

# Report

## Cabinet

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### Part 1

Date: 22 February 2021

**Subject: Revenue Budget and Medium Term Financial Plan (MTPF): Final Proposals**

**Purpose** To present to Cabinet the consultation results from the draft budget set out in their January 2021 meeting, and the current position on the Council's funding envelope. In light of these updates, ask Cabinet to agree their final budget proposals, and recommend the associated Council Tax level required for agreement at Full Council in their meeting on 3 March 2021.

**Author** Head of Finance

**Ward** General

**Summary** The draft budget proposals for 2021/22 agreed in the January Cabinet meeting have been subject to detailed consultation, and the results have been set out within this report and its appendices.

Whilst the results of the draft settlement were reported to Cabinet in January; at the time of writing and making public this report, the Council are not yet in receipt of the final settlement from Welsh Government, which is due on 2 March. With the exception of any late transfers of specific grants into/ out of the final settlement, which are neutral in their impact, no other changes are anticipated. Therefore, Cabinet are finalising their 2021/22 budget based on the funding position made up of the draft Revenue Support Grant, the confirmed increase in the Council's tax-base and Council Tax income at the rate that will be recommended at this meeting.

The draft settlement confirmed that Newport received the greatest share of the 3.8% net funding increase for Local Government across Wales, and much higher than that included within planning assumptions. This report summarises the draft budget key areas, feedback on the consultation on those and other key contextual matters before setting out the current position on the 2020/21 budget which Cabinet will consider. The final proposals will be announced at the meeting, following consideration of these.

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## **Appendix:**

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## **Proposal Cabinet is asked:**

### **Budget proposals and medium term projections (section 3-5)**

1. To note the formal consultation on the budget as outlined in section 4 and the feedback received, shown in appendices 1 to 4b.
2. To note the equalities impact assessment summary on the budget proposals, shown in appendix 9.
3. To review and confirm budget proposals (appendix 5 - 6), as currently summarised within the medium term financial plan (appendix 7) and allocate the financial flexibility shown in table 5. In doing so, agree the implementation of the full medium term savings programme and the use of invest to save as noted in paragraph 6.4 to implement savings as part of the medium term savings requirement.
4. To agree the 2021/22 fees and charges of the council shown in appendix 11.
5. The budget investment in schools of up to £4,937k, is based on an assumed teachers/ NJC pay increase and provides for a fully funded increase in funding requirement in addition to the cost of new/ expanding school provision as noted in paragraph 3.7 – 3.12. Specifically, Cabinet agrees to confirm and finalise this when there is certainty on Teacher's pay from September 2021 with the intention of at least retaining the objective described above, within the funding provision available.

### **Overall revenue budget and resulting council tax 21/22 (section 6 and 7)**

6. To note the Head of Finance's recommendations that minimum General Fund balances be maintained at a level of at least £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 £1.5million.

7. 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 table 6.
8. To recommend an overall net budget and resulting council tax to full Council, noting that a formal resolution including the Police and Crime Commissioner for Gwent and Community Councils' precepts will be presented to Council on the 3 March.
9. To approve expenditure and use of reserves in line with summary shown in appendix 10b, noting they are based on detailed proposals reviewed by Cabinet in their January 2021 meeting.

**Action by** Head of Finance - finalise council tax calculations for Council's March meeting and subsequent billing

Heads of Service – implement agreed saving proposals with immediate effect and apply new fees and charges

**Timetable** Immediate

This report was prepared after consultation with:

- Cabinet Member for Community & Resources
- Chief Executive
- Head of Finance
- Head of Law and Regulation
- Head of People and Business Change

**Signed**

# 1 Financial summary

- 1.1 The draft settlement received on 22 December 2020 confirmed that the funding position for 2021/22 would increase by 5.58% (5.48% after transfers), which was welcomed as it enabled the council to deal with a number of budget pressures and priorities, including those that would assist in reducing the budget gap over the medium term. Most, but not all, of the available funding was allocated in the draft budget.
- 1.2 As always, the budget process has continued since Cabinet agreed the detailed budget proposals for consultation in January 2021 with a small number of new budget pressures and savings identified. The table below sets out the changes that have arisen during this time; with the 'balance in hand' being the current available funds to finally allocate to meet spending priorities and respond to budget consultation, as needed.

**Table 1:** Key changes to pressures/ investments since January

	2021/22 £'000
January 2021 MTFP balance	(140)
Proposed new savings - January Cabinet	(2,711)
<b>Balance in hand as at January Cabinet</b>	<b>(2,851)</b>
Removal of saving proposal STR2122/07	29
New saving - reduction in historical pension liability for 'added years' as numbers reduce	(80)
Reduction in capital financing pressure after reduction of 0.5% in interest rates confirmed	(500)
Reduction in council tax reduction scheme 'top slice' of council tax increase due to lower percentage of tax paid this way	(258)
Lower than anticipated National Living Wage rates	(328)
<b>Revised balance in hand</b>	<b>(3,988)</b>

A full reconciliation of movements since January Cabinet can be found in appendix 8.

- 1.3 Whilst the settlement from Welsh Government (WG) for 2021/22 was much improved from that anticipated, the medium term outlook is still very uncertain which makes planning for the future difficult. The pandemic has seen Wales and the UK experience an unprecedented collapse in economic output in the second quarter of the 2020 calendar year. Whilst there was a large recovery in the third quarter, the economic recovery is extremely uncertain and the longer-term impact of national and local lockdowns and ongoing public health measures remains to be seen.
- 1.4 Significantly, the UK Comprehensive Spending Review (CSR) planned for 2020 only confirmed one-year budgets for public services and it is uncertain how the UK Chancellor and government will deal with the unprecedented level of UK debt the fiscal response to the pandemic has bought about.
- 1.5 Given that in Newport, the Revenue Support Grant (RSG) received from WG contributes 76% to its net budget funding, with council tax making up the balance; what happens to this grant over the medium term is critical. The graph in chart 1 below illustrates how the scale of the budget challenge over the medium term is very sensitive to changes to RSG.
- 1.6 Ordinarily, the Council would have received the final settlement from WG by this stage of the year; however, given the delay in publishing the draft, the final settlement will be announced on the 2 March. Therefore, Cabinet will agree final

budget proposals and recommended a council tax level to Council based on the draft settlement. With the exception of any late transfers of specific grants into/ out of the final settlement, which are neutral in their impact, no other changes over and above those set out within the draft settlement are anticipated. In saying this, it does introduce a potential risk to the final budget and any change will need to be verbally updated at the Council meeting on 3 March.

## 2 Finalising the budget

2.1 Within the above-summarised position, Cabinet have considered their final budget decisions. In doing this, key contextual and relevant considerations include:

- (i) the draft budget key assumptions and budget proposals – section 3;
- (ii) results of the public consultation on these – section 4;
- (iii) the medium term context within which Cabinet are making this decision – section 5;
- (iv) financial risks and reserves – section 6;
- (v) comparative council tax for neighbouring authorities – section 7.

## 3 Financial planning assumptions - summary

3.1 It is important to remind Cabinet of the key assumptions that have been included within the medium term financial plan (MTFP), the 2021/22 draft budget and the quantum of investments / savings.

3.2 The table below illustrates the key assumptions and their financial consequence before the 2021/22 budget requirement is considered.

**Table 2:** Financial implication of key assumptions

MTFP Summary	2021/2022 £'000	2022/2023 £'000	2023/2024 £'000	2024/2025 £'000
RSG Increase +5.58% in 21/22, +1.85%, +1.18% and 1% thereafter	(12,719)	(4,297)	(2,755)	(2,350)
Council tax increase +5% in 21/22 and 4% pa thereafter	(3,214)	(2,434)	(2,532)	(2,633)
Pay award and increments - NJC staff (inc. schools non teaching staff and other pay) +2% pa	2,221	3,240	2,265	2,269
Pay award and increments - teachers +2.75% in 21/22 and 22/23 and 2% thereafter	2,111	1,890	1,449	1,361
Contract Inflation - 0% to 8.2% over the life of the MTFP	3,922	3,301	3,423	3,549
Other investments (inc. social care demand and corporate plan priorities)	5,551	382	157	400
Other school investments	1,848	1,547	1,309	1,075
Savings - including new and previously agreed	(3,411)	(812)	0	0

### Pay assumption

3.3 Assumptions around pay awards include an uplift in 2021/22 of 2.75% for teachers and 2% for all other staff. This assumption remains as although the UK Chancellor announced a one-year pay freeze in his spending review, he has also confirmed that Local Government has its own pay review arrangements and here in Wales, the relevant Welsh Minister agrees teacher's pay. This position will continue to be reviewed but is a prudent to provide for such a key budget risk area.

Thereafter, the MTFP assumptions for pay are 2% for all staff groups in each year.

### Contracts assumption

- 3.4 Contract inflation is applied to budgets only where the council has a contractual commitment for increased costs or where costs unavoidably increase outside of the Councils direct control, e.g. energy prices. These ensure budgets are set at a level that are a true reflection of costs that are to be incurred.
- 3.5 Contract inflation has reduced since the January update following the announcement of the National Living Wage rates for 2021. Confirmation of these rates will see 2021/22 inflation reducing by £328k within social care therefore adding to the revised balance in hand as shown in table 1.

### Investments

- 3.6 Appendix 5 sets out the budget investments over and above inflation. These are investments required to create capacity across the authority, to support priorities set out within the corporate plan and to ensure budgets are realistic to deal with the demands being faced within key areas. Schools investment is also a key area of significant investment in 2021/22.
- 3.7 Cabinet considered the schools' funding position during their January meeting which included a cash increase of £4,937k for the overall school budget. This amount reflects the assessed increase in school costs, including costs of new school / pupil number increases. This has been developed within the context of significant uncertainty around teachers and non-teaching staff pay from September 2021, which makes up most of the draft budget increase. As noted above, a prudent, additional provision has been made to fund teachers' pay award from September 2021. Whilst part of the overall cash increase, Cabinet are recommended to distribute to schools after confirmation of any pay award by the WG, with the aim of maintaining a funding increase, which at least reflects the cost increases within schools within available resources.
- 3.8 The total proposed investment of £4,937k represents a 4.6% growth in school's budget and the key elements are set out within the table below.

**Table 3:** Proposed schools funding 2021/22 to 2024/25

	2021/2022 £'000	2022/2023 £'000	2023/2024 £'000	2024/2025 £'000
Teaching staff - pay award - 2.75% Sept 2021, 2% thereafter	1,398	1,285	960	986
Teaching staff - increments	712	605	489	375
Non Teaching school staff - pay award - 2% per annum	642	659	674	688
Non Teaching school staff - increments	165	101	82	42
Contract & Income Inflation	172	179	186	194
New and growing Schools	1,115	865	846	1,050
Secondary School Transitions	733	682	463	25
	<b>4,937</b>	<b>4,375</b>	<b>3,700</b>	<b>3,360</b>

- 3.9 The agreed funding increase for schools related to the pay award from September 2021 will be earmarked for schools ISB but will not be allocated and distributed to individual schools until the actual pay award is known.
- 3.10 Whilst the proposal here funds school assessed increased costs, it does not provide any additional funding over and above that and therefore those schools with accumulated deficits or base budget over-spending will still need to implement and develop deficit recovery plans. Good progress continues to be made in this respect and previous levels of base budget over-spending have been reduced. In saying that, further savings are required to reduce accumulated deficits in some schools.

- 3.11 Currently, school projections are forecast to underspend against budget, mainly due to the impact of Covid-19, which has seen many schools closed/ substantially closed for prolonged periods and specific costs reimbursed. Excluding the temporary impact of this current situation, their baseline / core position continues to be an area of concern given that £2.7m has been transferred from schools reserves over the last 2 years to fund overspending on their budgets. Current projections of £953k underspending would see reserve balances increase to £2,066k. Based on historical levels of over-spending, this is not a sustainable level and schools will need to continue to make savings. Officers continue to work closely with schools to ensure that deficit recovery plans are in place and that action is taken to reduce spend.
- 3.12 The council are yet to receive indicative grant allocations from the Education Achievement Service (EAS). Cabinet will be updated once confirmation of funding has been received.
- 3.13 Cabinet are also asked to note the reduced pressure in respect of the capital financing that has been amended since January. This generates a saving of £500k due to a reduction in interest rates. This is reflected within both appendix 5 and the council's medium term financial plan (appendix 7).

### Savings

- 3.14 As part of the planning assumptions within the January report, the council were required to identify a significant level of savings to balance the budget, both for 2021/22 and the next three years – details of which can be found in appendix 6. Despite the better than anticipated settlement from WG, savings are still required to balance the budget in 2021/22 given the identified pressures and investments set out within appendix 5.
- 3.15 Cabinet will be aware that when agreeing the draft budget for consultation, the value of savings being proposed were £3,360k, which were made up of, previously agreed savings and new savings some of which were included within the public consultation. The table below provides a summary of savings that formed the basis of the draft budget in January 2021.

**Table 4:** Summary of projected savings

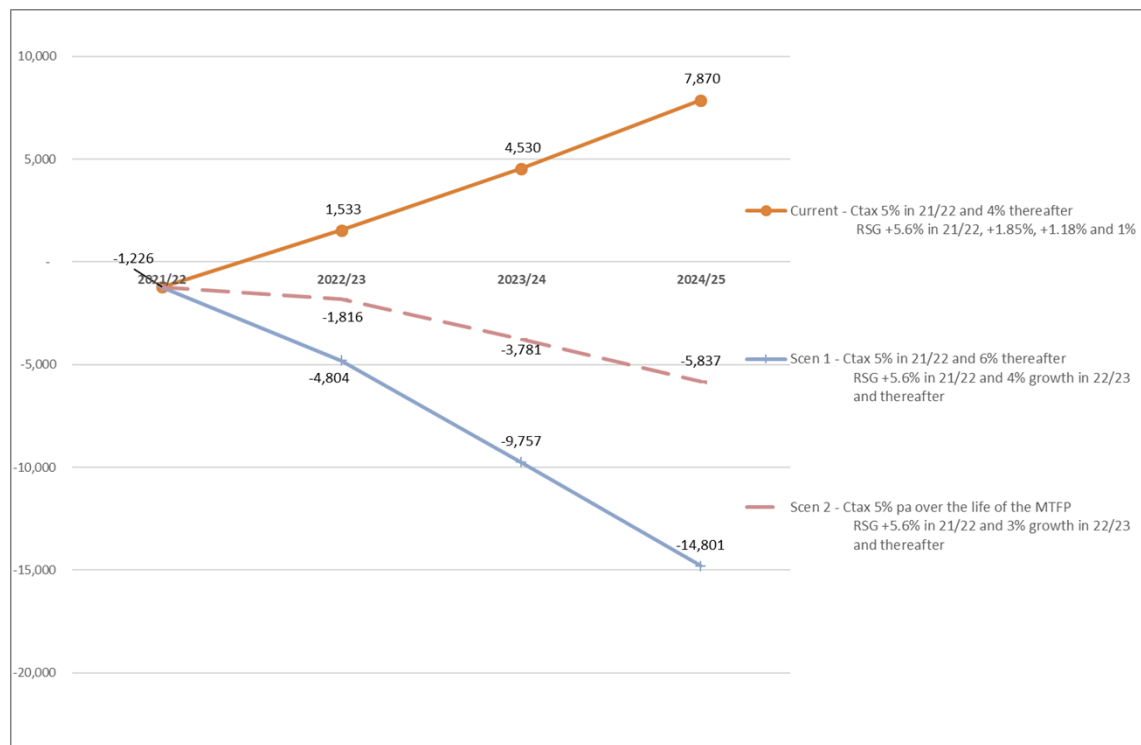
Savings Decision Type	2021/2022 £'000	2022/2023 £'000	2023/2024 £'000	2024/2025 £'000	Staff Impact FTE
Budget savings for full Cabinet decision (appendix 2 & 5)	924	239	0	0	24.09
Budget savings delegated to officers (appendix 3)	1,787	19	0	0	6.9
<b>New Budget Savings</b>	<b>2,711</b>	<b>258</b>	<b>0</b>	<b>0</b>	<b>31.0</b>
Previously agreed budget savings (appendix 4)	649	563	0	0	0.0
<b>Total Budget Savings</b>	<b>3,360</b>	<b>821</b>	<b>0</b>	<b>0</b>	<b>31.0</b>

- 3.16 During the January Cabinet meeting, one of the 2021/22 savings proposals was removed therefore reducing the quantum of savings down to £3,331k. Of the proposals put forward seven savings proposals were consulted upon in addition to the proposed increase in council tax and this report presents the results to enable Cabinet to make an informed decision upon which proposals are to be implemented.
- 3.17 Since this time, a further saving has been proposed and will increase the budget flexibility in 2021/20 further by £80k. This comes as a result of a reduction in historical pension liability for 'added years' as numbers reduce. A full summary of savings can be found within appendix 6.

## Funding – RSG and Council Tax

- 3.18 As table 2 above confirms, the budget gap and the resulting savings requirement for the council are significantly affected by funding assumptions – the WG grant and council tax increases. The graph below shows the sensitivity that the council faces in respect of their impact on future budget gaps and reinforces the importance of considering the medium term when agreeing a final budget in any single year.

**Chart 1:** Sensitivity analysis–budget gap based on RSG and council tax assumptions



- 3.19 This chart replicates that reported to Cabinet in January and adjusted for the new savings/ investments set out in table 1. Key assumptions made over the life of the MTFP will be reviewed once the Chancellor announces the spring budget. Although, the lack of information is problematic from a planning perspective, a 1.85% uplift in RSG has been currently assumed for 2022/23.
- 3.20 Since the January report, the assumed uptake in the council tax reduction scheme (CTRS) has been reviewed, and based on historical data, reduced from 20% to 15% reflecting the current demand in council tax benefits. This has created a reduced funding pressure of £258k in 2021/22.
- 3.21 In addition to RSG and council tax funding; specific grants are a key element of the Councils funding which often assists in supporting core service delivery. A significant level of grant funding is received from WG each year and at this time; we still await the finer details of funding levels for 2021/22. It is likely that a small number of grants will see decreases in funding during 2021/22 and 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. These grants will be included within service areas budgets once the value and conditions are known.

## One-off funding



- 3.22 Whilst the specific budget proposals described above and the detail included in the appendices do not deal specifically with one-off funding, Cabinet are reminded that the funding of the increasing capital financing budget in 2021/22 will fund that to the level required for the end of the capital strategy report 2023/24. The need for this is explained in the Capital & Treasury elsewhere on this Cabinet's agenda. This will generate c£3m of one-off funding over the next 2-3 year and alongside underspending in the current financial year, will result in a significant level of one-off funding availability. This will be confirmed in the Cabinet's June meeting when the outturn is confirmed.
- 3.23 This funding will be available to support the priorities of the Council administration and initially, should provide financial mitigation capacity for financial risks in 2021/22 resulting from on-going Covid and Brexit issues.

## **4 Public consultation**

- 4.1 The budget proposals agreed by Cabinet in January 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 4 February 2021, (minutes included within appendix 1). Specific responses from the Union and Community Councils can be found in appendix 4b;
  - With all Scrutiny Committees in their January 2021 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 14 January 2021. Responses are included in appendix 3;
  - With the public from 8 January 2021 to 12 February 2021. 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.
- 4.2 During the 2021/22 budget consultation over 500 members of the public were engaged. This is a significantly lower figure than the previous year, when a record response was recorded; however, this reflects the huge challenges and impacts on society brought about by the Covid-19 public health crisis. For instance, bus wifi surveys responses have been less than 10% of the rate achieved during last year's budget consultation. It is also actually the case that public engagement work has increased over the course of this year as we have made efforts to engage with communities affected by Covid-19, for example through a Participatory Budgeting programme which will involve community members in allocating funding to address the impacts of Covid-19. However, Covid-19 has inevitably meant attention has had to be diverted from budget engagement work, although this is mitigated by the accumulated knowledge from year on year budget engagement. Despite the challenges, a varied programme of engagement was undertaken as outlined below.
- 4.3 During the budget consultation we have carried out a number of engagement exercises with the public, which included:
- A pre-budget public survey to identify the services that matter most to people, as a means of informing medium term budget planning. This survey will recommence in March and will form part of an approach to make engagement on the budget and service planning a yearly process;
  - Carrying out an online survey via the public Wi-Fi on Newport buses that received c.270 responses;

- An in-depth online survey, which received over c.250 responses;
- A number of responses through e-mails, letters and social media;
- 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 contacts, Newport Youth Council, 50+ Forum, the Partnership Engagement Group and voluntary sector network;
- Engagement with Newport Fairness Commission – their response is included as appendix 4a;
- Engagement with Newport Youth Council so that young people's voices are included in the consultation.

4.4 In addition to completed surveys, the following representations have been received from organisations, and have been considered by Cabinet Members and Officers as part of the budget consultation:

- **Wentlooge Community Council** – a letter from the Community Council regarding the proposed introduction of charges for disposal of non-household waste at the HWRC.
- **Coedkernew Community Council** – a letter from the Community Council regarding the proposed introduction of charges for disposal of non-household waste at the HWRC.
- **Unison** – a letter from the Unison Branch Secretary regarding the budget proposals and particularly the implications for Council employees.

The above representations can be found in appendix 4b.

## 5 Medium Term Financial Plan (MTFP)

- 5.1 The Council's 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. The current medium term financial projections included in appendix 7 includes funding for the key priorities and promises set out in the plan, as needed. In light of the medium term financial sustainability challenge, further work is required to ensure the budget is balanced over the medium term whilst meeting our duties under the well-being objectives.
- 5.2 The MTFP is the articulation of the financial challenges and includes the savings identified over the next four years. It includes those savings, which have previously been approved over the life of this plan in February 2020 Cabinet meeting as well as new proposals. Whilst the Council is required to set a balanced budget for 2021/22, this is to the backdrop of sustaining over £35m of savings over the last five years. Future uncertainties such as future WG financial settlements, the on-going impact of Covid-19 and subsequent economic recovery and Brexit will mean that current projections will inevitably develop and change as assumptions are updated or confirmed for future years.
- 5.3 Despite the favourable draft settlement for 2021/22, there is uncertainty on the continuation of the additional funding allocated to Local Government beyond 2021/22. Whilst it is appreciated that the 2020 Comprehensive Spending Review (CSR) was undertaken in unprecedented conditions as the nation continued to deal with the impact of the Covid-19 pandemic on people, the economy and public finances, the Treasury were unable to deliver a three-year review that had initially been planned. Planning assumptions will therefore be adjusted once information is received.

- 5.4 Cabinet is asked to take a strategic medium term view and following this consultation period, recommended to agree the implementation of the MTFP including all budget investments and saving options (appendix 5 and 6), as summarised within appendix 7.

## **6 Risk, reserves, financial resilience and performance**

- 6.1 The proposed budget includes a number of assumptions in terms of income and expenditure levels over the medium term. There are, therefore, inevitably a number of financial risks inherent in the proposed budget. The key financial risks are highlighted below.

### **Financial risks**

- 6.2 Any overspend in 2020/21 over and above the revenue contingency budget would be an issue, however, after taking account of the revenue contingency budget, no overspend is forecast for 2020/21. In saying this, the councils base budget issues in a small number of areas have continued therefore creating budget overspends. Whilst some of these have been temporarily mitigated in year, budget investments included within appendix 5 are proposed to deal with a number of these areas. The remaining issue to draw to the attention of Cabinet include:
- The schools budget challenge is still significant, and for some secondary schools in particular. Schools position have improved as deficit recovery plans are being implemented and the current financial years underspending will be helpful. In saying this, schools have benefitted from one off savings this year due to school closures and reimbursement of additional costs and lost income via the WG hardship fund. The base position before the current year was still difficult with most schools over-spending in-year. The budget and additional funding for schools assumes they will make the necessary savings required to manage within their annual budgets.
- 6.3 New saving proposals over the next two years amount to £4,223, the vast majority of which relate to 2021/22. Timely implementation is key in ensuring savings and a balanced budget is achieved. 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 and in particular during the current challenging period.
- 6.4 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 the Invest to Save reserve to meet the one off costs over the medium term. A summary of the position is shown in appendix 10b based on the detailed budget proposals agreed by Cabinet in January 2021. 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. The current projected use of invest to save funds over the medium term is £3.5m and will see invest to save balances reduce to £4.7m.
- 6.5 Prudent pay and specific contracts, inflationary increases in budgets have been set but the impact of Covid and Brexit cost increases are still uncertain which invariably introduces a degree of financial risk.

## **Covid and Brexit**

- 6.6 During 2020/21, external support from WG in the form of the hardship fund has seen loss of income and additional costs relating directly to the pandemic being reimbursed.
- 6.7 Whilst it has been confirmed that WG will fund specific policy areas and continue financial support in areas such as free school meals (FSM) the residual risk of lost income and increased staff costs remain, should responses continue. To put this into context the total amount claimed to date from the hardship fund during 2020/21 in respect of additional costs and lost income is in the region of £17m and whilst support will continue for FSM this contributes only £2m to the claims made to date.
- 6.8 In both of these cases, whilst the financial impact remains unknown the councils financial resilience set out in appendix 10 provides mitigation in the form of a good level of reserves and the general contingency budget. As we progress with discussions over the next few months, it is hoped that any potential impact will be known with greater certainty and the medium term projections updated.
- 6.9 The in-year underspending during 2020/21 is expected to be significant as £2.7m underspend was reported to Cabinet in January. This underspend is expected to increase again due to further financial assistance being provided by WG. This position will be reviewed further at year-end.
- 6.10 Mitigation for these areas include:

- £1.5m general contingency included within the base budget;
- Current level of earmarked reserves

These ultimately provide, in the last resort, some mitigation for overspending. If this was to happen, then future projects, funded from these reserves, may not be able to progress or in using other reserves, budgetary provision would need to be made to 'repay' these, creating further pressure on the Council's MTFP. There are no easy, impact free solutions through reserves but they do ultimately provide some cover in the last resort and in the short term.

- Anticipated new one-off funding which will be generated from the current year's underspending and from the budget itself over the next two years, as described in the report above will provide significant capacity to deal with overspending.
- Cabinet are considering additional provision for key budget areas, which may be impacted by further Covid and Brexit issues. Any resulting provision will provide additional financial capacity to mitigate this risk.
- Services may need to reduce spending in other areas to provide capacity to the most pressing need.
- Like most other Welsh Councils, we will be working closely with the WG to ensure any specific issues are highlighted and funding, where available, is secured to deal with financial pressures coming from Covid issues.

## **Reserves**

- 6.11 In terms of contingencies and reserves, the Head of Finance needs to review these in their totality in conjunction with the base budget and the financial risks associated with delivering the budget in 2021/22. This review should incorporate a medium term

view and take into account key developments that may affect the need for and use of one off resource.

- 6.12 Protection against budget risks is provided through earmarked reserves and contingencies. In addition, the Council has a number of earmarked reserves for known, but not always easily quantifiable, financial risks.
- 6.13 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 around £10m for Newport and this has grown compared to current general reserves levels as the Council's net budget has grown fairly substantively over the last few years. Whilst this implies that the Council could prudently consider increasing the current level, in the context of the above and the financial risks inherent in the proposed budget, the Head of Finance recommends that the current minimum level of general reserves could remain at its current minimum level of £6.5m. This is on the basis it is supported by the base general budget contingency of £1.5m and the Council has other reserves which could be deployed to augment this, though, as earmarked for specific purposes, they would most likely lead to on-going budget pressures to replenish if used. Nonetheless, in the worst-case scenario, they are available for use and are key considerations when assessing the level of minimum general reserves.
- 6.14 An analysis of projected earmarked reserves can be found in appendix 10a.

### **Financial Resilience**

- 6.15 A robust view is 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 10 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 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 concern and although current projections suggest a forecast of £953k underspend, this is largely as a result of lower than estimated costs due to Covid. The forecast underspend will see reserve balances increase to £2,066k at the end of this financial year but unless schools continue to manage within budget in future this has the potential to significantly impact on the financial resilience of the overall council budget.
  - The council has identified and continues to monitor budget reductions of £5.4m in 2020/21. This is alongside delivering outturn within budget over recent years, despite the delivery of £35m savings over the last 5 years. This needs to be viewed within the context of continued significant demands which are faced by service areas namely children's social care, which have been highlighted throughout the year as part of the budget monitoring process.
  - Although the 2020/21 forecast is within budget the overspending position in some key areas is not sustainable in the longer term and is a risk should the level of investment in 2021/22 be insufficient to match demand.
  - In light of the continuing financial pressures and demands placed on the Council further savings of at least, £9m need to be found by 2024/25 prior to the acceptance of current savings and 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.

- 6.16 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.

### **Risk register and performance**

- 6.17 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.
- 6.18 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.

### **Fairness and Equality Impact Assessments (FEIAs)**

- 6.19 In line with the council's legal duties as set out in the Equality Act 2010 and the Welsh Language (Wales) Measure 2015, all budget proposals have undergone a full equality impact assessment, which have been updated to reflect public consultation responses.
- 6.20 Appendix 9 provides the impact assessment for the new saving proposals individually listed in appendix 6, showing any issues, after mitigation, of any equalities issues that Cabinet and Council need to be aware of.

## **7 2021/22 proposed council tax**

- 7.1 The draft budget council tax increase of 5% is above the base assumptions of 4% in future years. This additional 1% in monetary terms adds around £580k to the Councils overall funding.
- 7.2 Given that the draft settlement included an improved grant position and an increase in council tax base funding, this has given a credit balance of £3,988k. Cabinet will decide on how this credit budget is to be utilised to give a balanced position.

**Table 5: 2021/22 available and required budget**

The table below shows the available and required budget funding with a 5% increase in council tax. Cabinet will be aware that beyond 2021/22 there has been a further 5% increase implicit in our MTFP planning parameters. In setting council tax, the Council needs to be aware of the need to set a balanced budget.	
<b>Council Tax at Band D at 5%</b>	£1,257.77
<b>Budget requirement</b>	<b>£000</b>
Base budget 2020/21	300,270
Inflation & increments	7,744
Budget investments – (£7,611k (inc. £209k of transfers in from RSG) shown in list of pressures plus increase of	8,281

£670k required in council tax benefit based on 5% council tax increase)	
Budget savings	(3,411)
<b>DRAFT BASE BUDGET 2021/22</b>	<b>312,884</b>
<b><u>Draft funding available</u></b>	
Draft WG settlement	240,796
Current council tax at new tax base	72,193
Increased council tax @ 5%	3,883
<b>Total</b>	<b>316,872</b>
<b>Balance available 'in hand'</b>	<b>(3,988)</b>

7.3 Before Cabinet can recommend a budget to Council; decisions are required based on the figures shown in the above table. Options include:

- delete specific saving items
- providing additional capacity within services
- fund new initiatives and policies
- fund additional pressures not anticipated at January Cabinet
- consider the level of council tax increase required to balance the budget. A 0.1% change in council tax equates to £58k. The current MTFP and draft 2021/22 budget assumes an increase of 5%.

7.4 For contextual purposes, the table below shows the weekly increases in council tax based on a number of scenarios 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 is likely to maintain its position as one of the lowest in Wales.

**Table 6:** Scenarios illustrating weekly council tax increases

Weekly Increase	£0.23	£0.69	£0.92	£1.15
Increase per annum	£11.98	£35.94	£47.92	£59.89
Newport Band D tax 2021/22	£1,209.86 (1%)	£1,233.82 (3%)	£1,245.80 (4%)	£1,257.77 (5%)
Comparison with existing Band D council tax (rounded)				
Current year (2020/21) <b>before</b> any increase:				
Newport	£1,198			
Caerphilly	£1,184			
Wrexham	£1,233			
Cardiff	£1,266			
Torfaen	£1,367			
Monmouthshire	£1,381			
Swansea	£1,406			

## 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 budget proposal process (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	Heads of Service Head of Finance
Unforeseen Pressures	H	L	(i) retention of reserves and budget contingency (ii) robust budget review	Head of Finance/ Heads of Service

\* Taking account of proposed mitigation measures

## 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.

## Options Available and considered

Taking a strategic medium term view Cabinet should approve the four year plan as summarised in the MTFP, though they could approve 2021/22 proposals only. For 2021/22 Cabinet must agree a revenue budget and then the resulting council tax for Council. Cabinet have various options open to them on the detailed proposals contained within this report.

## Preferred Option and Why

That Cabinet are asked to approve a four-year MTFP.

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

Since the draft budget agreed in January, the proposals have been subject to public consultation as well as review by the Council's scrutiny committees, fairness commission, schools forum and the employee partnership forum. Comments and feedback are included in this report. All proposals, as required have been subject to equalities assessments.



Whilst the WG funding has increased relatively significantly, the requirement for investment in services to meet demand and the administration priorities has resulted in savings still being required.

The proposals here will generate one-off savings over the next two years and alongside a budget underspend in the current 2020/21 year, will generate one-off funding which will also be available to support the revenue budget and priorities. It is recommended that this is initially used to help provide financial mitigation for the Covid / Brexit risk and assessed during the 2021/22 financial year as the impact of those and what WG support is available become clearer. The June 2021 Cabinet will confirm the year –end position as well as assess current earmarked reserves and provides an initial opportunity to do this.

The Council has a good level of financial resilience and whilst the vast majority of reserves are earmarked, they do, in the last resort, provide potential mitigation for unexpected financial problems. The budget proposals here include a prudent level of provision for pay inflation and these should be confirmed during the Spring 2021 and alongside the final outturn of the 2020/21 budget, will result in further decisions on the Council's finances sometime then.

Cabinet will need to ensure that in agreeing the final budget decisions in their meeting; they set a balanced budget and recommend an appropriate Council Tax level, which achieves this as well as ensuring the resulting budget is robust. The recommended Council Tax level will be considered and a final decision made by the full Council in their meeting on 3<sup>rd</sup> March.

### **Comments of Monitoring Officer**

There are no specific legal issues arising from the Report at this stage. Cabinet is being asked to consider the budget consultation responses and agree the final savings and investment proposals and proposed fees and charges in order to deliver a balanced budget for 21/22. Where the relevant business cases are not delegated to Heads of Service in accordance with the Council's scheme of delegation, Cabinet are required to 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 21/22. The implementation of all these business cases and the setting of fees and charges 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 also acting fairly in terms of the impact of the proposed changes on service delivery.

The Cabinet is also required to have due regard to the socioeconomic duty which will form part of the equalities obligations as from 1st April 2021 and should consider what impact, if any, the savings and investment proposals may have on the socially disadvantaged. 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 21/22 is a matter for full Council as these are non-executive reserved matters under the Constitution. Therefore, Cabinet will need to recommend the final budget and the proposed Council tax increase to full Council for approval in accordance with the Local Government Finance Act.

### **Comments of Head of People and Business Change**

The 2021/22 Budget and Medium Term Financial plan report gives Cabinet the opportunity to consider the implications and opportunities in the deployment of resources across a range of functions and services over the next four years. This is set against a backdrop of unprecedented challenges to public services due to the Covid19 public health crisis, on top of ongoing financial pressures, which have created a difficult environment and increased financial uncertainty. This is despite the Council having received a relatively favourable draft

funding settlement from Welsh Government and agreements in place to provide the Council with financial support to cover costs related to Covid19.

Council staff have been impacted by changes, to date, in a number of ways and the organisation now employs significantly fewer staff than it did five years ago. All staff potentially impacted upon by these proposals 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 consultation process 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 via email, letter, the on-line consultation pages, through free bus wifi and in sessions with Newport Fairness Commission and Newport Youth Council.

The Local Authority is required to ensure it considers the impact of decisions made today on future generations. This has been done through the use of Fairness and Equality Impact Assessments. It should be noted that meeting sustainable development principles is becoming increasingly difficult to do in the wake of long-term financial pressures.

### **Comments of Cabinet Member**

The Chair of Cabinet, as Cabinet Member for resources has approved the report for consideration and approval by Cabinet.

### **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 9 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”.

Integration – A quality assurance process is in place to ensure that the council delivers a sustainable budget that ensures the impact of any proposals is managed in terms of the wellbeing of our communities.

Long Term – A medium term approach is important in ensuring financial sustainability over the longer term. Whilst the funding from WG over the medium term is uncertain it is imperative that medium term planning is at the forefront of budget discussions. In light of the Corporate Plan priorities, the Cabinet are mindful of the need to target investment and growth within the financial envelope that is available.

Prevention – The council is mindful of the demographic increases, expansion and growth that we are seeing across the City and the potential impact that this could have on the services that we provide. With this comes increasing demand and therefore costs which have been reflected within the medium term projections. The Council's 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'. A key part of the Plan and therefore the areas of investment relates to prevention and increasing resilience of communities.

Collaboration – A key part of our Corporate Plan relates to working alongside partners to deliver key public services. Whilst this budget presents significant savings, the base budget for 2021/22 continues to support numerous examples of multi-agency working particularly with public service board partners.

Involvement – During the 2021/22 budget consultation over 500 members of the public were engaged. This is a significantly lower figure than the previous year, when a record response was recorded; however, this reflects the huge challenges and impacts on society brought about by the Covid19 public health crisis. Public engagement work has increased over the course of this year as we have made efforts to engage with communities affected by Covid-19. The council seeks to involve and inform key stakeholders whilst setting out the financial context. The results of this engagement is key to budgetary decisions.

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 five-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 and with the Council's Fairness Commission.

### **Crime and Disorder Act 1998**

N/A

### **Consultation**

Wide consultation on the budget has been undertaken, as outlined in section 4 of the report and within the appendices.

### **Background Papers**

January 2021 Cabinet report - 2021/22 Budget and Medium Term Financial Projections

**Dated: 22 February 2021**