

2019/20 BUDGET PROPOSALS – FOR CONSULTATION

**FINANCE, MODERNISATION & PERFORMANCE
(COUNCILLOR CHRIS WEAVER)**

AGENDA ITEM: 7

Reason for this Report

1. To provide an update to the Budget Reduction Requirement for 2019/20, including the reflection of the Provisional Local Government Financial Settlement.
2. To provide details of the consultation that will take place to inform Cabinet’s final 2019/20 Budget Proposal. The consultation document “Changes for Cardiff” is attached at Appendix 1 and a full list of draft 2019/20 savings proposals is attached at Appendix 2.

Background

3. The 2019/20 Budget Strategy Report was considered by Cabinet in July 2018. It set out a potential budget reduction requirement of £34.2 million for 2019/20 and £91.4 million for the period 2019/20 – 2021/22. The budget gap reflected a combination of financial pressures and anticipated funding reductions. The table below recaps that position, and the outline strategy to address it.

MTFP at July 2018		2019/20 £000	2020/21 £000	2021/22 £000	Total £000
Gap	Financial Pressures	29,789	23,152	25,334	78,275
	Funding Reduction at 1% per annum	4,409	4,366	4,322	13,097
	Budget Reduction Requirement	34,198	27,518	29,656	91,372
Strategy	Council Tax at 4.3%	5,785	6,034	6,293	18,112
	30% cap on Schools Growth (non-demographic)	2,796	2,172	1,926	6,894
	Use of Earmarked Reserves	1,500		(750)	750
	Directorate Savings	24,117	19,312	22,187	65,616
	Total Strategy to Address Gap	34,198	27,518	29,656	91,372

4. The July position was based on indicative funding figures. Since then publication of the Provisional Local Government Financial Settlement in October 2018 has provided further clarity on the 2019/20 funding position. This report updates the budget reduction requirement to reflect the

Provisional Settlement and other emerging issues, in order to ensure that consultation is based on the most up to date information.

Issues

5. Before 11 March 2019, Cabinet Members have a collective duty to place before the Council, proposals, which if approved, would result in the adoption of a balanced budget for 2019/20. The public consultation proposed by this report will inform Cabinet in formulating their final draft budget for Council's consideration in February 2019.

Provisional Local Government Financial Settlement

6. In October 2018, Welsh Government (WG) published the 2019/20 Provisional Local Government Financial Settlement. This indicates that on average, Welsh Authorities will receive a 0.3% decrease in general revenue funding next financial year. Individual authority settlements range from funding reductions of 1% to a funding increase of 0.4% for Cardiff. Settlement information is for one year only, which continues to make medium term planning extremely difficult.
7. Cardiff's above average settlement is indicative of relative demand and the city's particular demographic pressures. Despite Cardiff's settlement being above average, it is still a real term reduction which does not compare with the level of inflationary and demand pressures that the Council is actually experiencing. On a like for like basis, a 0.4% increase will mean additional cash of £1.658 million next financial year.
8. The Provisional Settlement also outlined information on specific grants for 2019/20, although at this stage information is only available at an All Wales level and lacks detail. Specific grants come with restrictions on use, and for some grant streams, it is not yet fully clear what those restrictions will be. Points of note include WG's intention not to implement previously planned cuts to grant streams including the Education Improvement Grant, Post 16 Grant and Single Revenue Grant. WG have also indicated that grant support for Ethnic, Minority, Gypsy Roma Traveller Learners will continue at current levels for 2019/20. New grant streams for Social Services and Schools have been announced and these total £30 million and £15 million respectively across Wales. Further information on the terms and conditions of these grants is required in order to ascertain the extent to which they will support pressures already identified within the budget gap.
9. Cardiff's capital settlement is a 1.15% increase in General Capital Funding (GCF) for 2019/20, which is £157,000 in cash terms. Whilst the additional cash is welcome, the sum will not have a material impact on the Council's capital programme. Notable announcements in respect of specific capital grants include an additional £60 million across Wales over the period 2018/19 – 2020/21 to support the repair of public highways following a series of hard winters and this summer's heatwave.
10. The Provisional Settlement, which preceded the recent UK Autumn Budget, states: "Local Government is the Government's priority for additional funding in the event of additional resources being made available to the

Welsh Government.” Given that the UK budget, which has since been announced, set out an indicative additional £550 million for Wales over three years, it is reasonable to assume that additional local government funding will be announced in the Final Settlement. However, as the Final Settlement will not be published until 19 December 2018 and cannot be pre-empted, consultation must be based on the Provisional Settlement. The draft budget that underpins this consultation includes measures that will be revisited as a priority in the event of a favourable Final Settlement.

Budget Update

11. Regular review and refresh of the budget reduction requirement is an important part of financial resilience. The outcome of updates compared to the July Budget Strategy Report, as reflected in the table below, is that the budget reduction requirement for 2019/20 is currently estimated at £35.2 million (£92.9 million over the next three years), and this is the position upon which the budget consultation is based.
12. The 2019/20 budget reduction requirement of £35.2 million is a £1 million increase on previous estimates. This £1 million increase is a net position within which, the better than anticipated funding position has been offset by significant additional financial pressures. Updates are summarised in the table below.

Budget Reduction Requirement	Budget Strategy Report £000	Updates £000	Consult Position £000
Pay and Price Inflation	7,438	(434)	7,004
Demographic Growth, Commitments & Realignments	5,817	5,424	11,241
Other Financial Pressures	3,000	1,495	4,495
Schools Growth	11,184	2,631	13,815
Fall out of 2018/19 Reserves	2,350	0	2,350
Assumed Specific Grant Funding	0	(2,000)	(2,000)
Aggregate External Finance	4,409	(6,067)	(1,658)
Total Budget Reduction Requirement	34,198	1,049	35,247

13. The key components of each change are summarised in the table below.

Area	Nature of Key Updates
Pay and Prices	Updated for more recent pricing information
Demographic Growth, Commitments and Realignments	Updated to include a budgetary realignment for Children's Services in recognition of significant increases in looked after children in the current year. The reflection of this realignment means that sums already included within the budget gap to reflect additional 2019/20 demand, can be retained for that purpose. Also includes some re-profiling of other commitments.
Financial Pressures	Reflects a range of issues including pressures associated with contract arrangements, emerging demand led pressure and investment required to deliver savings and service priorities.
Schools Growth	Update reflects the recently announced changes to Teachers' Pension Scheme contributions. An increase in employers' contribution is due to take effect from Sept 2019. The increase results from changes to the discount rate used to assess the current cost of future benefits, as well as actuarial review of the fund. In England, additional funding will be provided by the Department of Education to help employers meet these costs. No additional funding has currently been announced in Wales.
Assumed Specific Grant Funding	Updated to include an assumption that the recently announced Social Services grant (of £30 million at an All Wales level) will be available to offset pressures already reflected within the budget gap. Based on usual grant distribution, Cardiff could expect to receive £3 million of the All Wales sum. The draft budget makes the prudent assumption that it would be possible to utilise £2 million of such a sum to offset pressures already identified within the budget gap. This position will need to be kept under review as additional information on grant terms and conditions emerges.
AEF	Prior to the publication of the Provisional settlement, indicative 2019/20 funding was for a Welsh average reduction of 1%, and this was the position reflected in the July Budget Strategy Report. For Cardiff, this would have meant a £4.409 million reduction in funding. The 0.4% funding increase that Cardiff will receive under Provisional Settlement will mean £1.658 million additional cash in 2019/20, which is a £6.067 million improvement on previous planning assumptions.

14. Further change to the current position is likely prior to the presentation of Cabinet's final budget proposal in early 2019. Known updates include the reflection of the 2019/20 council tax base following its approval in December, as well as Cabinet's consideration of consultation responses. A further key update will be the reflection of the Final Local Government Financial Settlement in December 2018.
15. The updated strategy to meet the revised £35.2 million budget gap is set out in the table below. Cabinet will keep the above assumptions under review in finalising their budget proposal for consideration by Council next February.

Strategy to Address Budget Gap	Budget Strategy Report £000	Updates £000	Consult Position £000
Council Tax at 4.3%	(5,785)	0	(5,785)
Cap on Schools Growth	(2,796)	(789)	(3,585)
Use of Reserves in 2019/20	(1,500)	(1,000)	(2,500)
Release of Financial Resilience Mechanism	0	(4,000)	(4,000)
Savings	(24,117)	4,740	(19,377)
Total	(34,198)	(1,049)	(35,247)

16. The assumption of a 4.3% increase in council tax for 2019/20 remains unchanged. Figures reflect the 2018/19 council tax base pending agreement of the 2019/20 tax base in December 2018. A 4.3% increase would generate net additional income of £5.785 million in 2019/20, after accounting for associated increases in the Council Tax Reduction Scheme (CTRS) budget. As Council tax represents just over a quarter of the Council's overall funding, an increase of 4.3% is equivalent to less than a 1% increase in overall funding.
17. Schools Budgets will receive £2.953 million pupil number growth and £7.277 million (capped) growth for 2019/20, a total of £10.230 million and an increase of over 4% on current schools budgets. The increase in the cap on schools' growth since July Budget Strategy Report reflects the capping of the additional pressures in relation to Teachers' Pension Scheme. In percentage terms, the cap remains at 30% on non-pupil number growth.
18. Plans to use reserves in support of the 2019/20 Budget have been increased by £1 million since July 2018, taking the total figure to £2.5 million. The Council has a Strategic Budget Reserve that can accommodate this sum in 2019/20. However, greater use of this reserve next financial year places additional pressure on future years of the MTFP. The proposal to increase reliance on reserves will be reviewed at final settlement, in order to protect the medium term position as far as possible.
19. Over the period since the July Budget Strategy Report, directorates have been reviewing their outline savings plans and testing their achievability. This reflects the need to ensure that the savings sum for 2019/20 is deliverable and appropriate in the context of financial resilience. As a result of this work, and to mitigate impact on front line services as far as possible, the savings figure outlined in the July 2018 has been reduced by £4.7 million.

20. The Council has a financial resilience mechanism (FRM) that was set up to provide support in the event of a worse than anticipated funding position. The FRM is a £4 million base budget used to fund investment in priority areas. The investment is determined annually and must be one-off in nature to enable the immediate release of the FRM in a later year without impact on service delivery. Although the funding position outlined in Provisional Settlement is better than anticipated, it is not in line with the level of financial pressure the Council is actually experiencing, and is a reduction in real terms.
21. In order to achieve a balanced position for consultation, it is proposed to release the FRM. This effectively means that the £4 million budget will be deleted next year. This is not an ideal course of action, as it curtails further investment opportunity and reduces financial resilience. However, given the clear indication that funding is likely to improve at final settlement, the release of the FRM is considered a more appropriate and proportionate measure at this stage than resorting to further savings or revisiting other elements of the strategy. As with the revised assumption on reserves, the release of the FRM will be reconsidered at final settlement with a view to protecting the Council's financial resilience and the medium term position.

Savings Proposals for Consultation

22. The £19.377 million savings proposals included within the current draft budget are listed at Appendix 2, which contains the following information:-
- The directorate proposing each saving and the relevant Cabinet Portfolio
 - The theme of the saving e.g. income generation, prevention and early intervention
 - The title, and an explanation of each proposal
 - The high-level budget in relation to which the saving or income generation proposal has been identified
 - An indication of the nature of the proposal – for example, whether it would reduce employee costs, reduce spend, or increase income
 - An initial risk analysis covering both achievability risk, (which assesses the challenges involved in delivering each proposal), as well as residual risk, (which considers the consequences of implementing each proposal.)
 - An initial Equalities Impact Assessment (EIA) in relation to each proposal
 - The nature of consultation that will take place and whether this will be:
 - City-wide - as part of the Changes for Cardiff consultation
 - Service specific - with identified services users or groups
 - Prior year – where consultation has taken place previously
 - General – where proposals relate to internal changes within the Council including back office efficiencies, staff changes, process improvements and broader changes around income generation

23. The Corporate Plan and the Well-being Plan are key documents in delivering Capital Ambition, the Administration's five-year plan for the city. They have been developed in the context of the Well-being of Future Generations (Wales) Act, which aims to improve the social, economic, environmental and cultural well-being of Wales. The Act aims to make public services more sustainable by encouraging public bodies to think about the long term, how they can work together and with their communities to prevent problems and take a joined up approach (known as the five ways of working). The four priorities and seven well-being objectives encapsulated in the Corporate Plan and Wellbeing Plan form the strategic context for development of the 2019/20 Budget.
24. The significant and prolonged period of financial challenge has made difficult decisions inevitable. However, the draft budget that underpins this consultation reflects the Council's strategic priorities as far as possible given the financial situation. There is net investment in both Social Services and Schools and whilst savings are unavoidable, every effort has been made to minimise impact on citizens and on future generations where possible, with reduction in front line service delivery a last resort. The table below summarises the savings proposals listed at Appendix 2 by theme:

Theme of 2019/20 Saving	£000
Income Generation	1,977
Collaboration	2,537
Business Processes	7,957
Review of external spend	3,406
Prevention and Early Intervention	3,500
TOTAL	19,377

25. The effort to align proposals with strategic priorities and minimise adverse impact on front line services is evident from the theme of the proposals as outlined above. One of the key pressures for the Council is the significant pressure on Social Services budgets. In recognition of this, a significant proportion of proposals are predicated upon prevention and early intervention measures, which aim to improve outcomes as well as deliver savings. There is a continued focus on exploring income opportunities and achieving value for money on external spend, and collaborative working arrangements put in place in previous years are delivering planned savings.
26. At £7.957 million, 41% of savings are identified as business process savings. Whilst there is an element of efficiency and process improvement within that figure, there will be significant challenges in enabling the full range of proposals within this category. Whilst there will be no immediate and obvious reduction to front line services, savings at this level and building on the levels delivered in previous years, will be challenging to deliver and not without risk.

Consultation and Engagement

27. The Council is committed to engaging with the citizens and communities of Cardiff. Budgetary pressure is a key driver of difficult choices. Consequently, budget consultation is an important opportunity to understand what is important to our stakeholders and to encourage their involvement in shaping Council services.
28. Consultation on the 2019/20 budget commenced earlier this year, through the inclusion of general budget themes within the Ask Cardiff survey. There were 3,463 respondents in total, over 81% of whom recognised that the level of the budget gap means that difficult choices are required. In addition:
- Almost 80% of respondents were in support of the Council continuing to explore new ways of working with partners and other organisations to improve services and deliver efficiencies.
 - Just over 80% were in support of the provision of community, commercial and public services from a shared space in order to achieve the most from our buildings.
 - Over 65% were in support of investment in Information Technology to increase opportunities for self-service, whilst around 18% were unsure.
 - Over 70% were generally in agreement with the Council increasing commercial activity and carrying out work for external clients to generate income.
29. Detailed consultation in respect of 2019/20 budget proposals will launch on 16 November 2018. The consultation document will be available for download and online completion. Hard copies will also be available in all hubs, libraries and other key community buildings. A co-ordinated social media and press campaign and partner involvement, will seek to ensure city-wide engagement. The consultation will run until 2 January 2019. Following this, the results of the consultation will be analysed and considered by Cabinet in finalising their 2019/20 Budget Proposals for consideration by Council. The consultation document is attached at Appendix 1.
30. Further opportunities for engagement, including with the Audit Committee and the Schools Budget Forum will also take place during the coming months. These opportunities for stakeholders to engage and provide comments will also help inform the budget process. In addition, the need to engage effectively with the Council's own staff, both directly and through their trade unions will remain a high priority throughout the budget setting process. Scrutiny Committee will undertake their own review of the consultation proposals early in 2019, prior to finalisation of the Cabinet's budget proposal.

Employee Consultation

31. The scale of the financial challenge facing the Council remains considerable. The Council will do all that it can to protect jobs in these financially challenging times. However, as almost 40% of the Council's

gross expenditure is on employee costs, the continuing need to reduce costs will inevitably affect employee budgets and the shape of the workforce.

32. A timetable for consultation and communication with trade unions and employees potentially affected by the budget proposals is in place. During this period of consultation, employees will have the opportunity to comment on the proposals that may affect them. Once the final budget is approved by Council, employees affected by those final decisions will be supported. At that point, eligible employees will be given the opportunity to take voluntary redundancy or to access the redeployment process, which provides employees with a period of twelve weeks to look for alternative employment.
33. Through the Council's Trade Union Partnership meetings, trade unions have been consulted in advance of wider public consultation on budget proposals and the likely impact on employees, particularly where posts are at risk of redundancy. Under the law relating to unfair dismissal, all proposals to make redundancies must involve reasonable consultation with the affected employees and their trade unions. It remains likely that there will be redundancies within the Council's workforce during the financial year commencing 1 April 2019, notwithstanding every effort being made to avoid them.
34. Where the number of employees likely to be made redundant exceeds certain thresholds, the law specifically sets out a minimum length of time and minimum content for the consultation with the trade unions, including ways of avoiding, reducing or mitigating the consequences of the numbers of employees being made redundant. As the Head of Paid Service, the Chief Executive is responsible for all staffing matters and has the authority to implement all necessary consultation in relation to proposed redundancies (statutory or otherwise), consider responses to consultation and make associated staffing decisions.
35. Whilst the exact number of proposed redundancies is not known at this stage, these are likely to be in excess of 20. This will mean that following Cabinet on 16 November 2018 and in accordance with the Trade Union and Labour Relations (Consolidation) Act 1992, a Section 188 Notice will be formally issued to the trade unions, related to the budget and potential redundancies. The proposed redundancies and the issue of the Section 188 notice is related to the overall reduction in staff numbers required.
36. This will mean that from 16 November 2018, formal consultation with employees and trade unions will commence, seeking views and comments about ways of avoiding, reducing and mitigating the consequences of the numbers of staff being made redundant e.g. by redeployment.

Reason for Recommendations

37. To issue the 2019/20 Budget Savings Proposals for consultation. In addition, to note that the consultation will commence on 16 November 2018 and run until 2 January 2019.

Financial Implications

38. The financial implications set out in the July 2018 Budget Strategy Report in respect of context, risk and affordability remain relevant to this report and to the overall budget setting process. The Council must by statute, set a balanced budget and as part of the 2019/20 Budget Report, the Section 151 Officer will comment upon the robustness of the budget process undertaken.
39. Cardiff's Budget Reduction Requirement for 2019/20 is currently calculated at £35.2 million. The strategy to address this gap includes budget savings and income generation proposals totalling £19.4 million. A public consultation on these proposals will commence on 16 November 2018. The responses in respect of consultation and engagement will be reported back to Cabinet for consideration in drafting their final budget proposal. The £19.4 million savings inherent in the consultation position are grouped into themes, as summarised below and identified in further detail at Appendix 2.

Theme of 2019/20 Savings Proposal	£000
Income Generation	1,977
Collaboration	2,537
Business Processes	7,957
Review of external spend	3,406
Prevention and Early Intervention	3,500
TOTAL	19,377

40. The Council has experienced a prolonged period of real terms funding reductions combined with significant pressure in demand led services. Savings of over £135 million have been identified over the past five years with a further budget gap of £92.9 million to address over the next three years. In this challenging environment, it is critical that savings proposals are robust and that significant changes to business processes do not affect the control environment in a negative manner. Due diligence work will continue in parallel to the budget consultation process and directorates will continue their detailed planning in respect of proposals.
41. The budget reduction requirement will be kept under review to reflect further updates, notably these will include the reflection of the Final Settlement once it is received on 19 December 2018. Based on statements in the Provisional Settlement and the subsequent UK Budget, there is a clear suggestion that the Final Settlement will improve the funding position for Welsh Local Government. In the event that it does, priority should be given to revisiting and reducing current assumptions regarding reliance on reserves and release of the FRM to strengthen financial resilience in the medium term.

Legal Implications

42. Specific legal obligations relating to the setting of the budget and

consultation are set out within the body of this report.

43. The obligation to consult can arise in some cases from express statutory provisions and in other cases from common law. In all cases, the consultation must be undertaken in such a way as to be meaningful and genuine. The results of the consultation must feed into the process for consideration and finalisation of budget decisions.
44. The Council has public sector duties under the Equality Act 2010 which require it, in exercising its functions, to have due regard to the need to (1) eliminate unlawful discrimination (2) advance equality of opportunity and (3) foster good relations between persons with and without protected characteristics. For example, protected characteristics include race, sex, gender, age, religion.
45. In order to be sure that the Council complies with its public sector equality duties, it is essential that Equality Impact Assessments are undertaken where appropriate in relation to specific budget proposals, that these are informed by the results of the consultation, and that any impact is taken into account in the decision-making on the budget.

HR Implications

46. At this stage, the only direct HR implication arising from this report is with regards to consultation and this has been detailed in paragraphs 30 to 35 of this report. However, subsequent decisions taken by Cabinet and Council related to these Budget proposals are likely to carry further implications for employees. Whilst the Council will do all that it can to protect jobs in these challenging times, the budgetary situation is such that it will be increasingly difficult to avoid redundancies. The detail of the proposals will need to be fully considered in terms of HR risks, and plans put in place to mitigate those risks wherever possible. The full range of employee support mechanisms will need to be made available to those ultimately impacted.
47. A timetable for consultation and communication with Trade Unions and employees potentially impacted by the budget proposals is in place. Arrangements will be made for employees to comment on the proposals that may affect them. Once decisions are made on the final budget, those impacted will be supported. This will include voluntary redundancy for those eligible, or support for redeployment, which provides employees with a period of 12 weeks to look for alternative employment.
48. As the number of employees likely to be made redundant exceeds specified legal thresholds, there are specific Trade Union consultation requirements that the Council is required to meet, including ideas about avoiding, reducing and mitigating the consequences of the numbers of staff being made redundant. Following Cabinet on 16 November, a Section 188 Notice will be formally issued to the Trade Unions related to the budget and potential redundancies.

RECOMMENDATIONS

The Cabinet is recommended to:

- (1) Note the updated Budget Reduction Requirement of £35.2 million for 2019/20.
- (2) Agree that the budget savings proposals as attached at Appendix 2 are the Cabinet's Budget Savings Proposals for Consultation
- (3) Note that the formal budget consultation will commence on the 16 November 2018 and run until 2 January 2019. The results of the consultation process will then be considered by Cabinet as part of preparing their final 2019/20 budget proposal.
- (4) Note that the Chief Executive as Head of Paid Service will be issuing all necessary statutory and non-statutory employment consultation in respect of the staffing implications of the proposals.

SENIOR RESPONSIBLE OFFICER	Christine Salter Corporate Director Resources
	9 November 2018

The following appendices are attached:

Appendix 1 – “Changes for Cardiff” Consultation document

Appendix 2 – Cabinet's 2019/20 Budget Savings Proposals for Consultation

The following background papers have been taken into account:

- Budget Strategy Report 2019/20 and the Medium Term
- Controllable Budgetary Analysis Sheets 2018/19
- Equality Impact Assessments (EIAs) of Cardiff Councils 2019/20 Budget Savings Proposals
- WG Provisional Financial Settlement