supports the new programme.

Scheme	**2017/18 £'000**	**Funding**
John Frost School IT Replacement	330	Unsupported Borrowing (funded by school)
St Mary's RC Primary School Toilet Refurb	15	Schools Works Reserve
Landfill Cell 4 Development	20	Unsupported Borrowing
Decriminalised Parking	50	Unsupported Borrowing
Cardiff City Region Deal (City Deal)	2,376.5	Unsupported Borrowing
Total	**2,791.5**	

The above additions will increase the approved 2017/18 capital budget from £46,919k as reported in December Cabinet, to £49,710k. The City Deal is subject to further approval of the City Deal Business Plan and is therefore subject to potential change, and the new programme (plus 2017/18 contribution) is the latest modelled capital contributions that Newport Council would be required to pay.

Funding Envelope and Affordability

11.8 Given the on-going financial constraints on the council's funding, the HoF has recommended that the capital programme is developed within an 'affordability envelope' re: borrowing costs. In setting that envelope - an additional £250k has been added to the revenue MRP budget for each of the years 2019/20 and 2020/21 within the MTFP. This will provide additional capacity to the capital expenditure spend that could be afforded within the budgets available to fund new borrowing and the programme was then developed within that total affordability envelope. It will need to be re-assessed periodically if the financial position changes.

11.9 Given the inevitable constraint this brings about and being mindful of the demand for capital expenditure, the following framework is recommended for the organisation in order to maximise expenditure but keep within the available revenue budget to fund new borrowing:

- Funding from sources other than borrowing needs to be maximised, by securing grant funding whenever possible and, maximising capital receipts
- Regeneration schemes would be funded from ring-fencing the capital works reserve only and Joint Venture funds. Other kinds of support through making of loans etc. would then be considered to support schemes, where it was needed and appropriate e.g. Mill Street offices development.
- Any change and efficiency schemes or schemes which save money requiring capital expenditure would be funded by netting off the savings achieved
- Schemes and projects which generate new sources of income would need to fund any capital expenditure associated with those schemes.

This framework ensures that the capital programme can be maximised but those schemes which cannot fund any resulting borrowing costs e.g. schools programme can themselves be afforded and maximised within the headroom available.

11.10 It should be noted that the capital programme will inevitably evolve and change as assumptions and council demands are updated.

11.11 The programme has been compiled with regard for the latest demands on the capital programme which include;

- Current known slippage against the 2017/18 capital programme
- Ongoing capital funded maintenance schemes
- Cyclical Fleet / equipment replacement schemes
- Schemes linked to the Corporate Plan
- One off Schemes resulting from Service area requirements / pressures
- 21st Century Schools – completion of Band A in 2018/19 and Band B from 2019/20

New Key Schemes

11.12 The new programme includes significant investment of £127m in a number of areas, this will enable the council to achieve a number of its objectives from the Corporate Plan. This includes investment in improving schools assets, assisting regeneration and economic development, increase waste capacity, and delivering civil parking enforcement. Further schemes will be added to the capital programme to support the Corporate Plan objectives as they are developed.

11.13 The key schemes which have been included within the next year's programme (shown in appendix 8) are as follows:

- 21st Century Schools Band B – Following agreement by WG in full at £70m over five years starting in the second year of the programme, 2019/2020. This is a challenge as the council will have to match WG funding by 50%.
- Annual Sums of £4.5m which are used to fund Asset Maintenance, Highways maintenance, GWICES, Telecare, Disabled Facilities Grants, IT replacement and Fleet.

- Peterstone Sewerage – £235k to provide and adopt a packet pumping station for the former council houses at St Peter's Crescent.
- Landfill - £2.155m has been included within the Capital programme for the development of Cell 4 of Docks Way Landfill site. As recycling increases, it is also resulting in a new end of process waste (process fines) being produced in higher amounts which is only suitable for landfill.
- Up to £12m development loan for Mill Street Sorting Office.

11.14 As well as the known schemes above, included within the programme are additional estimates for the following schemes. This are subject to further approval of Heritage Lottery Fund (HLF) bids which are currently at the first stages;

- Market Arcade – To develop a large proposal to Heritage Lottery Fund to support the renovation of the Market Arcade, including its two entrances.
- Transporter Bridge – To carry out renovation works on the Transport bridge which will be funded partly by HLF at 90% and the rest be matched funded by the council.

City Deal

11.15 An estimate is currently included in the capital programme for the modelled contribution for Newport Council share for the capital expenditure for the Cardiff City Region Deal (City Deal). There are a number of models being discussed and the final outcome remains uncertain. The values in the capital programme will need to be updated in the future to reflect future agreed changes.

11.16 The table below shows a summary of the capital programme over the life of the programme and how this is financed. Further detail is shown in appendix 8.

	2018/19 £000's	2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's	**TOTAL £000's**
TOTAL VALUE OF SCHEMES	**35,806**	**24,884**	**23,309**	**23,606**	**19,282**	**126,886**
Funded By:						
General Capital Grant	2,469	2,469	2,469	2,000	2,000	**11,407**
Supported Borrowing	4,058	4,058	4,058	4,000	3,800	**19,974**
Unsupported/ Prudential Borrowing	19,541	6,880	5,886	6,711	6,482	**45,500**
Capital Receipts - remaining 21CS Band A commitment	3,066	0	0	0	0	**3,066**
External Grants - remaining commitment	5,153	0	0	0	0	**5,153**
External Grants - future forecast (21CS Band B)		11,111	10,786	10,786	7,000	**39,682**
Reserve Contributions	1,433	0	0	0	0	**1,433**
S106 & Other Contributions	86	196	110	110	0	**502**
Finance Lease	0	170	0	0	0	**170**
TOTAL FUNDING	**35,806**	**24,884**	**23,309**	**23,606**	**19,282**	**126,886**

MRP Policy

11.17 As part of the Treasury Management Strategy report for 2017/18, a change to the MRP policy in relation to unsupported borrowing was approved and implemented in 2017/18. Based on this method the charge for the 2017/18 financial year is £6,451k.

11.18 The new method of charging will be 2.5% straight line method (equivalent of 40 year asset life), and this is recommended for 2018/19 and dealt with in the 'Treasury Strategy' section of this report, below. The lower MRP charge and budget will need to be used for the 'affordability budget' for borrowing costs.

Capital Receipts

11.19 Capital receipts will continue to be a key element for funding the new capital programme. Capital receipts continue to be earmarked for use as match funding for the 21st Century Schools Programme as per current Cabinet policy, with a current balance of £11m available. Of this, circa £9.3m is estimated to be required for the remainder of 21CS Band A up to the end of 2018/19 (c£6m for 2017/18 spend, c£3m for 2018/19).

11.20 Norse Property Services anticipate that a further £232k of capital receipts on property disposals should be achieved by the end of the financial year, in addition to the sums already received as per the table below.

Asset Disposed	Receipts Balance b/f	Receipts Received in Year	Total Available Receipts 2017/18	Receipts Earmarked For: 21st Century Schools	Receipts Earmarked For: Fleet Replace-ment Programme
	£	£	£	£	£
Balance b/f from 2016/17	10,132,291		10,132,291	9,299,734	6,384
16 Charles Street		250,000			
Cot Farm Circle		390,000			
Land at Corporation Road		100,000			
Oliphant Circle Garages		30,000			
Baneswell Nursery		100,000			
Land at Pill County Primary		16,000			
TOTAL NCC RECEIPTS	**10,132,291**	**886,000**	**11,018,291**	**9,299,734**	**6,384**

- The table below shows capital receipts held for Newport Unlimited, which are attributable to the previous joint arrangement between Newport City Council and Welsh Government. As previously reported to Cabinet, these funds are earmarked for city centre regeneration and require WG approval to spend.

Capital Receipts Held for Newport Unlimited	Balance b/f	Receipts Received in Year	Currently Committed to Projects	Balance c/f
	£	£	£	£
Balance b/f from 2016/17	1,609,376			1,609,376
Land at old Town Dock final instalment		1,000,000		1,000,000
Commitments earmarked this year				
- National Cyber Academy			(300,000)	(300,000)
- Contribution to 123/129 Commercial Street			(300,000)	(300,000)
- Info Station contribution to Cardiff University			(575,000)	(575,000)
TOTAL NU RECEIPTS	**1,609,376**	**1,000,000**	**(1,175,000)**	**1,434,376**

12 Treasury Management Strategy & Prudential Indicators 2018/19

12.1 The council is involved in two types of treasury activity:

- Borrowing long-term for capital purposes and short term for temporary cash flow;
- Investment of surplus cash

Within this, the overarching strategy is

- Limit the need to actually borrow cash by using the positive cash-flow the council has to fund capital expenditure funded from long-term borrowing, wherever possible, known as ‘internal borrowing’;

- Borrow and invest in the short-term to manage the shorter term cash-flow requirements of the council.

12.2 The borrowing and investment activities are controlled primarily via the council’s Treasury Management Strategy and various measures and limits set via its Prudential Indicators to regulate/control the implementation of that strategy. These were reviewed and discussed at the Authority’s Audit Committee on the 25 January 2018.

12.3 CIPFA requires local authorities to determine their Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) on an annual basis. This requires approval by full Council following a recommendation from the Cabinet. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the WG’s Investment Guidance.

12.4 Our detailed Treasury strategies for 2018/19 are included in appendix 9. In addition, planned strategies to 2021/22 are also included, in line with the Council’s four year medium term plan. Key points of interest are summarised below.

12.5 The strategy and indicators are based on the 2017 Prudential Scheme. This was updated very recently and the new scheme was published January 2018. The biggest change is the need to include a ‘capital strategy’, with changes beyond that limited to smaller issues and updates to Prudential Indicators. Given the late publication, WG have agreed that this would be fully implemented in 2019/20.

Treasury Management Strategy

12.6 The council’s overall Treasury Management Strategy takes into account the current outstanding borrowing that it has due to capital expenditure incurred in the past and links this into the future expectations for the council around future capital expenditure to be incurred and future cash flows. As noted, the plan aims to limit new long term borrowing, wherever possible by using internal cash resources.

12.7 This Treasury Management Strategy highlights that the council has an inherent need to borrow and therefore the borrowing strategy discussed below is a vital part of the overall Treasury Management Strategy.

12.8 Due to the revenue implications of undertaking capital expenditure and the need to charge a Minimum Revenue Provision (MRP) for capital expenditure funded by borrowing, the strategy of the council is, where possible, to limit increases in the capital expenditure financing costs in the MTFP. 2017/18 is the final year of our current capital programme and the next five year programme will be approved alongside this strategy at February's Council. The PI's for these are shown in the appendix to this report.

12.9 In summary the council is expected to limit the amount of new long-term borrowing over the short-term to a minimum, but in conjunction with advice from our Treasury Advisors, there will become a point where current borrowing will need to be re-financed, and a decision will need to be taken as to the appropriate timing of that borrowing.

12.10 The detailed Treasury Management Strategy is shown in appendix 9.

Borrowing Strategy

12.11 The council has significant long term borrowing requirements but in recent years, the strategy has been able to fund its capital expenditure from reducing investments rather than undertaking more expensive new borrowing i.e. using 'surplus cash', known as 'internal borrowing'. This is because the rates achievable on the council's investments are lower than the rates that would be payable on long-term borrowing and therefore this strategy is more cost effective. This borrowing strategy is recommended to remain over the foreseeable future in the current low interest rate environment.

12.12 In terms of the revenue budget, the council must ensure it sets aside sums to repay capital expenditure funded from borrowing (irrespective of whether the borrowing itself is undertaken externally or through dis-investing). This is done via the MRP. In addition, a budget is also needed to fund actual interest payable on loans taken out, which are based on predictions of actual external borrowing. Both are discrete budget lines in the council's overall revenue budget.

12.13 2017/18 is the final year of the current four year programme, and work has commenced on providing figures for the future programme from 2018/19 to 2022/23 which will be finalised alongside the budget report. Appendix 9 shows the estimated capital expenditure for the council over the medium term and is based on keeping capital expenditure funded by borrowing within the capital financing revenue budgets that are included within the MTFP. This means that there would not be additional pressure on the MRP budget from the capital expenditure funded by borrowing. An estimate has also been included for the capital expenditure that can be funded by reserves, capital receipts, grants etc. which will not impact on the level of the CFR or the MRP charge.

12.14 A paper on the future capital programme has been taken to Senior Management and a framework for future capital expenditure has been agreed for Cabinet's review and approval, which seeks to limit capital expenditure funded by borrowing to the current funding envelope we have for capital financing within the MTFP. This will mean that no pressure will be put on new borrowing in the future, other than that shown in the table below, which shows the inherent need to borrow for replacing maturing loans and pressure on 'cash balances' from reducing earmarked reserves, hence reducing the ability to be internally borrowed.

12.15 Local Authorities measure their underlying need for long-term borrowing through their 'Capital Financing Requirement' (CFR). This takes into account the amount of capital expenditure that needs to be funded through borrowing, (as opposed to external funding - from cash grants, capital receipts or S106 contributions for example) irrespective of whether the borrowing itself is undertaken externally or through dis-investing.

12.16 The table below shows the estimated Capital Financing Requirement / New Net Borrowing Requirement position for Newport City Council for 2018/19 to 2020/21: (all figures are cumulative)

Newport City Council – CFR

	31.3.17 Actual £m	31.3.18 Estimate £m	31.3.19 Forecast £m	31.3.20 Forecast £m	31.3.21 Forecast £m
General Fund CFR	279.1	281.8	292.0	294.2	295.2
Less: Other debt liabilities *	(47.2)	(45.1)	(43.1)	(42.3)	(41.3)
Borrowing CFR	**231.9**	**236.7**	**248.9**	**251.9**	**253.9**
Less: External borrowing **	(211.7)	(146.1)	(144.7)	(103.2)	(100.9)
Internal borrowing	**20.2**	**90.6**	**104.2**	**148.7**	**153.0**
Less: Usable reserves	(107.2)	(86.3)	(76.9)	(73.2)	(70.6)
Less: Working capital	84.7	4.6	4.6	4.6	4.6
Investments (or New borrowing)	**2.3**	**(8.8)**	**(31.9)**	**(80.1)**	**(87.0)**

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt
** shows only loans to which the Authority is committed and excludes optional refinancing

12.17 As the table shows, the inherent 'need to borrow' as shown by the CFR is predicted to be £87 million over the next four years. The CFR is expected to remain relatively steady over the next four years, as the capital strategy is to fund capital expenditure within the budgets of the current MRP, therefore keeping the CFR stable. The increase in the CFR is due to an anticipated capital loan to a company in relation to redevelopment in which the council will undertake borrowing to finance; this is similar to the treasury arrangements for the loan to Queensberry. The terms of loan will require full repayment of the loan four years following the anniversary of the first payment; this will reduce the CFR back to c£283m in 2021/22.

12.18 Given **current** borrowing levels a further c£20m long term borrowing is likely to be required during 2018/19. This is due to the expected capital loan and the level of earmarked reserves decreasing. However, the authority will be required to be flexible to borrow up to the Authorised Limit.

12.19 The authority will adopt a flexible approach to any borrowing necessary in consultation with its treasury management advisers, Arlingclose Ltd. The following issues will be considered prior to undertaking any external borrowing:

- Affordability
- Maturity profile of existing debt
- Interest rate and refinancing risk
- Borrowing source

Investment Strategy

12.20 The authority holds minimal invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the authority's investment balance has ranged between £0.6m and £96 million, the large balance being when the Council received the receipt from the sale of Friars Walk. In 2018/19, the level of investment is likely to decrease over time to align with the borrowing strategy of keeping new long-term borrowing to a minimum. However, due to the implementation of the second Markets in Financial Instruments Directive (MiFIDII), as highlighted in the Treasury Management half year report, the Authority will be required to maintain a minimum investment balance of £10 million. Whilst this put's a limit to the extent the council can be internally borrowed, it is a relatively small balance in the wider scheme of the council's cash-flows and borrowing and the strategy of being 'internally borrowed still stands.

12.21 **Objectives:** Both the CIPFA Code and the WG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses.

12.22 Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority aims to diversify into more secure and/or higher yielding classes during 2018/19.

12.23 **Approved Counterparties:** Whilst investment funds remain available and based on the treasury management advice from Arlingclose; the Authority may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown will invest in the following areas:

Approved Investment Counterparties and Limits

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	Not applicable	Not applicable	£ Unlimited 50 years	Not applicable	Not applicable
AAA	£5m 2 years	£10m 2 years	£10m 2 years	£5m 2 years	£5m 2 years
AA+	£5m 2 years	£10m 2 years	£10m 2 years	£5m 2 years	£5m 2 years
AA	£5m 2 years	£10m 2 years	£10m 2 years	£5m 2 years	£5m 2 years
AA-	£5m 2 years	£10m 2 years	£10m 2 years	£5m 2 years	£5m 2 years
A+	£5m 2 years	£10m 2 years	£5m 2 years	£5m 2 years	£5m 2 years

A	£5m 13 months	£10m 2 years	£5m 2 years	£5m 2 years	£5m 2 years
A-	£5m 6 months	£10m 13 months	£5m 2 years	£5m 13 months	£5m 2 years
BBB+	£2.5m 100 days	£5m 6 months	£2.5m 2 years	£2.5m 6 months	£2.5m 2 years
BBB	£2.5m overnight	£5.0m 100 days	Not applicable	Not applicable	Not applicable
None	£1m 6 months	Not applicable	£10m 25 years	Not applicable	Not applicable
Pooled funds	Not applicable				

12.24 Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. Whilst the credit ratings score drives the approved listing, the day-to-day operational counterparties are generally limited to named counterparty listing as documented in appendix 9. However, where it is prudent to do so the Authority may also use other approved investments based on the approved credit ratings as documented in the table above.

12.25 A more detailed explanation of the different approved counterparty types are included in appendix 9 but for the sake of clarity, the Council's investment strategy will, as per the WG's Investment Guidance, give priority to security and liquidity and will aim to achieve a yield commensurate with these principles.

Minimum Revenue Provision (MRP) Policy

12.26 The MRP Policy is detailed in appendix 9. As per the Treasury Management half-year report brought to Audit Committee, it is proposed that the MRP charge for supported borrowing will be changed from 2017/18. This is in line with guidance and the policy attached.

Prudential Indicators

12.27 The council must establish certain 'checks' required by CIPFA to ensure that its Treasury Management Strategy is operating effectively. These are known as Prudential Indicators, and they will be reported to the Council on a six monthly basis.

12.28 Examples of our key indicators are noted below; again more detail is supplied at appendix 9

Net Borrowing/Capital Financing Requirement

The Council's net borrowing should not exceed its Capital Financing Requirements as outlined earlier. This ensures that borrowing is only used to finance capital over the long term. The Council does not note any difficulty in meeting this requirement.

Financing Costs to Net Revenue Stream

This ratio shows how much of the Council's total revenue budget is used for capital financing costs, as a percentage. The ratio for 2018/19 is 7.6%.

Timetable

The timetable for approval of the 2018/19 budget is as follows:

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

Risks

Detailed financial risks are included in the various sections of the report and appendices where applicable

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?
Budget savings not delivered	M	L	(i) robust business case processes (ii) robust budget monitoring (iii) programme governance (iv) service planning (v) retention of reserves and budget contingency	Head of Finance/ Heads of Service
Budget savings not delivered on time leading to in year overspending	M	M	(i) robust budget monitoring (ii) programme governance (iii) retention of reserves and budget contingency	Directors / Heads of Service Head of Finance
Unforeseen Pressures	H	L	(i) retention of reserves and budget contingency (ii) robust budget review	Head of Finance Directors / Heads of Service

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

In drawing up budget proposals, due regard has been given to key Council policies and priorities

Options Available and considered

Taking a strategic and medium term view Cabinet should approve the four year change and efficiency programme as summarised in the MTFP, though they could approve 2018/19 proposals only. For 2018/19 Cabinet must agree a revenue budget and then the resulting council tax for Council. Cabinet have various options open to them on the detailed change and efficiency programmes contained within this report.

Preferred Option and Why

That Cabinet continues to approve a four year change & efficiency programme and the detailed projects over the four year period.

Cabinet must set a balanced revenue budget and recommend the related council tax amount required for this level of spending to Council.

Comments of Chief Financial Officer

The key financial issues are contained within the body of the report.

The Council's MTFP point to a continuing challenging financial outlook, in line with all Council's across the UK. Significant pressures on demand led services, alongside a reducing / standstill funding which makes up c78% of the overall Council funding requires significant savings to be made. At only c22% of the overall funding, council tax cannot provide the funding required to offset the above issues.

The approval of the new Corporate Plan brings with it opportunities to develop a more long term and strategic approach to meet this challenge. The key commitments within it will require additional funding in some areas and this is a key development to assess and build into plans, including the MTFP, over the Spring 2018. But, in addition, it provides an opportunity to agree such an approach and develop the change/efficiency plans to ensure the Council develops what and how it delivers services in the medium term future, supported by business plans to implement the agreed long term changes.

This should be done within the financial context shown by the MTFP to ensure the Council deliver sustainable services into the future whilst meeting the key objectives and commitments within the new Corporate Plan and supporting documents.

Comments of Monitoring Officer

The Revenue Budget Report has been prepared in accordance with the requirements of the Local Government Act 2003 and the Local Government Finance Act 1992. In accordance with Section 25 of the 2003 Act, the Cabinet must have regard to the advice of the Head of Finance, as the Council's Chief Finance Officer, regarding the robustness of the budget estimates and the adequacy of the financial reserves. This advice must be taken into account when considering the proposals in the Report and in making recommendations to Council regarding the budget and the Council tax rate. In accordance with the Functions and Responsibility Regulations, agreeing the overall budget and setting the Council Tax rate under the 1992 Act is a matter for full Council. Therefore, the recommendations of the

Cabinet will be subject to ratification and approval by full Council, insofar as they relate to the overall budget and Council tax proposals for 2018/19.

However, the implementation of the individual savings proposals within the MTFP are executive matters for the Cabinet, provided that they are in accordance with the general budget framework set by the Council before the beginning of each financial year. Therefore, Cabinet is able to approve the 4 year programme as set out in the MTFP, subject to future budget decisions.

Comments of Head of People and Business Change

The 2018/19 Budget and Medium Term Financial plan report gives Cabinet the opportunity to consider the implications and opportunities in the deployment of resource across a range of functions and services over the next four years. This is set against the backdrop of on-going financial pressure which has created a challenging environment. Staff have been impacted by changes to date in a number of ways and the Council now employs significantly fewer staff than it did five years ago. Inevitably there will be further staffing impacts as a result of financial settlement for 2018/19 and the extent of this will be finalised following the decision making process. All staff potentially impacted upon by this have been offered the opportunity to be consulted with and the relevant Trade Unions have made representations, contained within this report.

As part of the annual process in place a range of opportunities have been made available for the public to express their views and again these are included in the report for the consideration of Cabinet. Views have been gathered through face-to-face sessions, Ward meetings, via email, letter and petition and via the on-line consultation pages.

The Local Authority is required to ensure it considers the impact of decisions made today on future generations. This has been done through the expanded use of the Equality Impact Assessment process. It should be noted that this is becoming ever more difficult to do in the wake of on-going reductions in funding.

Comments of Cabinet Member

The Cabinet Member for Finance and the Chair of Cabinet confirm that they have approved this report.

Local issues

The budget proposals as shown affect the city as a whole although some specific proposals may affect certain localities more than others.

Scrutiny Committees

Comments from Scrutiny Committees are included in appendix 2 of the report

Equalities Impact Assessment and the Equalities Act 2010

The detail of Equalities Impact Assessment undertaken is included in appendix 12 of the report.

Children and Families (Wales) Measure

All proposals have been consulted on widely, as required.

Wellbeing of Future Generations (Wales) Act 2015

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 implications for the long-term planning of finances and service provision. The business cases used to develop savings proposals include specific linkage with Future Generation Act requirements of the "five ways of working". These pose the following questions:

Integration – *How does this proposal contribute towards the objectives of the key strategic documents of the Council i.e. Newport 2020, Corporate Plan, Single Integrated plan, Improvement plan etc.*

Long Term *– How does this proposal ensure that the short term and long term requirements are balanced in line with our key strategic plans. I.e. Newport 2020, Corporate Plan, Single Integrated Plan, Improvement Plan.*

Prevention *– How does this proposal prevent future problems occurring or getting worse in trying to meet our objectives.*

Collaboration - *How does this proposal demonstrate that we are working in collaboration either across the organisation or between organisations.*

Involvement – *How does this proposal involve key stakeholders in the development and implementation of this proposal.*

Similar revisions have been made to report templates and the Fairness and Equality Impact Assessment format.

The Well-being of Future Generations Act has involvement as one of the five ways of working under the sustainable development principle. Involvement in the development of this budget has included a four week period of public consultation and consultation with Trade Unions via the Employee Partnership Forum, with all Overview and Scrutiny Committees, with the Schools' Forum, with the Council's Fairness Commission and with representatives from the business and voluntary sector.

Crime and Disorder Act 1998

N/A

Consultation

Wide consultation on the budget has been undertaken, as outlined in section 8 of the report and within the appendices.

Background Papers

Dated: