

Report

Cabinet

Part 1

Date: 12th September 2016

Item No:

Subject Update to Medium Term Financial Strategy

Purpose To update the Cabinet on the current financial outlook and resourcing for Welsh local authorities, and outline the current planning assumptions and projections which form the basis of Newport City Council's medium term financial plan

Author Head of Finance

Ward n/a

Summary Despite the better anticipated than settlement in 2016/17, the financial challenges facing Welsh Local Councils continues, and councils are still bearing the brunt of austerity. The Chancellor's budget in March announced further spending cuts in the public sector to 2019/20, on the backdrop of a worsening global economic backdrop and the target for reducing the government debt. Following Brexit and subsequent changes to the Prime Minister and government Cabinet, there has been no alternative budget brought, and whilst the national Government has indicated it may allow longer to reach a balanced national budget, the planning process for the budget needs to continue on the assumption that austerity is set to continue for the foreseeable future.

Under this context, the Council needs to follow a robust strategy in planning for and meeting its medium term financial outlook and 2017/18 budget in particular. Essentially, there are 2 distinct parts to this overall strategy – (i) updating our financial strategies and assumptions where necessary to identify the medium term financial challenges, and (ii) developing plans to deal with the challenges which deliver sustainable services to the public and continues to meet the Council's priorities.

This report updates the Council's financial strategy by reviewing and updating where necessary the key contextual issues affecting our planning assumptions, key issues around managing risk, performance and financial resilience, and other financial assumptions made within the Councils medium term financial plan to update the resulting budget challenges, over the medium term.

The report then sets out some of the key strategies already in place to reduce and minimise some of the financial challenges identified and other strategies to address the potential budget gap over the medium term.

Proposal Cabinet are asked to:

- Approve the current key planning parameters in setting out the current budget gap for 2017/18 and the Medium Term, noting that this work is subject to on-going refinement and updating over the autumn.
- Note and approve the current working strategies officers are working under to provide budget solutions to the current level of budget challenge,
- In particular, to approve the continuation of the working strategy in relation to school funding in the next financial year which 'cash freezes' school budget, noting that this could be reviewed in light of the draft settlement when known but any flexibility can only be used if there is a significant improvement in the Council's budget gap / WG funding at that point.
- Note the Head of Finances comments and observations on the current risks facing the budget, how they are being managed and financial resilience issues.
- Note the current level and projected use of reserves and how these are utilised in the context of the Medium Term.

Action by HoF / SLT / CMT – develop budget proposals and discuss with Cabinet
HoF / Chief Education Officer – discuss schools funding strategy with school's / forum and develop plans to meet the financial challenges of the funding strategy outlined.

Timetable Included within this report

This report was prepared after consultation with:

- Senior Leadership Team
- Statutory officers

Signed

Background

GENERAL BACKGROUND

Economic Context/Position

1. This Budget Strategy update report is written in the context of continued and sustained financial restraint. The implication of the Government's spending policy assumptions as set out in its March 2016 Budget was for further spending cuts across the public sector of £3.5bn, of which a significant value is likely to fall onto local authorities. This follows the deterioration in economic figures produced by the Office of Budget Responsibility (OBR) which showed a revision downwards on forecast growth of 2% this year, down from growth prediction of 2.4% produced in November 2015.
2. Globally, there is a significant uncertainty about the outlook for global growth. The slowdown in the Chinese economy and the knock-on effects for trading partners and commodity prices, the uncertainty over the outcome of the presidential election and the impact of the EU referendum, are all resulting in significant uncertainty for world economies.
3. In particular, the result of the EU referendum in June has caused uncertainty around the future economic position of the country, with the WLGA saying it will have "serious consequences for Welsh councils both as the largest employer in Wales and as deliverers of public services". The immediate impacts that occurred following the referendum included the downgrading of the UK's triple-A rating by a number of credit rating agencies and a reduction in the exchange rate for the pound. However, the impact over the medium to long-term are extremely difficult to predict and the emerging impacts of the UK's exit from the EU will need to inform future forecasts, when known.
4. Following the decision to leave the EU and subsequent new prime minister, there was an expectation that there would be an emergency UK budget, however this is now unlikely and the planning is to continue in the line of the March 2016 budget. However, George Osborne's target of producing a budget surplus by 2020 has now been abandoned, and while it is the government's intention to reduce public spending and cut the budget deficit, there is no longer the intention to reach a budget surplus by the end of the current parliament. This suggests that the government could borrow more, therefore reducing level of spending cuts in each year and therefore take longer to balance the UK budget.
5. The Local Government Pension Scheme and its associated deficit could also be a significant issue. These are affected by the current economic environment and uncertainties following the EU Referendum which has seen 'gilts rates dropping, these being key factors in valuing public sector pension funds.. This is likely to mean that across the public sector, employer contributions are likely to be required to increase in order to reduce any increase in deficit.
6. This national uncertainties summarised above are compounded by then having a further layer of uncertainty around WG policy decisions affecting Local Government funding and there is still no indicative figures on future settlements.

Welsh Government Context/Position

7. The WG 2016/17 settlement was more positive than anticipated, with an average decrease in grant (Aggregate External Financing) of 1.4% across Wales. The 2016/17 Budget report set out that the percentage decrease in grant funding from WG to Newport Council for 2016/17 was 0.7%. This settlement as per previous recent settlements was for one year only, and did not provide any indicative figures for future years. Whilst the Welsh Local Government Association (WLGA) continues to lobby WG for more certainty for councils in respect of financial planning no indication has been given to date that this information will be provided.
8. The 2016/17 production of the draft and final settlements from WG were delayed with the draft being produced in December and the final settlement not being received until March. This led to

uncertainty in setting the 2016/17 budget, and following the draft settlement coming in at lower than the 2.5% reduction assumed, meant that savings could be decreased, removed or deferred into future years. The 2017/18 settlements have been confirmed as **19th October 2016** for the publication of the provisional settlement and **21st December 2016** for the final settlement – back to ‘normal timescales’. This will allow the Council to have more timely assurance on the 2017/18 financial position though this does not detract from the need to work up detailed business plans to meet the predicted budget challenge as soon as possible and that work has already started. A 1% reduction in central grant from WG equates to a c£2m cash reduction, the current assumption in the MTFP is for a 1.25% reduction in grant funding from WG, this equates to a reduction of £2.6m.

9. As indicated, the economic context that not only local government but also WG work under is difficult and uncertain, and WG also face budget reductions in the coming years. The WLGA agree that it's not just a case of seeking to achieve further funding, but to seek a new relationship with WG where the gravity of the situation is recognised, accurate and transparent information is reported and flexibility is maximised. They highlight a number of ways in which this can be achieved:

- Link any protection for schools more directly with Aggregate External Finance (AEF)
- Greater equity of consideration of the preventative services provided by local government such as social care and housing
- De-hypothecation of all specific grants into the RSG
- Greater coordination across Welsh Government departments in any aspects of policy making that affect local government
- A thorough review of the costs and benefits of audit and regulation
- A review of the impact of universal benefits and subsidised service delivery where these are proving unsustainable for councils
- Full consideration of the devolution of powers to councils, including the retention of business rates growth
- Greater clarity for the future with the issue of multiyear settlements
- Recognition that at a time of increasing financial risk, a council making cuts also needs to increase reserves to reflect the increased volatility of its budget
- Realism in terms of new legislative duties for Councils and far more robust financial impact assessments of new policies.

10. ‘Specific grant’ funding has increased from £680m in 2009-10 to over £900m in 2015-16 as new initiatives have grown more quickly than older grants are rolled into the settlement. Many grants are aimed at achieving very similar outcomes, often over-lapping or duplicating activity while at the same time restricting in how authorities design their service delivery in achieving those outcomes, potentially to the detriment of innovation. Examples include Communities First (£29m), Family First (£43m), Flying Start (£76m), and Supporting People (£124m).

Council Context/Position

11. The Council’s Corporate Plan ‘Standing up for Newport’ for the period 2012-2017 set out the strategic ambitions for the five year period, with financial planning being a critical part of ensuring that viable, effective services can continue to be delivered to local people. A key objective of the plan is to ensure the council priorities and plans are funded and this is driven by the Medium Term Financial Plan. The Council has identified 8 Improvement Objectives which fit into the Corporate Plan themes as follows:

- A Caring City
 - Ensuring people have the right social services to meet their needs
 - Improving independent living for older people
- A Fairer City
 - Ensuring people have access to suitable accommodation
- A Learning and Working City
 - City regeneration and development

- Supporting young people into education, employment or training
- Improving educational outcomes for children
- A Green and Healthy City
 - Increasing recycling
- A Safer City
 - Preventing offending and re-offending of young people

12. This Corporate Plan takes the Council up to the elections in 2017. Following elections it is likely the elected party would implement a new plan for the following four years. Future budget strategies would need to reflect any changes to this plan. This will be in the context of a vastly different local government and economic environment in comparison to the current Corporate Plan and will need to reflect the current position of local authorities.

13. In 2016 the Council approved the 'Newport 2020' strategy which built upon the previous 'Prospectus for Change 2013-17' programme. This document – Newport 2020 – underpins the Council's budget strategy and the Corporate Plan and reflects on the increasing financial challenge the Council is facing, along with the challenges it faces from services that need to change to reflect the different characteristics of the communities across the city. New legislation has also been passed which the budget strategy needs to be aligned with, such as the Wellbeing and Future Generations Act, the latter issue which will be the subject of extensive consultation over the next 12 months or so.

14. 'Newport 2020' sets out in detail how each service in the Council will change over the next 4 years. More work is required to 'flesh out' the Newport 2020 summary plan and this will need to be done in conjunction with, and should be informed by the development of the Council's new Corporate Plan. The Newport 2020 plan will need to clearly articulate what change to services will be implemented over the next 4 years with supporting business plans. Given the scale and timing of the financial challenges, work has already started to flesh out aspects of the Newport 2020 plans and this continues. It will address a number of key principles which will be central to the ongoing transformation of the organisation:

- Better use of technology
- Ability to generate more income
- How we can use community capacity more effectively?
- How we can manage demand as the city grows and resources reduce?
- What potential alternative delivery models could we consider putting in place?
- What is the vision for each service by 2020 and how will we judge whether we have succeeded?

15. The above Corporate Plan, Improvement Objectives and Newport 2020 look to have a golden thread in which the budget strategy can be aligned with. Inevitably, with the current financial constraints of that the public sector finds itself, the resources available for investment are limited and plans will need to be realistic in respect of finances and importantly, set out very clear priorities in order that finances can be prioritised for these. However, the Authority's base budget provides the resources required to meet the numerous targets linked to the current Improvement Objectives, the Council has money set aside in an Invest to Save reserve to support Change/Efficiency Programme which will assist in achieving the objectives and there is further investment included in the MTFP to support funding for new schools in addition to investment in schools on the capital programme. Savings will also need to be aligned with Corporate Plan policies where possible and also take into account with legislation such as the Wellbeing and Future Generations Act.

16. In addition to this, as part of the Council's change programme, an updated 'New Ways of Working (NWOW)' programme is being developed to make council processes more efficient and improve the services we deliver to our customers. It follows the current NWoW programme which focussed on agile working, , procurement savings, business support review, channel shift and rationalisation of IT application including Electronic Document Management Systems There are 4 key themes to the updated NWOW programme as follows:

- Technology
- Demand Management
- Customer Engagement
- Business Process Reengineering

17. The NWOOW programme and savings linked to the Newport 2020 strategy document will enable there to be a clear alignment to the corporate objectives of the Council and the budget strategy moving forward.

18. Finally here, Cabinet will be aware of the following local issues:

- WG revenue support grant makes up 80% of the Councils total net funding. What WG do with this grant is very significant. This figure is high across all Welsh Councils relative to English Councils and is one of the highest in Wales, given this Council's total funding position against its Standard Spending Assessment (SSA).
- The Council spends c£7.4m less than its SSA, due to its relatively low Council Tax. This limits the opportunities to find savings, relative to other Councils and it is clear that 'capacity' within Newport Council is lower relative to others.
- The Councils Council Tax is one of the lowest across Wales (and UK) and is historical. It is not possible to increase it to that level assumed within the SSA and average across other Councils due to risk of 'capping'. In addition, 23% of any increased funding coming from Council Tax increases are lost locally, due to the need to fund a corresponding increase in Council Tax Reduction Scheme payments since funding responsibility for this was transferred to the Council from WG.
- As a 'growing city' demands and costs are increasing right across the services provided by the Council, while funding is being reduced. This is causing increasing pressures on the MTFP requiring further savings to be found to balance the budget.

RISKS, FINANCIAL RESILIENCE & PERFORMANCE

19. As well as National, Welsh and Newport local contexts and key issues, key drivers in setting out our budget strategy and MTFP framework is the need to manage the Councils general and financial specific risks, its financial resilience and performance. This next section looks at these issues and identifies how they are dealt with currently and issues which need consideration in setting out the Councils 2017/18 and medium term budgets.

Risk

20. 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 table below lists the current approved corporate risks at the time of writing, though these will be updated at the September Cabinet which will then require further on-going review from our budget strategy viewpoint

Table 1. Corporate Risk Register and associated financial mitigation

Risk	Financial planning mitigation
1. Social Services Act – increased responsibilities and associated costs	Appropriate service pressures are reviewed in relation to this, as needed.
2. Increasing Ageing Population – puts significant strain on services and costs	The MTRP has always and currently does reflect the demographic pressures in Social Care budgets

3. Total Reward – complex project dealing with equal pay issues	The base budget has provision for the increased costs associated with the new pay/grading framework and adequate specific reserve exists to deal with one-off costs of equal pay settlements, pay protection and project costs
4. Welsh Language Standards – increasing responsibilities and costs, including fines for non- compliance	This was funded in the 2016/17 budget
5. Budgets and Statutory Services – compromises statutory services	All budget saving proposals are supported by robust business plans which highlight, amongst other things, impacts on service delivery / statutory requirements
6. Safeguarding – Council policies/procedures may be inadequate to protect vulnerable children / adults	No current specific financial issue. All budget saving proposals are supported by robust business plans which highlight, amongst other things, impacts on service delivery / statutory requirements
7. Friars Walk – developer unable to sell / re-finance at level required to pay back the Council	Project Governance is designed to highlight any problems early in this respect.. In addition, specific reserve has provision to cover some losses and legal arrangements provides adequate security against the Council loan facility
8. Information Governance – arrangement for protecting data inadequate leading to fines.	No current financial issues here. The Councils current base budget funds a data governance team which provides oversight, training, awareness and advice in this respect.

In addition to considering each savings and pressure item in respect of achievability, a number of additional specific or general Council risks exist. These include:

Table 2 – Other significant risks identified

Risk	Financial planning mitigation
The need to deliver significant levels of savings during a period of prolonged financial austerity particularly given the impact that delays to delivery of the proposal has on the budget monitoring position.	Robust financial monitoring and on-going review on the delivery of savings Robust business cases to support saving proposals Appropriate budget strategy to deal with the on-going challenges Base budget contingency to protect the core budget in s/t
The cumulative impact of achieving the savings, within this current year's budget in addition to the unachieved 2015/16 savings which remain to be realised in 2016/17	Robust financial monitoring and on-going review on the delivery of savings Base budget contingency to protect the core budget in s/t
The Council's ability to meet the costs of change e.g. voluntary severance,	Established Invest to Save reserve in place and processes to access funds from there to support delivery of MTRP savings
The level of additional borrowing undertaken in previous years and proposed will require more revenue resources to be used for capital financing in future years.	Unavoidable risk based on historical spending Low interest rates provides some mitigation in that cost of borrowing is relatively cheap

	Review of capital programme and funding sources, including maximising capital receipts
The impact on Newport Bus, which is wholly owned by the Council, from challenging trading conditions and issues such as reductions to the reimbursement rate in respect of concessionary fares.	Good governance arrangements – Board of Directors includes officer rep and Members No budget expectation for financial dividend included in base budget
The risk of WG levying fines if the Council fails to realise recycling or land fill diversion rates	Specific reserve provides mitigation and given no fines levied for 2014/15 performance, it is used to fund specific staff to work with residents on a Face to Face basis to improve their recycling habits/practices Base budget contingency protects core budget in s/t
The impact of the on-going uncertainty in respect of the outcome of local government reorganisation.	On-going review by Snr Management. No financial issues known with certainty currently.

21. The impacts of these challenges are reviewed as part of the financial monitoring process and through the Corporate Risk Register both of which are reported regularly to the Cabinet and the Senior Management Team. The Council's Audit Committee also regularly review the Corporate Risk Register.

Financial Resilience

22. The 2016/17 Budget Report set out the responsibilities of both Cabinet and the Section 151 Officer to set a balanced budget. It also highlighted the financial risks inherent in the proposed budget and set out the financial risk context of the council including:

- The delivery of the £8.6m of proposed savings in order to achieve balanced budget in 2016/17
- Cross-cutting (Council wide) savings behind target and timescales
- Low inflationary assumptions

23. The budget report also set out the financial resilience of the Council and the measures in place to mitigate the risks highlighted in the risk register and above. 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 1 shows the current 'snapshot' of the key data and information showing an overview of the health of the Council at the time of setting this budget strategy.

24. The Council has been able to show strong financial control and has managed to meet a budget reduction of £8.6m in 2016/17, as well as delivering outturn within budget over recent years, despite the delivery of c£27m savings over the previous 3 years. The financial resilience 'snapshot' and 2015/16 outturn shows an overall underspend in the financial year and the level of reserves has increased on previous years. The level of general reserve was increased from £5m to £6.5m following assessment by the Head of Finance; this is due to increased budget and ongoing risks to be mitigated.

25. The Authority's reserves are an integral part of how the Authority deals with its financial risks as well as its high level strategic financial planning. As can be seen from the 'snapshot' over the last 4-5 years the level of the Authority's earmarked reserves have increased, whilst at the same time the Council has been making savings and increasing Council Tax. Therefore, it is useful to give an explanation of why these reserves have increased and their link to strategic financial planning and management.

26. Over this time period, key issues facing the Authority have included:

- Implementation of Total Reward, the new pay/grading system and also dealing with historical Equal Pay awards;
- Funding of significant one-off costs related to cost saving measures, in the face of increasing challenging financial pressures and lower funding;
- Managing the risk of making a £90m loan to developers to bring about the Friar's Walk scheme, a key piece in the regeneration of Newport centre and providing the funding required at the outset;
- Funding those insurance risks previously covered by MMI, insurance now in administration.
- Setting aside future increased costs of PFI, whilst the PFI grant received was higher than the expenditure required (this now forms part of the revenue support grant);
- Key risks around the future capital programme

27. In order to deal with the above, the Council has created or increased appropriate reserves to cover the issues faced above. A number of these issues are now reaching conclusion, and the Council will begin to utilise the reserves for areas such as the PFI and the pay reserve and we will see these reserves reduce. All reserves are reviewed on a regular basis for their appropriateness of need and value. The budget strategy needs to be aligned with the financial resilience of the Council and reserves are a key part of this resilience at times of uncertainty as they provide mitigation against volatility. Appendix 2 shows the planned/forecast use of specific reserves within the annual budgets over the MTFP period as it is known currently. As noted, this will be reviewed regularly. The projection shows a reduction in the reserve level over the MTFP, however this is likely to reduce further when confirmation/decisions are made on the use of certain reserves i.e. Capital Expenditure and Friars Walk reserves.

28. General utilisation of reserves in supporting the budget setting process needs to take into account the finite nature of the reserve i.e. once used it has gone and is not ongoing budget saving, therefore creates an immediate funding gap in the following year. The Section 151 Officer will consider the level of all reserves during this budget setting process.

29. The development of the budget strategy for 2017/18 and beyond will also be informed by underspends that were made in 2015/16, and also over the next 6 months the current year's budget monitoring position. Currently monitoring of 2016/17 is showing there are a number of significant risks and pressures across Service Areas, including within Community Care budgets, Supporting People and Landfill Site. These pressures are ongoing and will need to be reflected in the budget strategy. Significant underspends that occurred in 2015/16 in relation to interest/PFI charges, were reflected in the 2016/17 budget, therefore savings in relation to these have already been realised.

The Council's Capital Programme and affordability

30. As WG capital funding to local authorities has reduced, the Council, in common with other local authorities, has had to fund a greater share of its capital funding requirement. Coupled with recent high value capital schemes that supported the Councils priorities such as new schools and city centre regeneration etc, this has led to increasing levels of borrowing commitments being undertaken. The Council has to ensure that any borrowing is affordable, prudent and sustainable, not only now, but in the long term.

31. Capital Expenditure pressures include:

- Ensuring a sustainable property asset base and that property is fit to deliver service
- School expansion/New Schools to deal with increasing number of children within the city
- City centre regeneration and economic development activity
- Meeting the aspirations of services to invest in existing assets or create new capital assets in order to improve service delivery and meet pressures of increasing demand.

- The need to maintain the highway and associated infrastructure such as roads, traffic signals, bridges, street lighting
- On the horizon, the programme would need to take into account impact of City Deal and other regeneration projects being developed.

32. The current Medium Term Capital Programme deals with most of the above issues. Our current programme has 2 years remaining and will need to be reviewed and approved to reflect future years in order to link with the current MTFP, evolving new Corporate Plan and Newport 2020 plans. We should focus our limited resources on key statutory and longer term strategic priorities. The table below shows the projected revenue costs of ‘capital financing’ costs within the current MTFP (these figures will need to be updated as we develop the next medium term capital programme).

Table 3 – impact of capital programme on the MTFP

	2017/18	2018/19	2019/20	2020/2021
MRP/Interest	+£262K	+£68K	-	-

33. As a proportion of the Council’s revenue budget, capital financing costs are taking an increasingly higher amount and this cost is a long term commitment against the Council’s revenue budget. The table below shows this and is taken from the current 2016/17 Treasury Management Strategy

Table 4 – impact of capital financing costs on revenue budget

	2016/17	2017/18	2018/19	2019/20
% of revenue budget used for capital financing	8.8%	9.0%	9.2%	8.4%

34. Clearly, the Council will need to continue to incur borrowing costs to both meet the objectives of the Corporate Plan and invest in schemes that generate a return for the Council and citizens. As the Council revenue budget decreases, it will need to consider the level of debt and potential financial resilience issues that may be a consequence of increasing borrowing. As highlighted, previously in this report, earmarked reserves have been set aside for capital expenditure, in addition to capital receipts that the Council has realised. Use of these reserves for capital purposes would reduce the revenue implications of increased capital financing costs.

35. As already said, the programme currently in place recognises the increased burden of borrowing costs but in going forward, the Council will need to ensure that new commitments :

- delivers statutory and core priorities
- whether investment can be done by others as part of service re-design

36. The Council’s Treasury Strategy is currently one which has limited the need to take out any ‘new’ physical borrowings by dis-investing its own cash resources to fund capital expenditure. This has been successful to date in that, excluding Friar’s Walk scheme, no new borrowings have been taken out, though there is a significant inherent need to take out new borrowings. However, this is proving increasingly challenging to maintain and our budget strategies to meet the on-going financial challenge are crucial issues which will dictate how quickly the Council will need to physically take out new borrowings and therefore the increasing revenue costs this results in, via interest costs. Use of reserves to fund both revenue and capital expenditure will, for example, put strain on cash-flow and trigger the day when new ‘actual borrowing’ is finally required.

37. Capital receipts are important to increase the affordability of the Capital Programme. There is a programme of asset disposals and this will need to be carefully managed to maximise the value and speed of generating these receipts.

BUDGET STRATEGY UPDATE AND KEY ASSUMPTIONS

38. The 2016/17 Budget Report identified a budget reduction requirement of £3.7m for 2017/18 and £27.9m over the three year MTFP period. Following review since the 2016/17 budget report, the gap for 2017/18 has increased to £6.18m. The current medium term plan is shown in Appendix 3 and Appendix 4 shows a reconciliation of the 2017/18 position approved at February Cabinet and Council to the current budget 'gap'.
39. The main reasons for the move from the 2016/17 Budget Report include a number of various factors, most of which have arisen / developed over the last 6 months or so, after the February 2016 update to the MTFP and budget strategy. The main factors are discussed further below.
40. The 2015/16 outturn and subsequent early monitoring of the 2016/17 budgets, have highlighted a number of service area pressures and non-delivery of savings that need to be addressed in this MTFP. These include:
- Unachievable landfill and waste income targets, which require both a reversal of savings in for 2017/18 and also in-year pressures for 2016/17, totalling an additional budget requirement of £535k.
 - Various pressures in Adult Services, including an underlying budget shortfall continued from previous years in the Community Care area of £400k, a reduction in Supporting People Grant has led to a pressure due to the way this has been commissioned of £726k, and non-delivery of savings for double handling cases of £150k.
 - Children's Out of Area Residential placements has seen increasing costs over the last 5 years, and this has been seen across the region. A pressure of £377k has been included for this in the MTFP.
 - The current New Ways of Working (NWOW) programme currently has undelivered cross cutting savings of £564k which is kept centrally and passed to directorates as savings are identified. Recognising the challenges in delivering this as well as developing a new programme, closer aligned to Newport 2020 and the Corporate Plan, it is likely we will need to take this o/s balance out of the budget but it should be noted that the programme has delivered significant other savings over the last 3 years. In order to enable greater transparency and accountability to the projects within the new, revised NWOW programme, any savings that are identified from the programme will be attributed to the appropriate service area.
41. Along with the pressures from 2016/17 and non-delivery of savings there are a number of new pressures that have been included within the budget strategy, some of which the Council have no control over and are due to changes in legislation and some of which are changes to assumptions that were previously used in regards to tax base and funding.
42. It has been confirmed that an apprenticeship levy will be applied to both public and private sector employers. The apprentice levy requires all employers, with a pay bill over £3m each year, therefore this would include the Council, to pay the levy at a rate of 0.5% of the pay bill. The details of the levy are still to be confirmed, but it is anticipated that Wales' share of the funding will be allocated in line with the Barnett Formula, WG have also yet to confirm how they will distribute this fund in support of Welsh apprenticeships. This will be kept under review throughout the year.
43. The delivery of the education capital programme in relation to 21st Century Schools has seen a number of new schools set to be delivered over the next 4 years. Where a new school is opening, or there is an expansion of an existing school, this will inevitably cause a revenue pressure for the cost of running the school. The budget strategy currently includes investment for 7 programmes, including the new Welsh Medium Secondary School, new ASD provision, new Primary Schools and new Nursery Units at a total investment over the 4 years of c£6m. This will be subject to revision depending on the outcome of review of the education capital programme being presented to the September Cabinet.

44. As highlighted previously in the report, there is an actuarial review of the Local Government Pension Scheme due this autumn. It is expected that the outcome of this review would be a requirement for an increase to the employer's contribution to fund the ongoing pension deficit. A 1% rise in employer contributions on a base of 12.4% contribution would mean a pressure of £633k. In this budget strategy we have assumed there will be an increase of 1%, implemented in the 2018/19 financial year. This will be updated in late Autumn.
45. There have been a number of changes to assumptions made since the 2016/17 budget report in relation to the funding we would receive as a Council from both Council Tax and WG. In terms of Council Tax, due to the number increasing properties in the city, the amount of money able to be achieved by applying Council Tax to each of these properties is increased. Since the 2016/17 budget assumption, there has been a significant rise in the number of properties being added to the tax base. It is very difficult to project this, and there is a need to remain prudent in setting an estimate for the number of new properties that can be added to the tax base. However, in 2017/18 there is an estimate for an additional £723k of Council Tax funding to the Council.
46. The 2016/17 budget report assumed a 1.5% reduction in WG revenue support grant in 2017/18 which equates to a £3.14m reduction in funding. The assumption for the reduction has been revised downwards for 2017/18 to 1.25% which equates to an increase in the funding assumption of £523k. As indicated earlier in the report each 1% reduction in central WG grant, there is a c£2m reduction in funding. The council will be made aware of its provisional level of funding by mid-October, which gives a lot more clarity on the budget requirement.
47. This is undoubtedly the most important single 'piece of the financial jigsaw' and the lack of indicative funding from WG is significantly unhelpful in this respect, even at a total Local Government block level. Newport will generally receive a relatively favourable settlement because of its growth and in particular in growing school pupil numbers but until Local Government understands more about the block grant to be allocated to it, it is impossible to make meaningful predictions, even based on this high level view. Finance officers though, are reviewing the key data-sets that make up the key SSA building blocks to help in this respect.
48. A full reconciliation between the 2016/17 the budget set in February 2016 to the current MTFP included within this budget strategy is shown in Appendix 4.
49. In addition to the above there are a number of key assumptions which are recognised in our budget strategy and MTFP, most of which are unchanged :
- Pay inflation at 1% per annum
 - WG grant reduction at 1.25% in 2017/18, 1.5% in 2018/19 and 'nil change' in 2019/20 and 2020/21.
 - 4% Council Tax rises per annum (as per 2016/17 budget strategy)
 - Key social care demographic issues included
 - Schools are 'cash flat' excluding new schools and specific pressures in 2017/18. In following years demographics are included in the strategy.
 - No use of reserves to generally fund budget gap
50. Within the budget strategy is the assumption of a 4% Council Tax increase across the life of the MTFP. However, Newport currently has amongst the lowest Council Tax rates across Wales, this is historically low, and has led to a gap between the Council's budget and the Standard Spending Assessment (SSA) which are notional calculations of which each Council needs to spend to provide a standard level of service. Therefore, included within the 2016/17 budget report was a saving of an additional 1% for the next three years on top of the budget strategy, this assumption is continued within the current MTFP for 2017/18 and subsequent years. An additional 1% increase in Council Tax equates to approximately £430k amount in funding. This proposed saving will need to be considered as part of the ongoing budget process following the settlement from WG.

51. The MTFP is a dynamic model and it will need to be updated throughout the autumn. Some of the key areas requiring further work and refinement include:

- Impact of decisions made on apprenticeship levy and pensions deficit
- The impact of the Council's capital expenditure on its revenue capital financing budget requirement in relation to decisions on the education capital programme and any other changes to the overall capital programme
- Ongoing review of the in-year monitoring position and delivery of savings that could impact on the MTFP.
- Changes to level of funding from WG when provisional figures come in

Budget Strategy for 'closing the Gap'

52. As noted above, the budget gap is considerable and is subject to further refinement and updating as we move closer to December 2016 when we consult on detailed budget proposals and finally February/March 2017 when the budget and Council Tax is finalised. An equally flexible and on-going process is required on the Councils strategy to close the gap, over the medium term and in particular 2017/18.

53. In order to address the gap the following budget strategy is currently being pursued:

- Reducing existing budget pressures in 2017/18 and medium term , where possible
- Specific strategy for School's budget pressures
- Service area budget savings, within the framework set by our current approved Newport 2020 strategy
- Service area budget savings, within the NWoW programme
- Review of 'non-service' expenditure to explore whether there are options available to make savings in areas such as capital financing costs or expenditure on what is deemed as 'non-controllable' expenditure
- Increasing external income where possible

54. The 2016/17 budget report saw funding increases in schools of c£3m or 3.5%, in order to relieve pressures regarding 'National Insurance contribution' increases in 2016/17, and impact of total reward. This would have been substantially over and above any notional c1.85% increase pledge on the schools budget that may have been required and was one of the highest budget increases across Wales, for schools. The current strategy includes a schools position, where there is a 'cash freeze' on schools for 2017/18, this is in line with what was approved in the 2016/17 budget report.

55. However, included in the MTFP over the next four years is c£6m investment for new schools added as part of the education capital programme, this is a substantial investment, which protects existing schools from budget cuts coming from allocating the existing budget over more schools. Also included for the next following three financial years is demography of c£2.7m. This is discussed further within the budget strategy overview.

56. As stated previously, the current strategy is not to use reserves to fund the budget gap. While there may be some flexibility on the use of reserves, this needs to be aligned with the long term planning and implications of utilising the reserves and the evaluation of risk around their use, in particular around how well the services are managing their budgets. The Head of Finance will advise accordingly on proposed utilisation of reserves to fund the budget shortfall.

Budget Strategy Overview

57. The table below shows the position of the budget gap for the Council over the next four years and the savings that are required to enable this gap to be addressed. The savings in relation to the Newport 2020 strategy and NWOV programme and identification of the areas where these will be found is essential and work will be ongoing to identify these to reduce the budget gap.

Estimated Budget Reduction Requirement	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	Total £000
Pay Inflation & Increment	1,595	1,354	582	587	4,118
Price/Contract Inflation	1,688	1,753	1,821	1,891	7,153
Income Inflation	-149	-154	-158	-162	-623
Schools Demography	0	728	1,436	508	2,672
New Schools Pressure	1,899	1,424	1,293	1,417	6,033
Adults Demographic Growth	137	157	169	0	463
National Minimum Wage	447	472	498	525	1,942
Other Social Services Pressures	1,874	337	163	150	2,524
Other Pressures – to be identified	0	1,000	1,000	1,000	3,000
Capital Financing Pressures	262	68	0	0	330
Apprenticeship Levy	316	0	0	0	316
Pension Deficit	0	633	0	0	633
Other Identified Pressures	1,033	0	0	0	1,033
Gap Before funding assumptions	9,102	7,772	6,804	5,916	29,594

Funding and Savings Assumptions	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	Total £000
Estimated 1.25% reduction in RSG	2,614	3,090	0	0	5,704
Council Tax at 4%	(1,714)	(1,729)	(1,745)	(1,760)	(6,948)
Increase in Council Tax Base	(710)	0	0	0	(710)
Total Assumptions	190	1,361	(1,745)	(1,760)	(1,954)

Non-Service Savings	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	Total £000
Savings identified	(511)	0	(1,500)	0	(2,011)

Savings	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	Total £000
Agreed savings from 2016/17 budget report	(2,601)	(646)	(510)	0	(3,757)
Current Gap to be found	6,180	8,487	3,049	4,156	21,872

58. In order to address this budget gap, service areas have commenced work on identifying the savings based on delivery of the Newport 2020 strategy and New Ways of Working themes. As noted above, unlike service areas who are allocated cash increases to fund pay and other inflation cost increases, but then have to find savings to balance the overall resulting gap, schools are currently assumed within the budget strategy to have no cash increase to cover inflation increases and will need to fund these from existing budget levels (a cost of c£700k - c£900k) but they will receive demography increases and costs of new schools. In saying this, we will need to consider to what extent, if any,

schools may also need to find cash savings and will be considered as the budget process continues and, crucially, the WG settlement is known.

It is vitally important that work begins on compiling business cases to meet the gap at the earliest opportunity, as the timing is crucial to complete before draft settlement in order for Cabinet to consider the options available.

BUDGET CONSULTATION & TIMETABLE

59. Ahead of the setting of the 2016/17 budget engagement work focused on building on the extensive feedback received in 2014/15 and rather than repeating the same activities sought to better inform the public and stakeholders about the financial pressures and the formal consultation process. In the pre-December phase the Partnership and Policy Team were present in 23 public locations across Newport and engaged with over 700 people. The formal budget consultation process commenced in December and 230 completed feedback questionnaires were received. In addition there were 491 petition responses received. The Council worked in partnership with the Engage Project which is coordinated by GAVO; this involved the portfolio leads for the 7 Engage strands which work with 'seldom heard voices' including the deaf community, sight impaired people, BME youth, older people in residential care, and adults with learning difficulties. The knowledge acquired through previous budget consultation work is cumulative and will also be relevant for the 2017/18 Budget.
60. The 2017/18 budget engagement programme will differ this year in that the pre-December period (phase 1) will need to focus on the requirements of the Wellbeing of Future Generations Act 2015. In essence this means identifying which community 'assets' are most important to local people now and in the future in terms of their wellbeing. These 'assets' will include Council services, programmes, facilities and other things the Council are indirectly involved in like local places and networks. A programme of engagement events has been identified and a survey exercise is underway to take this forward. Engagement must include hard to reach groups including the nine protected groups under the Equalities Act 2010 (and also Welsh speakers). This engagement work will also inform the Wellbeing Assessment which is a requirement of the Wellbeing of Future Generations Act, and will introduce the key concepts required by the Act which include sustainable development principles (economic, social, environmental and cultural wellbeing), asset based approaches, and a longer-term perspective.
61. Following the release of budget proposals in December a formal budget consultation process will commence and will run for a four week period. The results will be reported to February Cabinet as an analysis report.
62. The timetable for the budget process and consultation is included in Appendix 6.

Financial Summary

These are noted in the main body of the report and Appendices

Risks

Risk is a key consideration in the Council's Financial Strategy and budgets and is included in this report above.

Reducing budgets by the amounts shown is inherently risky, from both a financial resilience and service provision perspective. These are managed through regular financial resilience reviews and all business cases for budget saving highlighting clearly the impacts on service provision, including statutory services.

The financial strategy includes a number of key assumptions, in particular WG grant levels and these are subject to change given their inherent uncertainty. Late notification of WG grant this year increases the impact of this uncertainty.

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?
Key assumptions are incorrect	M	M	-Key assumptions and sensitivity made clear - Plan for delivering savings requires contingency for this risk	HoF SLT
Very late notification of WG grant	M	H	- Plan for delivering savings requires contingency for this risk -Revised consultation plan and timetable - Close contact with WG officials to ensure we know as soon as possible of what date this will be available	SLT SLT HoF
Service impact of resulting proposals	H	M	-Business Cases make impacts clear -Robust review by Cabinet	All HoS SLT / Cabinet

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

The budget strategy is key in the delivery of the Council's priorities

Options Available

N/A

Preferred Option and Why

Text here

Comments of Chief Financial Officer

Financial aspects are covered within the body of the report.

The key issue here is the Council's strategy to close the funding gap over the medium term and crucially within that, 2017/18. The development of the business cases to meet the Newport 2020 and NWoW programmes objectives is crucial. The Cabinet will need to approve a clear medium term strategy for service areas, as outlined in Newport 2020 plans, aligned to the Corporate Plan. It is through this process that a strategic approach, which clearly identified key priorities, can be brought to bear on the financial challenges over the medium term and a balanced financial position over the medium term achieved.

Comments of Monitoring Officer

There are no legal issues

Staffing Implications: Comments of Head of People and Business Change

The change and efficiency programmes will have a direct impact on employees across the Council, including, potentially, schools. Changes to structures and staffing will be required to make the necessary savings and service transformation.

The Council will aim to minimise the impact of resulting proposals on employees across our services, however, given the scale of the challenges facing the Council over the next 5 years, it has to be recognised that the Council cannot rule out having to make redundancies. All employees directly affected will be supported by the provisions of the Council's Job Security Policy, which aims to minimise compulsory redundancies and retain employees in our employment wherever possible.

Comments of Cabinet Member

The Chair of Cabinet has been consulted on this report and the MTFP in detail and he and his Cabinet will be heavily engaged on the Council's medium term financial plans and proposals over the Autumn/Winter 2016/2017

Local issues

N/A

Scrutiny Committees

This report will be reviewed by the StreetScene, Regeneration & Safety Committee at its September 2016 meeting. All scrutiny meetings will be consulted on both the development of and actual budget proposals, in due course.

Equalities Impact Assessment

N/A at this point. All new budget proposals will be subject to this assessment.

Children and Families (Wales) Measure

N/A

Consultation

This report deals with the wider, strategic position on the Council's financial strategy. The budget process includes a comprehensive consultation exercise.

Background Papers

Corporate Plan 2012-2017
Newport 2020 Strategy
Budget Report 2016/17

Appendices

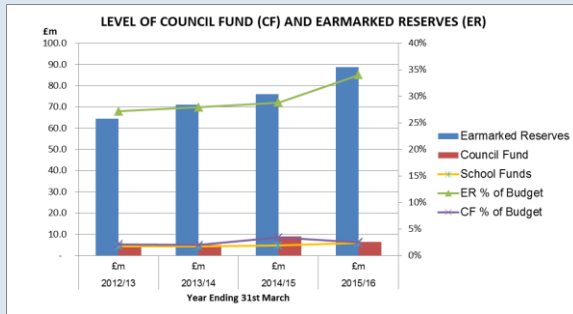
Appendix 1	Financial Resilience 'Snapshot'
Appendix 2	Planned Use of Reserves
Appendix 3	MTFP
Appendix 4	Reconciliation 2016/17 Budget Report to MTFP
Appendix 5	Budget Sensitivity
Appendix 6	Budget Timetable

Dated:

APPENDIX ONE - FINANCIAL SNAPSHOT REPORT - UPDATE TO SEPTEMBER CABINET

The following tables, charts and figures give an indication of the financial resilience of the Council as per the Statement of Accounts.

Level of Council Fund (CF) and Earmarked Reserves (ER)



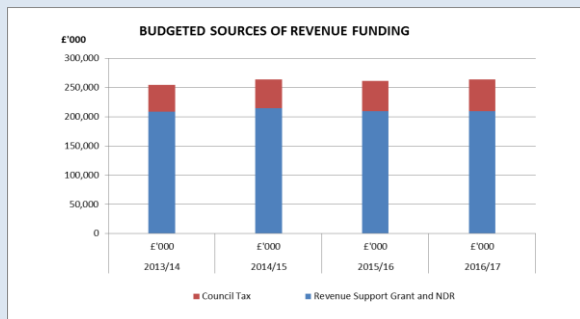
Level of Reserves

	2012/13	2013/14	2014/15	2015/16
	£m	£m	£m	£m
Earmarked Reserves	64.5	71.2	76.1	88.9
Council Fund	5.0	5.0	8.9	6.5
School Funds	4.4	4.2	4.8	5.9

Budgeted Sources of Funding

Total Revenue Funding	2013/14	2014/15	2015/16	2016/17
	£'000	£'000	£'000	£'000
Revenue Support Grant and NDR	209,035	214,826	209,254	209,142
Council Tax	45,763	49,104	52,117	54,796

Budgeted Revenue Funding Split



Financial Performance and Ratios

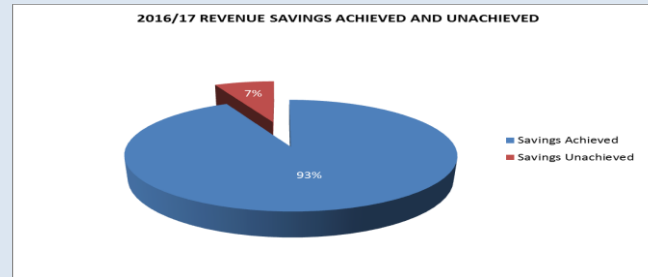
Ratio	Calculation	2012/2013	2013/2014	2014/2015	2015/2016
		£'000	£'000	£'000	£'000
Net Worth	(Asset - Liabilities)	53,668	95,061	44,764	56,568
Net Worth (exc Pension Liab.)	(Asset - Liabilities)	306,220	280,675	286,914	336,288
Working Capital Ratio	(Curr. Assets / Curr. Liabilities)	0.88	0.79	0.89	0.85
Gearing Ratio	(Borrowing / Total Reserves)	44.1%	51.2%	45.5%	44.0%

The figures below shows the 16/17 forecast position for both revenue and capital.

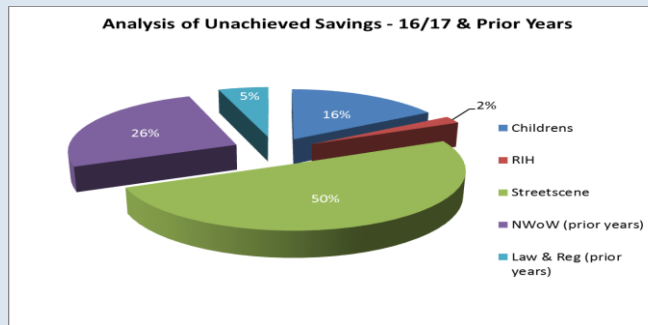
2016/17 Q1 Revenue Position UPDATE FOR JULY

Directorate	Net Expenditure Budget £'000	Forecast £'000	Variance £'000	Variance %
Children & Young People	21,538	21,935	397	2
Adult & Community Services	39,219	40,402	1,183	3
Education	13,863	13,849	(14)	(0)
Schools	89,946	89,946	-	-
Regeneration, Investment & Housing	9,013	9,405	392	4
Streetscene & City Services	16,896	17,401	505	3
Corporate Services	16,061	16,027	(34)	(0)
Total Directorates	206,536	208,965	2,429	1.18
Capital Financing	28,182	28,100	(82)	(0)
Contingency/ Provisions	6,143	6,051	(92)	(1)
Levies / other	21,772	20,931	(841)	(4)
Reserves / Transfer	1,305	1,305	-	-
Total Budget	263,938	265,352	1,414	0.54
Additional funding - CT Surplus	(76)	(731)	(655)	
Projected Over/ (Under) spend			759	

Revenue Savings Achieved and Unachieved (June FIP) UPDATE FOR JULY



Analysis of Unachieved Savings UPDATE FOR JULY



2015/16 Capital Outturn Position UPDATE FOR JULY

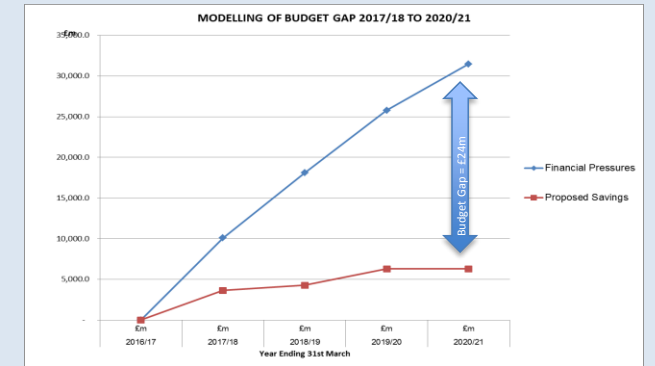
Directorate	Final Budget £'000	Final Outturn £'000	Variance Slippage £'000	Variance (Under) Overspend £'000
Children & Young People	-	-	-	-
Adult & Community Services	1,280	1,138	2	(147)
Education	5,361	5,964	(936)	(81)
Regeneration, Investment & Housing	10,351	10,029	(228)	(94)
Streetscene & City Services	8,956	7,207	(1,154)	(35)
Law & Regulation	120	129	9	-
People & Business Change	172	15	157	(157)
Customer Services & Digital Innovation	1,429	1,201	(228)	34
Levies / other	-	-	-	-
Reserves / Transfer	-	-	-	-
Total Budget	29,292	25,783	(3,029)	(480)

The tables below show the Medium Term Financial Plan (MTFP) and the risks facing the Council.

UPDATE POST SEPT CABINET MTFP Scenario (Agreed February 2016)

	2017/18	2018/19	2019/20	2020/21	Total
	£'000	£'000	£'000	£'000	£'000
Financial Pressures	5,233	5,912	6,043	-	17,188
Funding Reductions	3,137	3,090	-	-	6,227
Budget Requirement Reduction	8,370	9,002	6,043	-	23,415
Increase in tax base	-	1,637	-	1,668	-
Savings Targets	3,047	676	510	-	4,233
Shortfall to requirement	3,686	6,674	3,865	-	14,225

Modelling of Budget Gap 2017/18 to 2020/21 AS PER SEPT UPDATE



Capital Expenditure & Capital Financing Requirement (CFR)

Capital Expenditure	2015/16	2016/17	2017/18	2018/19
	Actual	Estimate	Estimate	Estimate
	£m	£m	£m	£m
Total capital expenditure	29.2	42.2	18.2	20.0
Capital Financing Requirement				
Financing requirement	13.8	20.5	13.8	10.9

Affordability Indicators -

Ratio of Financing Costs to Net Revenue Stream - highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs.

	2016/17	2017/18	2018/19	2019/20
	Estimate	Estimate	Estimate	Estimate
	%	%	%	%
Ratio of Financing Costs to Net Revenue Stream	8.8	9.0	9.2	8.4
Incremental impact of Capital Investment Decisions	£	£	£	£
Increase in Band D Council Tax*	3.88	5.98	5.77	3.89

* Assumes 4% cumulative increase in Council Tax although no decision has been taken to this effect.

APPENDIX 2 – Planned Use of Reserves

Reserve	Estimated Balance at year end						Notes
	Balance at 31-Mar-16	Balance at 31-Mar-17	Balance at 31-Mar-18	Balance at 31-Mar-19	Balance at 31-Mar-20	Balance at 31-Mar-21	
	£'000	£'000	£'000	£'000	£'000	£'000	
Council Fund:	(6,500)	(6,500)	(6,500)	(6,500)	(6,500)	(6,500)	Minimum balance as required by Head of Finance
Balances held by schools for future use	(5,881)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	Balance subject to schools outturn
Earmarked Reserves:							
Risk Reserves:							
Music Service	(205)	(205)	(205)	(205)	(205)	(205)	
Insurance Reserve	(1,925)	(1,925)	(1,925)	(1,925)	(1,925)	(1,925)	
MMI Insurance Reserve	(352)	(352)	(352)	-	-	-	
Legal Claims	(100)	(100)	(100)	(100)	(100)	(100)	
Health & Safety	(16)	(16)	(16)	(16)	(16)	(16)	
Council Tax Reduction	(500)	(500)	(500)	(500)	(500)	(500)	
Education Achievement Service	(92)	(92)	(92)	(92)	(92)	(92)	
Friars Walk	(6,176)	(8,987)	(8,987)	(8,987)	(8,987)	(8,987)	This will be dependent on the repayment on the Friars Walk loan. It will reduce over the years following conclusion of this.
Gem Services Reserves	(100)	(100)	(100)	(100)	(100)	(100)	
SUB TOTAL - RISK RESERVES	(9,466)	(12,730)	(12,277)	(11,925)	(11,925)	(11,925)	All of the above risk reserves are set aside to cover various risks. It is not likely these will occur at the same time but the reserve is there to cover them. These risks are unknown so projected use of reserve is unknown.
Enabling Reserves:							
Schools Redundancies	(453)	(453)	(453)	(453)	(453)	(453)	These will occur as funding of redundancies is required by schools
Pay Reserve	(1,948)	(1,218)	(718)	(718)	(718)	(718)	The balance on this reserve will be left to cover an unexpected additional 1% increase in pay award

Capital Expenditure	(7,084)	(6,084)	(6,084)	(6,084)	(6,084)	(6,084)	No specific projects have been earmarked but this reserve is likely to reduce as capital projects are identified.
Invest to Save	(12,838)	(9,631)	(7,131)	(4,631)	(2,131)	-	
Super Connected Cities	(749)	(624)	(500)	(376)	(251)	(125)	
Landfill (Door Stepping Campaign)	(131)	-	-	-	-	-	
Christmas Lights	(47)	(24)	-	-	-	-	
Usable Capital Receipts	(8,059)	(3,826)	(3,826)	(3,826)	(3,826)	(3,826)	This is likely to be utilised for spend on 21CS programme, but difficult to predict what receipts will be coming in over the timescale.
SUB TOTAL - ENABLING RESERVES	(31,309)	(21,860)	(18,712)	(16,088)	(13,463)	(11,206)	
Smoothing Reserves:							
STEP School Computers	(638)	(638)	(638)	(638)	(638)	(638)	
Municipal Elections	(120)	(0)	-	-	-	-	
Local Development Plan	(528)	(606)	(606)	(606)	(606)	(606)	
Glan Usk PFI	(971)	(946)	(896)	(821)	(721)	(596)	
Southern Distributor Road PFI	(44,498)	(44,481)	(44,470)	(44,258)	(43,918)	(43,440)	
SUB TOTAL - SMOOTHING RESERVES	(46,756)	(46,697)	(46,610)	(46,323)	(45,883)	(45,280)	
Other Reserves:							
Works of art	(21)	(21)	(21)	(21)	(21)	(21)	Will be used if an important art collection comes up for purchase - no immediate use identified
School Works	(272)	(292)	(292)	(292)	(292)	(292)	This will be utilised as works are identified
Theatre & Arts Centre	(233)	(233)	(233)	(233)	(233)	(233)	Council agreed reserve as condition of Art's Council funding of the Riverfront Theatre.
Cymorth Income	(38)	-	-	-	-	-	
Pupil Referral Unit	(60)	(60)	-	-	-	-	
Gypsy and Traveller Site	(7)	(7)	-	-	-	-	
Homelessness Prevention	(38)	(38)	-	-	-	-	
Environmental Health - Improve Air Quality	(50)	-	-	-	-	-	
Refurbishment of a Children / Older People Homes	(115)	-	-	-	-	-	
ECDL Training Package - Change to Apprenticeship Scheme	(80)	-	-	-	-	-	

City Deal Reserve - Rename - City Economic Development	(195)	(95)	(45)	-	-	-	
NEW - Welsh Language Standards	(240)	(240)	-	-	-	-	
NEW - YS Dilapidation Costs Information Shop	(51)	-	-	-	-	-	
SUB TOTAL - OTHER RESERVES	(1,400)	(986)	(591)	(546)	(546)	(546)	
			-				
RESERVES TOTAL	(101,311)	(91,319)	(87,689)	(84,381)	(81,316)	(78,456)	

APPENDIX 3 – CURRENT MTFP POSITION

	2017/18	2018/19	2019/20	2020/21	TOTAL
Pressures					
Inflation	2,109	2,176	2,245	2,316	8,846
Other	6,993	5,596	4,559	3,600	20,748
Total Pressures	9,102	7,772	6,804	5,916	29,594
Technical Adjustments	-	-	-	-	-
(INCREASE)/DECREASE IN REVENUE SUPPORT GRANT(1.25% 17/18, 1.5% 18/19 and flat thereafter)	2,614	3,090	-	-	5,704
Increase in tax base - C.Tax @ 16/17 rate	- 923	-	-	-	923
C. Tax @ 4% in 17/18 (4% thereafter)	- 2,226	- 2,246	- 2,266	- 2,286	9,023
Less consequential increase in benefits	724	517	521	526	2,287
GAP	9,292	9,133	5,059	4,156	27,640
Savings	3,112	646	2,010	-	5,768
Balance - @ -1.25% WG reduction 2017/18 (and 1.5% 2018/19)	6,180	8,487	3,049	4,156	21,872
Balance - @ -1.5% WG reduction*	6,703	7,978	3,049	4,156	21,887
Balance - @ -1% WG reduction*	5,657	7,467	3,049	4,156	20,330
Balance - @ -2% WG reduction*	7,749	9,496	3,049	4,156	24,450

*19/20 onwards assumes no reduction in WG Grant

APPENDIX 4 – Reconciliation of 2016/17 Budget Report to Current MTFP

MTFP	2017/18	2018/19	2019/20	2020/21	Total
Gap as per 2016/17 Budget Report	3,686	6,674	3,865	N/A	14,225
Revision of inflation	68	-729	-760	2,316	895
New / Increased Pressures:	5,013	2,175	1,129	1,925	10,242
Apprenticeship Levy	316				316
Pension Deficit Employer Contribution Increase		633			633
Reprofiling Capital Programme MRP / Interest	262	-217			45
NWOW - undelivered savings	564				564
Schools Reorganisation - New Schools	1,859	1,424	1,293	1,417	5,993
Schools Demography				508	508
Landfill Site Income	250				250
Other pressures	109				25
Adult Social Care - Double Handling undelivered saving	150				150
Supporting People Grant reductions	726				726
Base Budget pressures on Community Care-Adults	400				400
Out of Area Residential Placements - Children	377	335	-164		548
Reduction / Removal of Pressures:	-1,212	414	392	1,675	1,269
Pension Deficit from previous years	-177				-177
Pressure to be identified indicative figure – increased from current £400k to £1m	-400	600	600	1,000	1,800
Kinship pressure	-206	100			-106
Reduced 'When I'm Ready' pressure	-95	-23	-42	150	-10
Reduced national minimum wage pressure	-294	-223	-166	525	-158
Early Years pressure	-40	-40			-80
Reduction / Removal of Savings:	445	30	0	0	475
Education joint working with Social Services	116	30			146
Commercial Waste	250				250
Proseict Gwyrdd	35				35
Removal of special collections income	44				44
New / Increased Savings:	-511	0	-1,500	0	-2,011
Total Reward balance	-261				-261
Removal of MMI transfer to reserve	-250				-250
Interest Rate			-1,500		-1,500
Changes to assumptions on funding:	-1,309	-77	-77	-1,760	-3,223
1.25% assumption for reduction in WG Grant	-523				-523
Council Tax inc Base increase	-786	-77	-77	-1,760	-2,700
Gap as per Budget Strategy	6,180	8,487	3,049	4,156	21,872

APPENDIX 5 – BUDGET SENSITIVITY

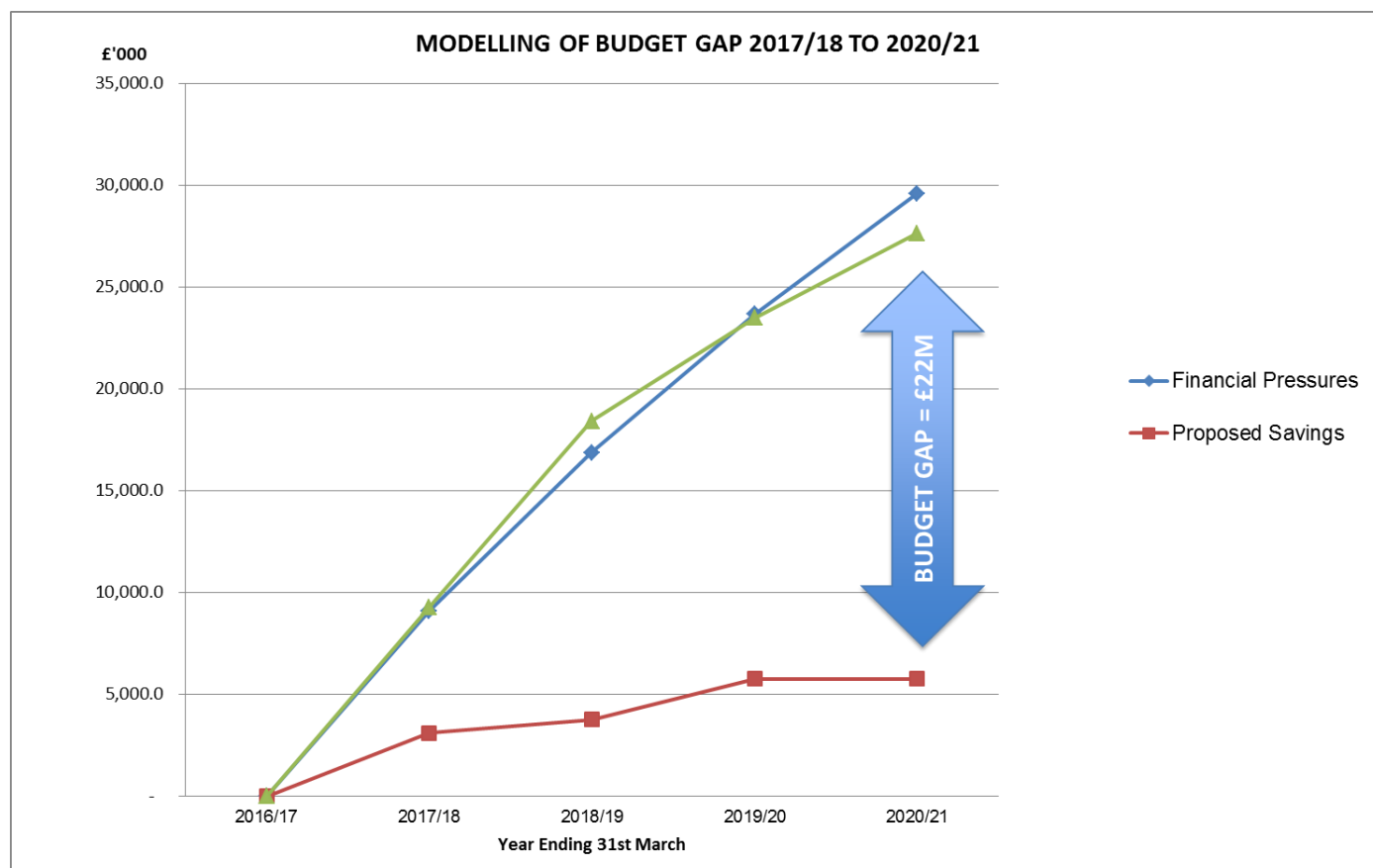
PAY SENSITIVITY	
Pay inflation @1% - included in current MTFP	£678k
Impact of +/- 0.5%	+/-£339k
Impact of +/- 1%	+/-£678k

RSG GRANT SENSITIVITY	
RSG reduction of 1.25% – included in current MTFP	£2,614k
Impact of +/- 0.25%	+/- £523k
Impact of +/- 0.5%	+/- £1,046k
Impact of +/- 1%	+/- £2,091k

COUNCIL TAX SENSITIVITY	
Impact of +/- 0.5% Change in Council Tax	+/-£214k
Impact of +/- 1% Change in Council Tax	+/-£428k

PENSION EMPLOYER CONTRIBUTION SENSITIVITY	
Impact of +/- 1% Change in Pension contribution	+/-£633k

SOCIAL SERVICES BUDGET SENSITIVITY	
Impact of +/- 10 No. of Adults in residential Community Care	Average of +/-£430k
Impact of +/- 10 No. of Adults in non-residential homes	Average of +/-£93k
Impact of +/- 10 No. of Children in Out of Area Placements	Average of +/-£1,500k



APPENDIX 6

2017/18 Medium Term Budget Setting/Consultation Timetable

Month	Task	Timescale	Output/ outcomes
April	Lessons learned log for 16/17 completed and presented to Change & Efficiency board	15th April	Incorporated into detailed budget setting process
	Engagement with public on Future Generations Act	On-going	Define what public see as the key priorities for the Council
May	Service area 2020 presentations	19th April to 16th May 2016	
	Engagement with public on Future Generations Act	On-going	Define what public see as the key priorities for the Council
June	Business Case proforma format agreed and circulated	23rd June	Produce document template with pre-set entry fields
	Initial MTFP update for SLT review	14th June	Initial discussion, view of budget challenge and agree areas of further work
	Agree framework for taking forward 17/18 and medium term budget	14th June	Understand how anticipated budget gap could be dealt with
	BIP review of 2020 presentations to identify business cases within them	24th June	Determine the level of savings currently being proposed
	Agree budget consultation and engagement timetable with SLT and the Leader	End June	Agree the timetable with SLT and the Leader prior to July Cabinet
	Engagement with public on Future Generations Act	On-going	Define what public see as the key priorities for the Council
July	Senior managers (SLT/ HoS/ Service managers) to attend NWoW workshop	4th July	Agree principles of the project and determine the scale of efficiencies under each of the key work streams
		7th July	
	Budget consultation and engagement process to be considered at Cabinet	11th July	Agree engagement process
	Updated MTFP presented to SLT following detailed review of existing savings and pressures. SLT to review MTFP gap after draft 2020 business cases have been considered	12th July	Detailed review completed highlighting budget challenge. This is to be reported to Cabinet in September including framework for identifying quantum of change programmes across service areas. SLT to consider options for moving forward

	Engagement with public on Future Generations Act	On-going	Define what public see as the key priorities for the Council
August	Complete draft business cases and obtain sign off from Cabinet Members	2nd September	In readiness for peer review
September	Business Case Quality Assurance – WG/RC/MR/Finance/BIP and HoS	September week 2 (three days) – 12th - 16th	
	Cabinet - MTFP position paper	12th September 2016	Agree budget challenge and plan for taking forward
	Finalise business cases and FEIA's	End September	Following feedback from peer review with involvement from Cabinet Member
October	Members briefing on MTFP position	Early October	General overview of MTFP position and key points to all Members
	Draft Settlement from WG	19th October 2016	Update MTFP and budget challenge
	Informal Cabinet – Consider Draft budget/settlement/ business cases	October/ November	Business case pack prepared for informal cabinet - new/additional proposals only (including changes to existing proposals)
	Scrutiny meetings to take views on way forward	October/ November	Provide comments to Cabinet on the proposed business cases
November	Informal Cabinet – Consider Draft budget/settlement	October/ November	Business case pack prepared for informal cabinet - new/additional proposals only (including changes to existing proposals)
	Assurance panels to review additional proposals	TBC	Over and above those agreed in September
	Tax base confirmed by Head of Finance	Mid November	Update MTFP as needed
December	Final settlement from WG	21st December 2016	Update MTFP and budget challenge
	Informal Cabinet finalise position on draft budget	TBC	After draft settlement confirmed
	Cabinet agree draft budget for consultation	21st December 2016	
	Staff consultation on budget proposals begin	21st December 2016	
	Public consultation on draft budget commences	22nd December 2016	

January	Final settlement confirmed	TBC	
	Public consultation ends	TBC	
	Scrutiny meetings - budget consultation	TBC	Provide comments to Cabinet on the proposed business cases
February	Cabinet agrees final 17/18 medium term budget and recommends council tax requirement to Council	TBC	
March	Council agrees Council tax and the overall budget	2nd March 2017	