

**CABINET MEETING:2 NOVEMBER 2017**

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**2018/19 BUDGET PROPOSALS – FOR CONSULTATION**

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

**AGENDA ITEM: 5**

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**CORPORATE DIRECTOR RESOURCES**

**Reason for this Report**

1. To provide an update to the Budget Reduction Requirement for 2018/19 including the reflection of the Provisional Local Government Settlement.
2. To provide details of the consultation to be undertaken prior to preparation of the Cabinet's final 2018/19 Budget Proposals for submission to Council for approval. The consultation document "Changes for Cardiff" is attached at Appendix 1 while the savings proposals upon which this consultation is based are attached at Appendix 2.

**Background**

3. Cabinet received a Budget Strategy Report in July 2017 in relation to the 2018/19 Budget. That report set out a potential budget reduction requirement of £23.5 million for the financial year 2018/19 and £73.5 million for the period 2018/19 – 2020/21. This position was a combination of financial pressures and an anticipated 1% annual reduction in the Council's Aggregate External Finance (AEF), which is the collective term for the Revenue Support Grant (RSG) and redistributed Non-Domestic Rates (NDR) that the Council receives from Welsh Government (WG.) This position is set out in the table below.

<b>MTFP at July 2017</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>	<b>2020/21 £000</b>	<b>Total £000</b>
Financial Pressures	19,259	21,504	20,035	<b>60,798</b>
AEF Reductions at 1%	4,282	4,237	4,195	<b>12,714</b>
<b>TOTAL BUDGET GAP</b>	<b>23,541</b>	<b>25,741</b>	<b>24,230</b>	<b>73,512</b>

## **Provisional Local Government Settlement**

4. The WG announced the Provisional Local Government Settlement on the 10 October 2017. For Cardiff, the settlement set out a cash increase in AEF of 0.2%, which equates to additional cash of £954,000. This increase included a new responsibility of £836,000 in relation to homelessness prevention. In terms of AEF per capita, Cardiff ranks 20<sup>th</sup> out of the 22 Welsh Authorities and with an AEF per capita of £1,193, is almost 11% below the Welsh average of £1,339.
5. Cardiff's 0.2% increase was the highest in Wales and compares to a Welsh average decrease of 0.5%. Across Wales, distribution varies from the six authorities that received a 1% reduction to Cardiff's 0.2% increase. In order to ensure that no Local Authority received a decrease of more than 1%, the aforementioned six authorities were the recipients of top-up funding totalling £1.8 million. This funding was additional to the settlement and was not redistributive in impact.
6. Six specific grants have transferred into general funding (or AEF). There are no adverse redistributive effects for Cardiff as a result of these transfers which are in respect of :-
  - The waste component of the Single Revenue Grant
  - Welsh Independent Living Grant
  - Social Care Workforce Grant
  - Looked After Children Grant
  - Carer's Respite Grant
  - Grant for Social Care for Prisoners in the Secure Estate
7. Usually the All Wales listing of specific grants for the forthcoming financial year is published alongside provisional settlement. At the time of writing, this information is unavailable and its impact on the 2018/19 Budget will need to be fully determined. Narrative included in the settlement suggests that some grants will be amalgamated, supported by outcome frameworks.
8. The provisional settlement also contained information in respect of capital funding. The position for Cardiff was an increase in General Capital Funding (GCF) of 0.66%, which equates to £90,000 in cash terms. For Cardiff, GCF for 2018/19 will be £13.621 million, which comprises £5.153 million cash grant and £8.468 million unsupported borrowing.
9. Final Local Government Settlement is due the week commencing 18 December 2017. This year, the UK Budget will take place in the autumn, on 22 November 2017. This change in timing increases the possibility of change between provisional and final settlement and the risk of further emerging financial pressures. As well as potentially affecting the Welsh Block Grant, the UK budget could make other announcements, for example, in relation to public sector pay. Any such announcements would increase financial pressures in the event they are not fully-funded.
10. With regards the medium term, the provisional settlement indicated that on average, AEF would decrease by 1.5% in 2019/20. The narrative

accompanying the settlement indicated that the 1.5% reduction is based on an assumption that the UK Government will proceed with £3.5 billion of cuts planned for 2019/20 that are as yet unallocated. The WG have indicated an intention to review the indicative 1.5% reduction if the UK Budget signals an intention not to proceed with these cuts.

11. In summary, the 0.2% funding increase for Cardiff announced by the provisional settlement is an improvement on previous planning assumptions. The impact of this improvement, along with other updates to the 2018/19 budget reduction requirement is summarised in the next section.

## Financial Overview

12. The budget reduction requirement is a dynamic figure and regular review is an important part of financial resilience. The Council undertakes systematic refresh of figures in line with a set timetable and reactive refresh occurs in response to new developments and emerging financial pressures. The outcome of the updates is that the budget reduction requirement for 2018/19 is currently estimated at £22.8 million (£73 million over the next 3 years) and this is the position upon which the budget consultation is based.
13. This current draft position will remain fluid and has the potential to fluctuate further prior to the presentation of Cabinet's final budget proposals in early 2018. Future updates will include reflection of the 2018/19 council tax base following its approval in December, as well as Cabinet's consideration of consultation responses. As already noted, the timing of the UK budget, which will be in the autumn this year, increases the potential for change between provisional and final settlement. Any such changes will also need to be taken into account as the budget process progresses.
14. Updates to the Budget Reduction Requirement since July 2017 are summarised in the table below and described in more detail in subsequent paragraphs.

Component of Budget Reduction Requirement		Change £000
<b>July Budget Reduction Requirement</b>		<b>23,541</b>
Financial Pressures	Pricing Updates (including Schools')	450
	Commitments and Realignment	3,538
	Financial Pressures	500
Funding	Provisional Settlement at +0.2%	(5,236)
<b>Net Change</b>		<b>(748)</b>
<b>Updated Budget Reduction Requirement</b>		<b>22,793</b>

15. The changes to the budget reduction requirement are set out in further detail below:-

- **Pricing Updates** – changes reflect updates to take into account most recent rates of inflation.
- **Commitments and Realignments** – changes include technical updates to reflect interest rates and internal borrowing, as well as a budgetary realignment for Children's Services which reflects the impact of increasing numbers of looked after children in the current financial year.
- **Additional Financial Pressures** - the Medium Term Financial Plan (MTFP) within the Budget Strategy Report included a provisional sum of £1.5 million in 2018/19 to cover emerging financial pressures. The budget position upon which this consultation is based increases this figure to £2 million. Further review and refinement of financial pressures will be undertaken over coming months.
- **Funding** – the recent publication of the Provisional Local Government Settlement has afforded greater clarity to the funding position for 2018/19. The £5.2 million favourable change indicated in the table above reflects the improvement from the Council's planning assumption of a 1% reduction to the 0.2% funding increase that was recently announced in the provisional settlement. The planning assumption of a 1% reduction was used in the absence of any indicative funding figures from WG, and was in line with warnings to expect further challenging settlements.

## Issues

16. Before 11 March 2018, Cabinet Members have a collective duty to place before the Council proposals, which, if approved, will result in the adoption of a balanced budget for 2018/19. In the current context, those proposals must include a strategy that delivers a Budget Reduction Requirement currently identified at £22.8 million. The strategy includes a combination of budget cuts, caps to schools' growth, increases in council tax and use of reserves.

## Financial Planning Assumptions

17. The July 2017 Budget Strategy Report set a number of planning assumptions as part of the solution to the budget reduction requirement. These were :-
  - A 3.7% Council Tax Increase
  - A 30% cap on schools' financial pressures (with the exception of pupil number growth)
  - £2.35 million use of Reserves
18. These planning assumptions remain in place at the start of this consultation period and Cabinet will consider them further in finalising work to recommend its 2018/19 final budget proposals to Council next year. The cap on schools' growth is retained at 30% although the quantum has marginally increased, due to updates to the financial pressures figure upon which it is based.

19. In respect of council tax increases, the previous planning assumption of 3.7% has been retained. This assumption reflects the 2017/18 council tax base and generates net additional income of £4.7 million, after taking into account the associated increase in the Council Tax Reduction Scheme budget. The council tax base for 2018/19 will be considered by Cabinet in December 2017. The associated change will need to be factored into the Budget Reduction Requirement at that stage, along with any consequential impacts on final settlement. The assumption will need to be kept under review as there is potential for further pressures to emerge as the year progresses, particularly as this year, the UK budget is due in late November.
20. Schools' pressures of £4.9 million have been identified in respect of 2018/19 and in line with the Budget Strategy Report, these have been capped by 30% or £1.5 million. In addition, pupil number growth is projected to result in increased costs of £2 million for 2018/19 and the Budget Strategy is predicated upon this sum being fully provided to schools. Effectively, under current budget strategy assumptions, Schools Budgets will receive £2 million pupil number growth and £3.4 million (capped) growth for 2018/19, a total of £5.4 million.
21. At 31 March 2017, the Council's General Reserve stood at £14.3 million and Earmarked Reserves (for General Fund Services) stood at £59.4 million. The use of reserves as general budget funding should be treated with caution for a number of reasons. Firstly, their finite nature means their use to fill a budget gap in one year creates an immediate hole in the finances of the following year. Secondly, earmarked reserves are an important part of the Council's financial resilience, especially in prolonged periods of financial challenge. Finally, earmarked reserves are set aside for a specific purpose that would be compromised if they were routinely used at significant levels for general budget funding.
22. The level of reserves in Welsh Local Government has been subject to much scrutiny over recent years. Whilst prudent, the level of reserves in Cardiff could be considered to be just at an adequate level for an authority of its size. In percentage terms, Cardiff has the lowest level of both general and useable earmarked reserves across Wales. The Budget Strategy assumption of a £2.35 million use of reserves strikes an appropriate balance between on the one hand, using available cash balances to support services and on the other, protecting the Authority's financial resilience and future financial position. Following review, a full listing of the Council's reserves will be included in the 2018/19 Budget Report.

## **Overall Position**

23. The budget reduction requirement of £22.793 million will be met from a combination of budget savings proposals and the planning assumptions detailed above. The 2018/19 Budget Report will contain Cabinet's final overall proposal in respect of the Budget, for Council approval. This will be informed by consultation with the Council's stakeholders. In finalising the proposal, all present planning assumptions will be reviewed to ensure that

they are still valid following the receipt of the final settlement and confirmation of the position on specific grants.

24. The next table summarises the 2018/19 Budget for Consultation. The detail behind the savings figures is contained in Appendix 2.

**2018/19 Budget Strategy as per consultation proposals**

	<b>£000</b>
Savings	14,296
Council Tax Increase 3.7%	4,686
Schools – non-pupil number growth capped by 30%	1,461
Use of Reserves	2,350
<b>Total Savings and Budget Strategy Assumptions</b>	<b>22,793</b>

25. The information set out in Appendix 2 represents the 2018/19 savings proposals for consultation and contains the following information:-

- The directorate proposing the savings e.g. City Operations, Social Services
- The theme of the saving
- The title of the saving and an explanation of the proposal
- The budget in relation to which the saving has been identified
- An indication of the nature of the saving - e.g. whether it would result in a reduction in employee costs, a reduction in other spend or an increase in income
- An initial risk analysis in respect of both the residual risk and the risk of the achievability of the saving
- An initial Equalities Impact Assessment in relation to the saving proposed
- The Cabinet Portfolio that the proposed saving falls within
- Identification of whether city-wide consultation will take place as part of the Changes for Cardiff consultation, whether service specific consultation is required or whether consultation has occurred previously

26. The consultation on the 2018/19 budget savings proposals will take the following forms:-

- **City-wide public consultation** on issues of general interest as set out in the “Changes for Cardiff” consultation document at Appendix 1.
- **Service specific consultation** with identified service users / group of organisations
- **General Council Consultation** – this relates to internal changes within the Council including back office efficiencies, staff changes, process improvements and broader changes around income generation and other service implications.
- **Prior Year** – proposals included in prior year consultations

27. Appendix 2 sets out the form of consultation for each proposal. This information is summarised below:-

<b>2018/19 Savings Proposed</b>	<b>£000</b>
Savings proposals included in the city-wide consultation	4,762
Savings proposals requiring service specific consultation / communication	1,312
Other general savings proposals	6,607
Savings proposals consulted in previous years	1,615
<b>Total 2018/19 Savings Proposed</b>	<b>14,296</b>

28. The Council's Corporate Plan 2017-2019 sets out its vision to be Europe's most liveable capital city, its co-operative values, and its four key priorities of better education and skills for all, supporting vulnerable people, an economy that benefits all our citizens and working together to transform services. In developing budget proposals, the Council is mindful of these priorities as well as of the need to set a budget that considers the impact on future generations in line with the Future Generations (Wales) Act.
29. The significant and prolonged period of financial challenge that the Council has faced over recent years makes difficult decisions inevitable. However, the draft budget upon which this consultation is based reflects the above priorities as far as possible in the current financial situation, with net investment in both Schools and Social Services. Whilst savings are inevitable, efforts are made to ensure that their impact on existing citizens and on future generations is minimised as far as possible, with reductions to front-line service delivery a last resort. Instead, wherever possible, savings are aimed at generating income, seeking to ensure value on external spend, looking for digital solutions, working with others, streamlining processes and implementing preventative measures. These general budget themes received support in the Ask Cardiff survey conducted earlier this year, as set out in the next section.

## **Consultation and Engagement**

30. The Council is committed to engaging with the citizens and communities of Cardiff regarding the difficult decisions required. Budgetary pressure is a key driver of the difficult choices facing the Council, therefore budget consultation is an important opportunity to understand what is important to our stakeholders and to encourage their involvement in shaping Council services. The Council has consulted upon the difficult decisions made in recent years' budgets with significant responses received to those consultations.
31. Consultation on the 2018/19 budget commenced earlier this year, through the inclusion of general budget themes within the Ask Cardiff survey. Over

76% of respondents recognised that the budget gap the Council is facing means that difficult choices are required. In addition:-

- Around three quarters (73.6%) of respondents agreed that the Council should continue to explore new ways of working with partners and other organisations to improve services and deliver efficiencies
- Around three quarters of respondents, (75.7%) would support the provision of community, commercial and public services from a shared space in order to achieve the most from our buildings.
- Three in five respondents (61.5%) supported investment in Information Technology (IT) to increase opportunities for self-service.
- More than half of respondents, (58%) supported increasing opportunities for self-service in the future.
- Two thirds of proposals agreed that the Council should undertake income generation activities

32. Building on the introductory themes within the Ask Cardiff Survey, the consultation in respect of 2018/19 budget proposals will launch on 2 November 2017. There will be an online document and hard copies will be available in hubs, libraries and leisure centres. The public will be able to meet officers face to face to discuss the proposals, participate in the survey and share their views via a series of local events. These will be partnership events providing information to communities on a range of subjects including the budget proposals, Draft Well-Being Plan, Local Area Plans, and volunteering opportunities. The consultation will run until Thursday 14 December 2017. Following this, the results of the consultation will be analysed and considered by Cabinet when finalising their 2018/19 Budget Proposals for consideration by Council. The consultation document is attached at Appendix 1.

33. 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 2018, prior to finalisation of the Cabinet's budget proposal.

### **Employee Consultation**

34. The scale of the financial challenge faced by the Council remains considerable. As almost half of the Council's gross expenditure is on employee costs, the continuing need to reduce costs will have an impact on employee budgets and the shape of the workforce. The Council will do all that it can to protect jobs in these financially challenging times.

35. A timetable for consultation and communication with trade unions and employees potentially impacted by the budget proposals is in place. During



this period of consultation, there will be arrangements made for employees to comment on the proposals which may affect them. Once decisions are made on the final budget by Council, employees impacted 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.

36. Through the Council's Trade Union Budget Consultation forum, trade unions have been consulted in advance of more public consultation on directorate budget proposals and the likely impact on employees, particularly where posts are at risk of redundancy. Under the general 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 2018 notwithstanding every effort being made to avoid them.
37. The budget proposals, in some areas, include proposals to reduce the number of employees. 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 staffing decisions flowing therefrom.
38. 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 2 November 2017 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.
39. This will mean that from 2 November 2017, 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**

40. To issue the 2018/19 Budget Savings Proposals for consultation. In addition, to note that the consultation will commence on 2 November 2017 and run until 14 December 2017.

### **Financial Implications**

41. The financial implications set out in the July 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 the Section 151 Officer will as part of the Budget Report comment upon the robustness of the budget process undertaken.

42. Cardiff's Budget Reduction Requirement for 2018/19 is currently calculated at £22.8 million. A public consultation of the savings proposals identified in respect of this gap will commence on the 2 November 2017. The responses in respect of all consultation and engagement will be reported back to Cabinet for consideration as part of the 2018/19 Budget Report. This builds on the general consultation on budget themes that was included within the Ask Cardiff survey earlier this year. The £14.3m savings inherent in the consultation position are grouped into themes, as summarised below and identified in further detail at Appendix 2.

<b>Theme of 2018/19 Savings Proposal</b>	<b>£000</b>
Income Generation	2,900
Collaboration	323
Business Processes including digitalisation	3,726
Review of external spend	4,546
Prevention and Early Intervention	2,801
<b>TOTAL</b>	<b>14,296</b>

43. The Council has experienced a prolonged period of real terms funding reductions combined with demographic pressure in demand led services. Savings of £105 million have been identified over the past three years with a further budget gap of circa £73 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 impact on 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 their proposals. The budget reduction requirement will need to be kept under review to reflect the UK budget in November and final settlement in December.

### **Legal Implications**

44. Specific legal obligations relating to the setting of the budget and consultation are set out within the body of this report.
45. 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.

46. The Council has public sector duties under the Equalities 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.
47. 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, that any impacts are recorded, mitigation of the impact is considered, and any impact is taken into account in the decisionmaking on the budget.

### **HR Implications**

48. At this stage, there are no direct HR implications arising from this report. However subsequent decisions taken by Cabinet and Council related to these Budget proposals are likely to carry implications for employees. Whilst the Council will do all it can to protect jobs in these challenging times, the budgetary situation is such that it will become 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 these risks wherever possible. Continuing dialogue with Trade Unions and employees will be critical. The full range of employee support mechanisms will need to be made available to those ultimately impacted. 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 which may affect them. Once decisions are made on the final budget, those impacted by those final decisions will be supported. This will include Voluntary redundancy for those eligible or support for redeployment which provides employees with a period of twelve weeks to look for alternative employment.
49. The Trade Unions have been initially consulted on directorate budget proposals and the likely impact on employees. Under legislation, proposals to make redundancies must involve reasonable consultation with the affected employees and their trade unions. Whilst every effort will be made to reduce the number or avoid redundancies, it is likely that there will be some employee redundancies in the next financial year.
50. As the number of employees likely to be made redundant will exceed specified legal thresholds, there are specific Trade Union consultation requirements which 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 2<sup>nd</sup> 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) Agree that the budget savings proposals as attached at Appendix 2 are the Cabinet's Budget Savings Proposals for Consultation.
- (2) Note that the formal budget consultation will commence on the 2 November 2017 and run until 14 December 2017. The results of the consultation process will then be considered by Cabinet as part of preparing their final 2018/19 budget proposal.
- (3) Note that the Chief Executive as Head of Paid Service will be issuing all necessary statutory and non-statutory employment consultations in respect of the staffing implications of the proposals.

**CHRISTINE SALTER**

**Corporate Director Resources**

27 October 2017

*The following appendices are attached:*

- Appendix 1 – “Changes for Cardiff” Consultation document
- Appendix 2 – Cabinet's 2018/19 Budget Savings Proposals for Consultation

*The following background papers have been taken into account:*

- Budget Strategy Report 2018/19 and the Medium Term – 27 July 2017
- Controllable Budgetary Analysis Sheets 2018/19
- Equality Impact Assessments (EIAs) of Cardiff Council's 2018/19 Budget Savings Proposals
- WG Provisional Financial Settlement