

Report

Cabinet

Part 1

Date: 20 December 2019

Subject 2020/21 Budget and Medium Term Financial Projections (MTFP)

Purpose To highlight key issues affecting the development of the 2020/21 budget and MTFP, and present the draft proposals for the 2020/21 budget. Cabinet are asked to agree the draft proposals in order to commence the budget consultation process for this year. Consultation results will be reported back to Cabinet in February 2020, when Cabinet will recommend a final budget and council tax level to full Council.

Author Chief Executive & Head of Finance

Ward All

Summary Despite local authorities being faced with the biggest budgetary challenges of any part of the Welsh public sector over the last decade, this council has continued to demonstrate good financial management. Coupled with the funding restraints, significant cost pressures affect the council finances in respect of (i) pay and pricing inflationary increases and (ii) increasing demand and associated costs for services. Between both issues, cost pressures are very significant; £13,026k in 2020/21 alone and the council continues to develop its medium term strategies to plan for future saving requirements. Whilst work on this was progressing when the Interim Chief Executive came to post, focus has necessarily been on 2020/21 as the budget challenge for that year was not resolved at that point. Given the time required to finish a strategic, longer-term strategy, the draft budget described in this report is focussed primarily on delivering a balanced and viable one year budget for 2020/21. This will enable work to continue in the New Year on a new, medium term strategic 'change programme' containing proposals for more ambitious changes in ways which services are delivered.

This update is quite different to previous years in that, at the point of drafting and making public this report, the council are not yet in receipt of the provisional 'revenue support grant' settlement from Welsh Government (WG) – its main grant which funds c75% of its net budget. Since the Chancellors spending round announcement in September 2019, the UK general election has meant that the publication of the Welsh Government's budget has been deferred until 16 December, the same day that the Local Government draft revenue support settlement will also be published. As we await further details on the settlement, the Head of Finance will provide an update at the Cabinet meeting on the 20 December.

The Council's 'Revenue Support Grant' (RSG) funds over 75% of its revenue budget and therefore the settlement received from WG has a significant impact on the investments which are affordable and savings requirement placed upon the council. Both savings and an increase in local council tax are key elements of the 2020/21 budget to ensure that we are in a sustainable position and able to maintain key services as best as possible for the most vulnerable in our communities.

The draft 2020/21 budget proposals are detailed within this report and its appendices.

Section:

1 Our financial challenge – service context

- 2 Setting the budget – financial context
- 3 Financial planning assumptions
- 4 Budget savings
- 5 Budget process and consultation
- 6 Risk, financial resilience and performance
- 7 Report review and statutory comments

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| Appendix 4 | Budget savings previously approved |
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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 5 (detailed business cases), including the decision making point (either full Cabinet or Head of Service) for each one
- ii) To increase council tax by 7.95%, a weekly increase of £1.14 - £1.52 for properties in Band A to C, the most common bands in Newport, as set out in paragraphs 3.15 – 3.18
- iii) Proposed fees and charges in appendix 7
- iv) The budget investments shown in appendix 1
- v) The budget investment in schools (included in appendix 1) amounting to £4,380k which is the assessed budget increase requirement for 2020/21 noted in paragraph 3.9 – 3.14 and which requires use of £1,754k of reserves to fund in full, based on current planning assumptions.

2. Cabinet is asked to note:

- i) The position on developing a balanced budget for 2020/21, acknowledging that the position will be subject to ongoing review and updates especially in light of the delayed announcement from WG in respect of 2020/21 funding
- ii) The medium term financial projections, assumptions contained within and that projections contain investments required to implement the Corporate Plan promises
- iii) That the delegated decisions in appendix 3 will be implemented with immediate effect, after following the usual Council decision making processes
- iv) That Fairness and Equality Impact Assessments have been completed for all proposals requiring one

- v) The Head of Finance's recommendation that the Council should prioritise the development of a 'strategic change programme' as a priority in order to develop a long-term sustainable financial footing for services. In addition, also utilising any increased RSG grant above current planning assumptions in a way that is strategic and contributes to the development of a longer term sustainable budget.

Action by Directors / Heads of Service

Timetable Immediate:

1. Delegated decisions in appendix 3 will be implemented with immediate effect, in line with internal decision making protocols
2. Decisions subject to consultation in appendix 2, fees and charges, and schools funding position to form the basis of the budget consultation process.

This report was prepared after consultation with:

- Interim Chief Executive
- Strategic Directors
- Head of Law and Regulation
- Head of People and Business Change

Signed

1 Our financial challenge – service context

- 1.1 This section deals briefly with the services related contexts within which the Council is developing its MTFP and the 2020/21 budget. The Council provides over 800 services, for over 153,000 people, living in over 68,000 households. Newport's population is growing, with the largest growth for children under five.
- 1.2 The council faces continuing financial challenges, namely:
- increasing costs around pay / contract prices;
 - increasing demand for services and therefore costs. These stem from demographic and societal changes and are most acute in the larger budget areas of social services and education;
 - Local Government funding in Newport, which sees the 'Revenue Support Grant (RSG)' funding over 75% of its net budget. Funding is therefore controlled largely outside of the Council's own control and influence, and as a result is relatively disjointed from its own spending pressures, requirement and priorities;
 - a historically low, relative council tax level, which would provide a further c£10m funding if it was set at the average Welsh Council level or c£8m if it was set at that level assumed by WG when setting the Councils 'standard spending assessment' compared to current levels.
- 1.3 In addition, the Council is rightly ambitious in providing the best services it can and fulfilling its Corporate Plan ambition of 'Improving People's Lives'. The Council's Corporate Plan sets out 20 clear promises and, in some cases, these require financial investments, which are included in the 2020/21 budget and the Medium Term Financial Projections (MTFP) as appropriate.
- 1.4 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 no longer needed
 - set up new delivery models
 - developed shared services
 - reviewed our services to become more efficient
 - invested in preventative services
 - helped people to live independently
- 1.5 Having said this, ongoing funding uncertainty, coupled with continuing financial pressures and demands mean that, prior to the acceptance of the proposed savings, even more 'new' savings must still be found – at least £22m by 2023 based on current planning assumptions and projections. In addition, even with a relaxation of previous year's RSG real terms funding reductions, it is evident that, given the high funding gap above, some savings will need to be found to meet future demand and cost increases.

2 Setting the budget - financial context

- 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 project our savings and investments across the next three years. For over a decade councils have faced continued financial pressures together with real-term cuts and 'cash flat' funding allocations, therefore we have had to find savings to meet the funding gap between the funding available (RSG grant and local council tax) , 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:

- budget commitments (both investments and savings) agreed in the MTFP previously;
- new areas in need of investment and growth;
- new proposals for savings and efficiencies;
- 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 approve the new medium term savings and investments over the life of the MTFP, to be added to those already approved.

National budget position

2.5 The spending round announced by the Chancellor in September 2019 provided an extra c£600m for the Welsh Government (WG) for day-to-day spending in 2020/21 compared to 2019/20. This comes from decisions by the UK government to increase spending in England on areas such as schools, further education, social care, homelessness and the environment.

2.6 The announcement included the following UK and Welsh headlines:

- in England, Local Government had “for once” been among the winners, having had core spending power increased by £2.9bn in total in 2020/21. This represents a rise of 6.3% from £46.2bn this year to £49.1bn in 2020/21;
- the additional £600m that will go to WG represents 2.3% in real terms growth. £385m of this finding is a consequence of extra cash being spent on the health service in England and £195m due to extra funding for schools in England;
- despite this being the largest one-year increase for over a decade, the Welsh Government’s budget in 2020/21 will still be 2% lower in real terms than in 2010/11. This additional funding does not return spending power to the levels of a decade ago.

2.7 Theoretically, a spending review is a chance to take a long-term view at the government’s spending plans, however, the continuing uncertainties around Brexit curtailed the planning horizon of this exercise and, with the exception of schools and police, a one-year budget was presented with a full multi-year comprehensive review planned for 2020. This does give rise to some uncertainties as to the sustainability of the increases announced for 2020/21 only.

2.8 Since the spending round announcement in September, the UK general election has been called on 12 December and given that we are in a pre-election period, the publication of the Welsh Government’s budget has been deferred until after the election to 16 December.

Welsh Local Government / Newport City Council funding settlement

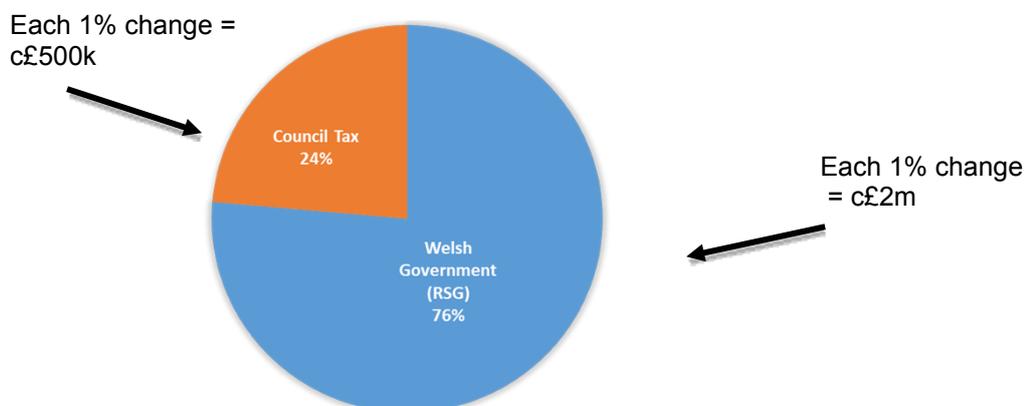
2.9 Welsh Government funding accounts for the largest part of a council’s funding in Wales, typically equating to about three quarters of its net revenue budget funding requirement. This funding is provided through a non-hypothecated grant – the Revenue Support Grant (RSG). In addition to this, other grants provide funding for specific purposes. Welsh Councils continue to ‘push’ for medium term RSG settlements so that they can plan with certainty but this has not happened to date. The draft budget and MTFP is therefore based on planning assumptions and are very likely to change. The scale of the budget challenge is very sensitive to changes to RSG funding as shown in table 5.

2.10 Less than a quarter of a councils funding is raised through local council tax, representing a small proportion of funding that is under the councils own decision-making.

2.11 Given the above scenario in Wales, there is a relatively weak connection between individual Council’s own decision-making on spending priorities / pressures and its ability to raise the funds required to meet that.

- 2.12 In Newport, the RSG funding makes up 76% of its net budget, with council tax at 24%. As the RSG makes up such a large proportion of the councils budget, what happens to this grant is crucial, as any reductions cannot be easily offset by an increase to council tax. For example, it would take a 4% increase in council tax to offset a 1% reduction in the RSG.

Chart 1: Newport Council funding sources – 2019/20



- 2.13 Given the decision to defer the publication of the WG settlement until after the UK general election, the arrangements for the Local Government settlement will broadly follow the same timeline as that proposed for the Welsh Government's budget. The Council will receive its provisional settlement on 16 December. Until then, the budget planning assumption around funding for 2020/21 is that the RSG will increase by 1% compared to 2019/20 levels. The timing of this announcement clearly means that uncertainties remain in terms of both RSG and specific grants. Cabinet will need to consider the draft settlement as they finalise their budget for their February 2020 meeting.
- 2.14 In addition to the assumptions around RSG funding, a number of one off specific grants were received in 2019/20 to fund recurring expenditure. These covered costs in respect of social care, teachers' pay award and teacher's pensions and will amount, in 2020/21, to £5.7m. The budget planning assumptions around this funding for 2020/21 are that this funding will continue, either as further specific grants or transferred into the RSG in addition to the general 1% growth outlined above. The areas of expenditure this funds are:
- | | | |
|-------|--------------------|---------|
| (i) | Social care | £1,500k |
| (ii) | Teachers pay award | £390k |
| (iii) | Teachers pensions | £3,848k |
- 2.15 The Councils final RSG settlement will be announced on 25 February 2020. Apart from late transfers of specific grants into/ out of the final settlement, which are 'neutral' in their impact, the main changes come from Council's confirmation of their individual 'tax bases' – i.e. the number of Band D equivalent properties they confirm they will be basing their council tax income on, which is confirmed after the publication of the draft settlement ordinarily. 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. The late draft settlement this year means that this adjustment will be included in the draft settlement itself, which usefully takes away that particular uncertainty in the final settlement.
- 2.16 The Head of Finance (HoF) has set the tax-base for 2020/21 and it will increase by 1.9%, significantly higher than the all Wales average of 0.5% in 2019/20. This growth has the potential to affect the RSG significantly; however, the Head of Finance will provide an update once the impact is known. The MTFP and 2020/21 budget shown in appendix 9 does not allow for any financial impact on this increasing council tax base at this point as it can only be confirmed when the draft settlement itself is confirmed.
- 2.17 The 1% planning increase in the RSG noted in 2.13 above, at £2.1m, therefore represents the combined increase in funding from the increasing tax base plus the adjusted RSG grant. Alongside the permanent funding of the current year's one-off funding at £5.7m outlined in 2.14 above, the WG funding assumptions for 20/21 amount to c£8m of additional funding.

Implementing the Corporate Plan

- 2.18 The Council's business and financial planning is underpinned by the Council's Corporate Plan 2017-22 that sets out a clear set of aspirations and plans for the future under our mission of 'Improving Peoples Lives'. This provides a focus for decisions around spending and will direct activity across the council.
- 2.19 The current medium term financial projections included in appendix 9 and the detailed budget investments in appendix 1 includes funding for the key priorities and promises set out in the plan, as needed. As funding and spending pressures continue to be a challenge, the task of delivering a balanced budget becomes much harder. The Council has yet to develop a 'strategic change programme' which outlines the key areas and initiatives which will guide services and the Council in the future to deliver sustainable services and meet the priorities set by the Corporate Plan. Such a programmes financial impact could be included in the Council's MTFP to deliver a balanced/sustainable medium term financial position. The Council's interim Chief Executive recognises this work as a priority.

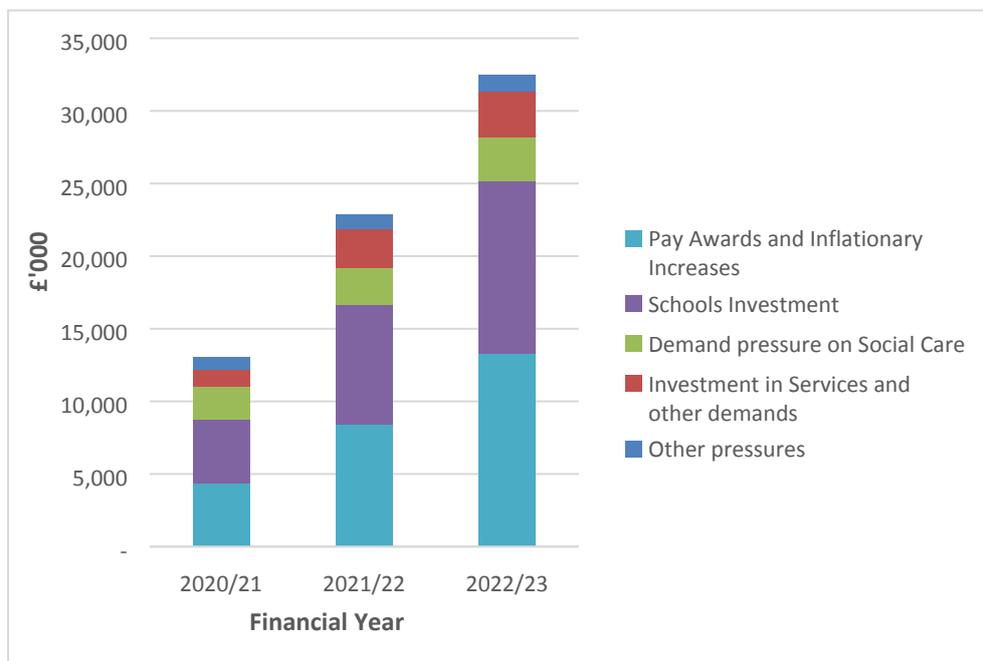
3 Financial planning assumptions

Increasing costs and demand

- 3.1 Financial pressures and demands on our services have increased over a number of years and this increase is projected to continue. Main issues include:
- pay and inflationary cost increases – of the councils £280m net revenue budget over three quarters of expenditure relates to pay and contracts and is therefore subject to inflationary increases year on year;
 - significant increases in demand led services – specifically, children's social care and adult's social care;
 - cost of new and growing schools;
 - growing cost of funding the Council's borrowing costs.
- 3.2 Unavoidable pay and inflationary cost increases, excluding schools, equate to £4,380k in 2020/21 and £13,261k over the three-year period to 2022/23.
- 3.3 In addition to these cost increases, the council has also seen a significant increase in demand led services pressures since 2015/16. In particular, the council is currently forecasting overspends in this year's budget in three key risk areas facing significant demand:
- | | |
|-------------------------------------|-------------------|
| • Adults community care | £1,490k overspend |
| • Independent fostering | £729k overspend |
| • Children's out of area placements | £669k overspend |
- 3.4 During 2019/20 these three areas alone are contributing almost £3m to service area forecast overspend. These areas received significant investment in 2019/20 but demand continues to accelerate beyond the budget available. As a result, further investments in addition to this are proposed within 2020/21 to support the level of demand that is being experienced in order to deliver a robust and deliverable budget.
- 3.5 Detailed demand models for social care have been included within appendix 6 and form the basis of the investments that have been put forward for inclusion within the medium term projections.
- 3.6 For 2020/21 specifically, the council is currently planning to invest around £8.6m in the draft budget over and above an allowance pay and pricing inflation. More details on proposed investments are included in appendix 1 and some of the key items include:
- £4,380k investment in school budgets

- £2,246k for increasing demand in social care demand for both children and adult services
- £788k investment to deliver the promises set out within the Corporate Plan such as the delivery of digital aspirations and a new household waste recycling centre
- £239k due to increasing demand for special education needs provision

Chart 2: Cumulative pressures up to 2022/23 by source



3.7 Although the financial pressures facing the Council continue to increase significantly over the three-year period, they outweigh the funding available based on current projections. Even with different and more optimistic funding assumptions, the budget pressures are still higher and savings are therefore going to have to be identified in the future.

3.8 Given the challenge of this, it will also be important that the council review carefully all budget pressures/ investments regularly and services operate in such a way as to minimise these and manage demands to the extent possible.

Schools funding

3.9 The current position provides a cash increase for the overall school budget. It is proposed that schools receive investment of £4,380k in 2020/21. This represents a 4.5% growth in schools budget. This amount is the calculated/ assessed amount, which covers teacher's pay increases and the additional costs of new/ expanding schools. This is in addition to the anticipated continuation of funding of the 2019/20 teachers pay award and pension increase referred to in paragraph 2.14.

3.10 Despite this proposed investment school budgets would remain under significant pressure. Current projections for school budgets in 2019/20 will see them overspending against their available funding by £3.1m and whilst the proposed investment in school budgets outlined above is significant, it covers increasing costs for 2020/21 and no additional for the 'base, current position' where schools are overspending.

3.11 The level of in year overspending was highlighted as a risk in 2018/19 and continues to be a significant area of concern. Schools have used £1.7m from school reserves over the last 2 years to fund overspending on their budgets and current projections of £3.1m overspending would see reserve balances fall to zero at the end of this current 2019/20 financial year. Officers continue to work closely with schools to ensure that deficit recovery plans are in place and that action is taken

to reduce spend. This resolution is critical as current spending levels in schools is not sustainable and has the potential to cause a significant and adverse impact on the councils overall finances if it continues. Based on this, Cabinet are asked to consider the level of funding that will be delegated to schools for 2020/21.

- 3.12 Assessed budget pressures in school budgets over the life of the MTFP amount to £11.9m based on current assumptions on teacher's pay/ pensions cost increases and new/ expanding schools costs. These will, like other MTFP assumptions, need to be reviewed regularly and any actual proposed funding increases confirmed through the budget process.

Table 1: School budget pressures 2020/21 to 2022/23

	2020/2021 £'000	2021/2022 £'000	2022/2023 £'000
Teachers - Pay award and increments	1,648	1,469	1,391
Non Teaching school staff - pay award and increments	797	754	646
Contract & Income Inflation	82	83	83
New Schools	1,242	631	647
Secondary School Transitions	611	906	947
Reduced Class Sizes	0	0	0
	4,380	3,843	3,714

- 3.13 Final allocations of grant are yet to be determined across the Education Achievement Service (EAS) region.
- 3.14 Whilst it is recognised that draft assumptions give significant challenge, school funding in overall terms is better than other parts of the council, and has increased by 11% over the last 5 years. This included specific grants and is shown in table 3 below.

Table 2: School budgets by sector – 2013/14 to 2019/20

Year	Nursery	Primary	Secondary	Special	Total
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
2018/19	562	57,396	47,497	4,773	110,228
2019/20	496	58,492	49,619	5,091	113,698
Increase in funding over 5 year period (incl specific grants)					10.5%
Increase in funding (excl specific grants & delegations)					13.3%

Council tax

- 3.15 It is well documented that Newport's council tax is low compared to others in Wales, generating approximately 24% of our income. This council's current year budget is well below its 'standard spending assessment', a relative spending needs assessment between all Welsh councils, by £8.3m, which is entirely due to our low level of council tax funding.
- 3.16 A base 4% increase in council tax is already included in our MTFP each year. This year, the draft budget proposals include an additional 3.95% increase to council tax in 2020/21 (appendix 2 & 5) bringing the proposed increase to 7.95%. This is subject to consultation and a final recommendation to Council on the council tax level and will be confirmed in the Cabinet's February 2020 meeting.

- 3.17 For contextual purposes, the table below shows the weekly increases in council tax based on a 7.95% increase. Given the low starting point on Newport council's tax, it will still be lower than most (if not all) of the neighbouring authorities, even at a 7.95% increase and the actual monetary increases in tax are low in themselves. Newport City Council proposed tax increase would maintain its position as one of the lowest in Wales.

Table 3: Scenarios illustrating weekly council tax increases

Band	A	B	C	D	E	F	G	H	I
Annual increase based on 7.95% increase	£59.36	£69.25	£79.15	£89.04	£108.83	£128.61	£148.40	£178.08	£178.08
Weekly increase based on 7.95% increase	£1.14	£1.33	£1.52	£1.71	£2.09	£2.47	£2.85	£3.42	£3.42

- 3.18 Given that almost two thirds of Newport's chargeable properties are banded A – C the majority of households would see an increase of between £1.14 and £1.52 per week based on a 7.95% increase.

Summary of key budget assumptions

At this point, the following assumptions are included.

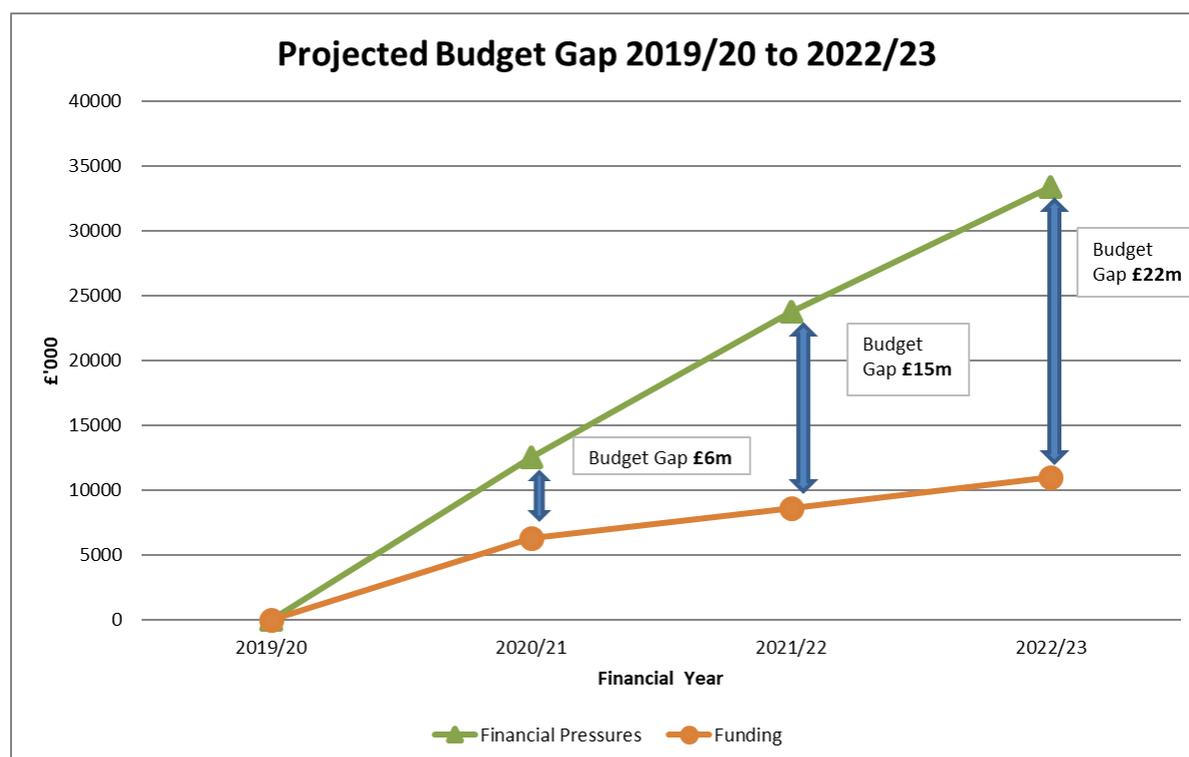
Table 4: Summary of key assumptions

MTFP Summary	2020/2021 £'000	2021/2022 £'000	2022/2023 £'000
RSG Increase - +1% in 2020/21 and 0% thereafter	(2,143)	0	0
Council tax increase - 7.95% in 2020/21 and 4% pa thereafter	(4,215)	(2,289)	(2,381)
One off grants 2019/20 continued/ made permanent	(5,738)	0	0
Budget pressures/ Investments (appendix 1)	13,026	9,870	9,581
General budget transfer to / (from) Reserves	(459)	1,359	0
Previously agreed budget savings (appendix 4)	(554)	(35)	0

Resulting budget gap and sensitivity of assumptions

- 3.19 In summary, the following chart shows the impact that the above assumptions lead to in terms of the Councils medium term financial gap projection.

Chart 3: Projected budget gap 2019/20 to 2022/23

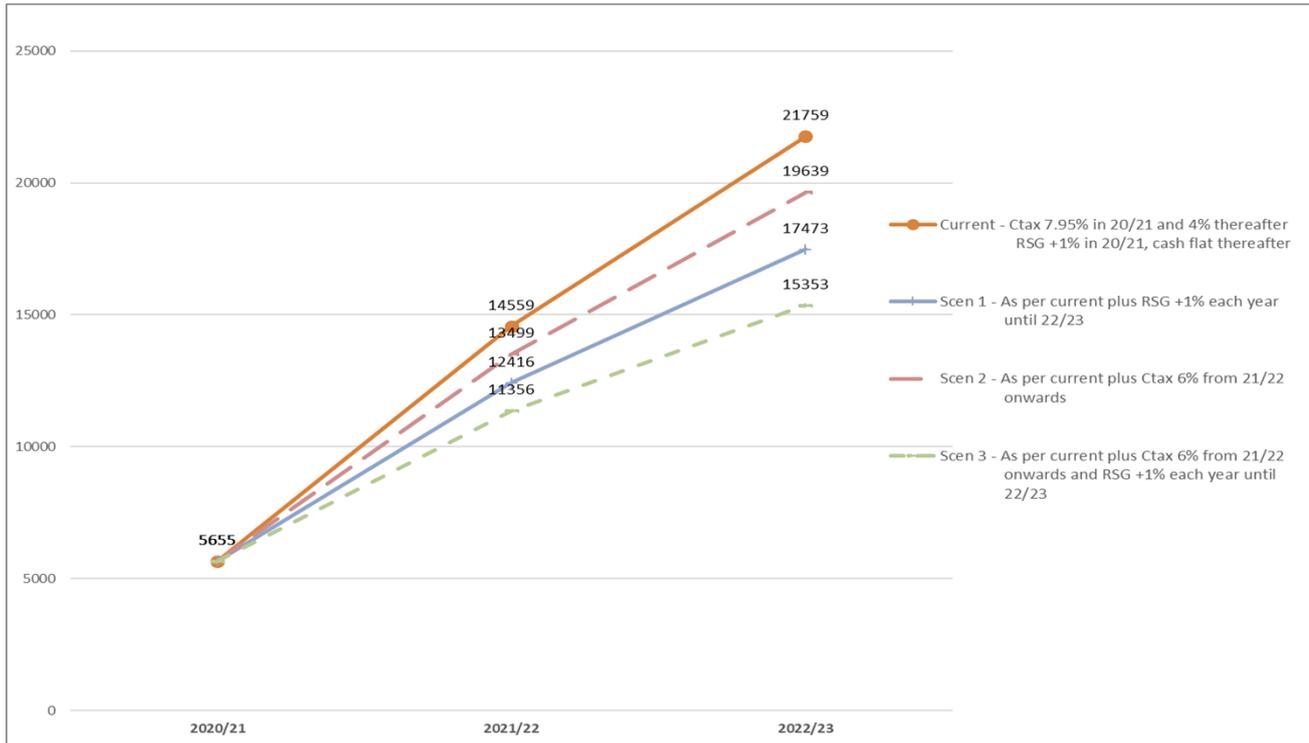


- 3.20 Clearly, the gap is based on current assumptions, listed above, in the MTFP. The draft grant funding for 202/21 will be available from 16 December and that will affect the budget gap/ challenge in 2020/21. Cabinet will need to consider this draft settlement before finalising the 2020/21 budget in their February meeting. We will also, in light of this, review key funding assumptions over the medium term, where appropriate, which the next section details.
- 3.21 If the draft settlement is better than the planning assumptions noted section 2, (increase of £8m), the HoF recommends, as much as possible, a longer term strategic view is taken on how funds are deployed so as to contribute towards sustainable services, as well as meet priorities.
- 3.22 The HoF will continue to work with the senior leadership team and Cabinet to develop the above approach. Some of the key issues, currently, are:
- on-going financial issues on school budgets
 - increasing demand within service areas over and above provision already made within the MTFP
 - accounting provisions required to deal with our regeneration activities regarding loans to developers.

Sensitivity analysis

- 3.23 As table 4 above confirms, the budget gap is significantly affected by the funding assumptions - the WG grant and Council tax increases projections. The graph and table below show the sensitivity that the council faces in respect of these

Chart 4: Sensitivity analysis – budget gap based on RSG and council tax assumptions



3.24 The table below shows how sensitive each of the variables are to changes in assumptions. The key elements within the medium terms projections, which also have the greatest level of sensitivity, include RSG funding, Council tax increases, pay and contract inflation.

Table 5: Sensitivity analysis – key projections

RSG Sensitivity		£'000
RSG growth +/- 1%		2,143
Council Tax Sensitivity		£'000
Council tax change +/- 1%		530
Pay Sensitivity		£'000
Pay inflation - NJC staff +/- 1%		943
Pay inflation - Teachers and soulbury +/- 1%		253
Contract Inflation Sensitivity		£'000
Contract inflation - +/- 1%		2,490

4 Budget savings

4.1 The savings identified for 2020/21 to date total £5,736k. The table below provides a summary of the savings by decision over the 3-year planning horizon.

Table 6: Summary of projected savings

Savings Decision Type	2020/2021 £'000	2021/2022 £'000	2022/2023 £'000	Staff Impact FTE
Budget savings for full Cabinet decision (appendix 2 & 5)	2,379	405	302	20.89
Budget savings delegated to officers (appendix 3)	2,803	319	283	12.5
New Budget Savings	5,182	724	585	33.4
Previously agreed budget savings (appendix 4)	554	35	0	-5
Total Budget Savings	5,736	759	585	28.4

- 4.2 Under the constitution and our scheme of delegation, some budget decisions are taken by the Cabinet collectively. These proposals total £2,379k for 2020/21 and £3,086k over the life of the MTFP. Some lower level, operational and efficiency type budget proposals are delegated to Heads of Service for decision and implementation. These proposals, totalling £2,803k for 2020/21 and £3,405k over the life of the MTFP are listed in appendix 3.
- 4.3 In previous years, only those proposals requiring Cabinet decisions were subject to public consultation. We have changed the process this year and an impact-based approach has been adopted whereby each proposal is considered on a case-by-case basis, regardless of where the decision approving the saving is taken. The list of new savings in appendix 2 and 3 identifies if the proposal is subject to public consultation or not. 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 in the MTFP last February 2019 are either in progress of implementation or due to be implemented in 2020/21. No further details are shown for these savings, as they have already been approved.

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. The FEIAs for all proposals requiring one can be found [here](#).

Medium term strategic change

- 4.6 Whilst good progress has been made on the 2020/21 budget, significant challenges remain over the medium term, even with more optimistic assumptions around funding as the sensitivity analysis above shows. In particular, significant spending pressures remain to be tackled, particularly in Adults and Children's social care because of growing demand. Containing and then reducing such pressures will require a whole council response, and the active collaboration of our partners such as health services, as part of our new longer-term strategy in going forward.
- 4.7 The success of this longer-term approach will depend on the councils starting with a stable financial platform, and the budget proposals and draft budget set out in this report are designed to do this. Following the announcement of the draft settlement cabinet will need to ensure that we maintain this objective. A key element of this is taking a longer term strategic view is taken on how funds are deployed to contribute towards sustainable services, as well as meet priorities. Proposals for more major changes in service delivery will be brought forward early in the New Year and will

include the need for investment in service redesign, new technological tools and the re-skilling of our staff at all levels to improve productivity and job security.

5 Budget process and consultation

5.1 This report presents the draft proposals for the 2020/21 budget. The report asks Cabinet to note:

- the position on developing a balanced budget for 2020/21, acknowledging that the position will be subject to ongoing review and updates;
- agree that delegated decisions in appendix 3 will be implemented with immediate effect;
- in addition, that Fairness and Equality Impact Assessments have been completed for all proposals requiring one.

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

- budget savings proposals in appendix 2 (summary table) and appendix 5 (detailed saving proposals);
- proposed fees and charges in appendix 7;
- the position regarding the proposed school funding for 2020/21 in section 3.

Budget engagement

5.3 As part of the budget engagement strategy there has been a targeted engagement approach with members of the public in developing budget priorities for the next three years. This will help with budget and service planning.

5.4 Bilingual budget engagement surveys have been made available across all libraries across the city and advertised between library staff and the public – these surveys list the services Newport City Council provides and asks members of the public to choose five options – this serves to highlight the difficult decisions the authority has to make whilst gaining the views from the community of their priorities

5.5 There have been a number of outreach engagement sessions with communities across public venues including Newport Central Library and Newport City Council Information station. Officers have attended these venues and using an engagement tool have captured the views of residents to gain an understanding of how the public perceives the Council and how the authority uses its budget. Primarily feedback has focused on livability issues including community safety, recycling and lighting.

5.6 Officers have also attended an Information day at Newport Centre where approximately 600 members of the public attended and using the engagement tool have gained feedback from older citizens who may not have access to online and digital communications.

5.7 In the pre-budget phase, before proposals have been released, through a combination of engagement sessions and surveys there have been over 140 respondents.

5.8 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 four budget cycles, we received more than 15,000 responses from the public with over 4,000 in the last financial year.

- 5.9 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.
- 5.10 A second budget report will be presented to Cabinet on 12 February 2020. This will ask Cabinet to agree its final proposals for the 2020/21 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 grant settlement from Welsh Government
 - any updates from Welsh Government about future grant settlements
 - any emerging details on specific grants, which have financial implications.
- 5.11 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.
- 5.12 Below is this year's timetable for consulting on and approving the 2020/21 budget:

Table 7: Budget consultation timetable 2020/21

Cabinet agrees budget proposals as a basis for consultation	20 December 2019
Consultation period	20 December 2019 to 31 January 2020
Cabinet considers feedback from consultation and agrees final budget proposals for recommendation to Council	12 February 2020
Council approves the 2020/21 budget and council tax level	27 February 2020

6 Risk, financial resilience and performance

- 6.1 A key driver in setting out our budget strategy and MTFP framework is the need to manage the Council's general and financial risks, its financial resilience and performance. This next section looks at these issues, identifies how they are dealt with currently, and issues which need to be considered in setting out the council's 2020/21 budget and medium term projections.

Risk

- 6.2 The Council maintains a corporate risk register, which is regularly reviewed by the Corporate Leadership 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 quarter 2 corporate risk register report will also be presented to Cabinet in December.
- 6.3 Key mitigation issues include the Council's (i) revenue contingency budget (ii) capacity provided by the 'Invest to Save' reserve to support and fund implementation costs of the current and future change programme, and (iii) capacity to develop the strategic and change programmes to meet the corporate plan within financial context.

At this point, the Council's finances and reserves provide the financial capacity to deal with the current risks identified.

- 6.4 There are a number of risks that while acknowledged are not currently included within the MTFP. These include the current schools deficit position as discussed in para 3.11, current service area overspending over and above provision already made within the MTFP and a number of accounting provisions required to deal with our regeneration activities regarding loans to developers. The result of the settlement will determine the level at which these risks can be covered. The Council also holds a number of risk reserves and budgeted contingency to cover this risk.

Financial Resilience

- 6.5 A robust view is being taken in 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 8 shows the current 'snapshot' of the key data and information showing an overview of the health of the Council at this time. Key headlines include:

- The council maintains a good level of reserves with the vast majority earmarked for specific purposes and already committed. The contingency base budget and other risk reserves held by the council are all taken into consideration when assessing the level of the general reserve, and help to mitigate the risk to the Council. The decline in school reserves over the last few years is a significant concern and current projections of £3.1m overspending would see reserve balances fall to zero at the end of this financial year. This has the potential to significantly impact on the financial resilience of the overall council unless schools manage within approved budgets. This will need to be considered between this meeting and the February 2020 meeting when the budget is finalised.
- The council has identified and continues to monitor budget reductions of £6.6 million in 2019/20. This is alongside delivering outturn within budget over recent years, despite the delivery of £41m savings over the last 5 years. This needs to be viewed within the context of continued significant demand which are faced by service areas namely children's and adults social care and schools, which have been highlighted throughout the year as part of the budget monitoring process.
- Although the 2019/20 forecast overspending across service areas is significant this has been offset by one off underspending/ better income in non-service budget areas and the use of the general contingency budget. This position is not sustainable in the longer term and is a risk though significant investment in services proposed for 2020/21 should reduce overspending if demand can be managed.
- In light of the continuing financial pressures and demands placed on the Council further savings of at least, £22m need to be found by 2023 based on current assumptions. A strategic longer-term approach is recognised as being needed to deal with this given savings found to date over the last 5 years and more.

- 6.6 Overall, whilst there are some underlying issues and challenges, the Council's financial resilience remains strong and it has financial capacity to develop and change services in response to continuing pressure on funding and increased demand for services.

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	M	M	1 Use of contingency, where required	Head of Finance

around inflation are incorrect			2 Use of reserves, where appropriate	SLT
Planning parameters around Welsh Government revenue grant are incorrect over medium term	H	M	1. Use of contingency, where required 2. Keep the assumptions under constant review 3. Use of conservative assumptions	Head of Finance
Increasing budget pressures over medium term	M	M	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

All the financial issues are contained within the main body of the report.

The delay in the notification of the Councils grant settlement does mean we are producing the budget proposals contained in this report with a high level of uncertainty. The sensitivity analysis shown in the report highlights how significant changes in RSG funding can be. Cabinet will therefore need to consider the draft settlement before their final budget-setting meeting in February 2020 and make changes, as necessary.

A key issue will be the development of a strategic and longer-term approach to changing services to ensure sustainability, including Council Tax levels. This will require a stable and solid 'financial platform' to work from and in that respect, the 2020/21 budget is key and should aim to provide that. A key part of that is

- to ensure the budget minimises / does not rely on reserve funding and whilst the draft budget does do that, every opportunity to prioritise this in any update following the draft settlement is recommended.
- that Cabinet take a longer-term strategic view if the settlement is better than current planning assumptions and take the opportunity to deliver sustainable services as well as key priorities.

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 the draft savings proposals and council tax rate set out in the Report in order to deliver a balanced budget for 20/21 and as the basis for public consultation, where the relevant business cases will have an impact

on service delivery and are not operational matters delegated to Heads of Service. Cabinet 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 20/21. 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 fairness and equality impact assessments to ensure that the Council has regard to its public sector equality duties under the Equality Act and is 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 20/21 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 outlines the proposals for Cabinet consideration in order to set a balanced budget for 2020/21 with consideration to the medium term financial plan.

Proposals that have an impact on staff will be subject to the required consultation, and consultation with trade unions. As is the case each year when setting the budget, there is a conscious effort to minimise impacts on staff, whilst focusing on priority services and setting a robust and balanced budget. With the continued constriction of governmental funding and the increase in cost pressures, this becomes more and more difficult each year. Due to this the decisions presented for consideration and public consultation are often a series of 'trade-offs' between service priorities.

The business case process has further embedded the five ways of working expressed within the Well-being of Future Generations Act and the organisation has moved to the development of a broader equality impact process, which also includes the five ways of working, alongside protected characteristics and concepts of fairness (developed with the Newport Fairness Commission).

Public consultation on the proposals seeking Cabinet agreement will commence at 4pm on 12th December 2019 and continue until 31st January 2020. Alongside the traditional paper based consultation process and on-line questionnaires, a bus Wi-Fi survey will be used extensively and there will be face-to-face consultation activity during this period. As previous, the Fairness Commission will be asked to provide a consultation response.

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 be 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: