

**2020/21 BUDGET MODELLING UPDATE AND PROPOSALS FOR
CONSULTATION**

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

AGENDA ITEM: 7a

Urgent late report, pursuant to Cabinet Procedure Rule 2.3a)vii)

Reason for this Report

1. To provide an update on budget preparation for 2020/21, including the impact of the Provisional Local Government Financial Settlement (Provisional Settlement).
2. To provide details of the consultation that will take place to inform Cabinet's final Budget Proposal for 2020/21.

Background

3. The 2020/21 Budget Strategy Report was considered by Cabinet in July 2019 as part of an update to the Council's Medium Term Financial Plan (MTFP). It set out a potential budget reduction requirement of £25M for 2020/21 and £101M for the period 2020/21 – 2023/24. The budget gap reflected a combination of financial pressures and anticipated funding reductions.
4. In the absence of indicative funding figures, the July position was based on an assumed level of general grant funding for 2020/21. Since then, the Provisional Settlement for 2020/21 has provided further clarity on the funding position.
5. In order to ensure that consultation is based on the most up to date information, this report updates the budget requirement for 2020/21 in order to reflect the Provisional Settlement and other emerging issues. It also provides a progress update in respect of efficiency savings being implemented to address anticipated budget pressures.

Issues

6. Cabinet Members have a collective duty prior to the 11th March 2020 to place before the Council, proposals, which if approved, would result in the

adoption of a balanced budget for 2020/21. The public consultation proposed by this report will inform the preparation of Cabinet's final draft budget for consideration by Council in February 2020.

Timescales

7. Due to the timing and content of the UK Spending Round, the Minister for Finance and Trefnydd announced that the Provisional Settlement would be delayed until late November. The subsequent announcement of a General Election on the 12th December 2019, and associated pre-election rules, resulted in the Provisional Settlement being further delayed until 16th December 2019. This is almost two months later than the usual October publication date.
8. The Provisional Settlement is a critical factor in drafting the budget and can significantly affect the overall funding position. In light of the departmental spending plans announced in the September Spending round, it was considered probable that the Provisional Settlement would be better than previous funding assumptions although the level of any variation was unknown until now.
9. The consultation on the 2020/21 Budget is commencing later than usual this year in order to ensure that the draft budget that underpins it, fully reflects the Provisional Settlement, and therefore that the position being consulted upon is as accurate as possible.

Provisional Local Government Settlement

10. On 16th December 2019, the Minister for Housing and Local Government announced the Provisional Settlement for 2020/21. The Minister's statement and key data table is attached at **Appendix 1**.
11. The headlines of the settlement are that:
 - On average, Welsh Local Authorities will receive a 4.3% increase in general revenue funding next financial year.
 - Individual Authority Settlements range from 3% to 5.4%.
 - Grants totalling £53.181M at an All Wales level will transfer into Revenue Support Grant (RSG) in 2020/21.
 - There will be no 'floor' protection in 2020/21.
 - Settlement information is for one year only, which continues to make medium term planning extremely challenging.
12. Cardiff will receive a 4.1% increase in Aggregate External Finance (AEF) in 2020/21 (£18.5M in cash terms). Cardiff's settlement is slightly below average, primarily due to a reset of the population statistics used within the funding formula (from projections to most recent mid-year estimates).
13. The Provisional Settlement provides confirmation that key specific grant streams that are being used to support core service provision in 2019/20

will either transfer into Revenue Support Grant (RSG) for 2020/21, or will continue at existing (or increased) levels. This is with the exception of the 'Costs Associated with Teachers' Pay' Grant, which will fall out in 2020/21 and the Sustainable Waste Revenue Grant, which will reduce by £1.8M at an All Wales level.

14. Cardiff's capital settlement is a 4.6% increase in General Capital Funding (GCF) for 2020/21, which is £759,000 in cash terms. Notable announcements in respect of specific capital grants include:
 - The continuation of the Major Repairs Allowance at existing levels
 - A significant increase in the allocation for the Targeted Regeneration Capital Investment Programme for the South East region
 - The continuation of the Public Highways Refurbishment grant
 - A £10M increase in the Active Travel Fund across Wales, to £30M
 - An £11.7M increase in funding for the Implementation of measures to Tackle Nitrogen Dioxide emissions
 - A significant increase (£44M) in Child Care Offer Capital
15. The level of revenue funding announced in the Provisional Settlement is clearly better than the planning assumption reflected in the Council's latest MTFP, which was published in the summer. The MTFP pre-dated the Spending Round and had assumed a potential 0.5% funding reduction for 2020/21.
16. Whilst the improved funding position for 2020/21 is extremely welcome, it should be noted that the position for 2021/22 and beyond is much less certain. The Ministerial statement accompanying the settlement indicated that the positive 2020/21 position "does not mean that austerity is over" and referenced the need to take the opportunity to "plan for the future."
17. In the context of the uncertain funding outlook beyond 2020/21, the settlement provides the Council with an opportunity to consolidate its financial resilience following an extended period of challenge and to ensure that resources are targeted at key priority areas.

Budget Modelling Update

18. The Council's MTFP undergoes regular review to ensure it reflects the most up to date and robust information. Updates since the Budget Strategy Report in July include the impact of:
 - The Provisional Settlement, announced on 16th December 2019.
 - A reduction in budgeted Employers Superannuation Contributions for 2020/21, reflecting the estimated impact of an actuarial review of the Local Government Pension Scheme (LGPS)
 - The Teachers' Pay Award for September 2019 (agreed at 2.75%, and 5% for new teachers.)
 - The Voluntary Living Wage rate announced in November 2019.

- Most recent pricing information in relation to key commissioned services.
- Budget realignments for services experiencing significant demand-led pressure, particularly in relation to looked after children.
- The need to address base pressures, evident through in year monitoring, in some areas including:
 - Recycling and Neighbourhood Services
 - Adult Services
 - Education Other than at School
 - School Transport
 - Central Transport Service
- Budgetary adjustments to strengthen financial resilience and manage risk
- Budgetary adjustments to support key corporate priorities and ensure continued modernisation of service delivery.

19. Taking account of the above updates, the current resource requirements modelled for 2020/21 are set out in the table below.

Resources Required	£000	£000
Base Budget Brought Forward		623,589
Pay Award	3,532	
LGPS Superannuation Contributions (reduction)	(3,259)	
Price Inflation (i)	3,513	
Financial Pressures and Growth (ii)	5,047	
Commitments, Realignments & Capital Financing (iii)	14,627	
Demographic Pressures (iv)	3,659	
Schools Growth (v)	13,524	
	40,643	
Resources Required		664,232

20 A further breakdown of key resource requirements is provided below:

- Price Inflation** – this includes key specific inflationary increases, the most significant of which is £2.833M for Adults Commissioned Services in Social Services.
- Financial Pressures and Growth** – this includes allowances for grant reductions/risk (£1.061M), funding to support lost income streams such as retail parades and commuted sums (£0.445M), funding to support investment in key areas linked to corporate plan priorities and the modernisation of service delivery (£1.500M) and revenue support for key major project delivery (£1.000M).
- Commitments, Realignments & Capital Financing** – this includes budget realignments totalling £10.823M, the most significant of which are £4.000M for Children's Social Services, £1.400M for Adults Social Services and £2.622M for Recycling and Neighbourhood Services. It also includes £1.487M of additional

commitments (including the Fire Service Levy at £0.500M) and £2.317M of Capital Financing Commitments.

- iv. **Demographic Pressures** – - this includes £1.384M for Adult Social Services, £2.175M for Children’s Social Services and £0.100M for Recycling and Neighbourhood Services.
- v. **Schools Growth** – This includes the full costs of teachers and non teachers pay and pupil growth.

21. At Provisional Settlement, and assuming the same increase in Council Tax and use of reserves as modelled in the MTFP, resources available are as shown in the table below:

	£000
Aggregate External Finance	469,047
Council Tax (2020/21 tax-base at 2019/20 prices)	178,363
Council Tax (4.5% increase modelled for 2020/21 net of CTRS)	6,594
Use of Reserves	750
Resources Available	654,754

Council Tax

- 22. The Council will have due regard for the level of the increase in council tax, but has to balance this against the need to fund key services. The modelled increase assumed at this time for 2020/1 is 4.5%, and this will be kept under review.
- 23. A 4.5% increase would generate net additional income of £6.594M after associated increases in the Council Tax Reduction Scheme (CTRS). As council tax represents just over a quarter of the Council’s overall funding, an increase of 4.5% is approximately equivalent to a 1% increase in the Council’s overall budget.
- 24. The CTRS will continue to be funded at the same level provided within the Revenue Support Grant in 2014/15. This means that costs associated with Council Tax uplifts and changing caseloads must be funded by the Council. Whilst a 1% council tax increase generates additional income of £1.783M for the Council, it also costs £318,000 in additional CTRS requirements, thus reducing net additional income to £1.465M. In other words, 18% of any Council Tax increase is required to support costs associated with the CTRS.

Use of Reserves

- 25. The draft budget modelling includes the use of £750,000 from reserves. Over-reliance on reserves as budget funding should be avoided, as they

are a finite resource. The £750,000 proposed for 2020/21 is in accordance with the level set as part of the MTFP in the summer and is considered to strike an appropriate balance between supporting services next financial year, and the continued ability to set balanced budgets in the longer term.

26. In overall terms, comparing the resources available to the Council with the resources required results in a restated difference i.e. an amount to be found from savings of £9.478M, compared to £18.5M as per the MTFP published in the summer:

	£000
Resources Required	664,232
Resources Available	654,754
Amount to be found from savings	9,478

Financial Planning and Strategic Context

27. It is important to allocate scarce resources in line with strategic priorities, with regard for their impact on future generations. The proposals underpinning the budget consultation are framed by the priorities and objectives set out in Capital Ambition, the Corporate Plan and the Wellbeing Plan, and have regard to the principles within the Wellbeing of Future Generations (Wales) Act 2015.
28. It is proposed that both Social Services and Schools will contribute savings in 2020/21. However, the draft budget modelling reflects a net increase in the budgets of both these areas that is in line with (or just above) the overall settlement increase. This is set out below:
- **Schools** - in light of the more positive settlement, the efficiency contribution required from Schools for 2020/21 has been reduced to 0.5% (from 1% at MTFP stage in the summer). After contributing 0.5% in efficiency savings (£1.207M), Schools' Budgets will increase by £10.4M (4.3%) next year after adjusting for transfers.
 - **Social Services** - after contributing savings of £2.230M (1.3%), Social Services budgets will increase by £7.2M (4.2%) next year.
29. Notwithstanding the better than anticipated settlement, there will still be a need to deliver savings in 2020/21 and the draft position is predicated upon £9.478M savings for 2020/21. Every effort has been made to ensure that savings only affect front line service delivery as a last resort, thus preserving key services for current and future citizens of Cardiff.

Budget Savings

30. The Council has identified over £220M in savings over the past decade.
31. In the context of a more positive funding settlement, target savings for 2020/21 have been reviewed in order to ensure that they minimise impact on service delivery, and that they are deliverable and appropriate in the context of the Council's financial resilience, both next year and over the medium term. This work has led to the restatement of the 2020/21 savings figure to £9.478M (compared to £18.5M as per the MTFP published in the summer).
32. A breakdown of the £9.478M is set out in the table below.

	£000
Efficiency Savings	5,373
Income Generation	2,205
Service Change	1,900
TOTAL	9,478

Efficiency Savings

33. Efficiency savings are defined as achieving the same output (or more) for less resource, with no significant impact on the resident / customer. Efficiency savings identified to date are split £4.166M non-schools and £1.207M schools (as per paragraph 28).
34. In line with the Council's July 2019 Budget Strategy Report, in order to improve the deliverability of savings and maximise the chances of securing full year savings in 2020/21, efficiency proposals that do not require a policy decision are being implemented in the current year wherever possible. This approach means that of the £5.373M efficiency savings required next year, £828,000 have already been implemented and a further £253,000 are anticipated to be in place before the end of the current financial year (all savings implemented relate to non-schools services).
35. The efficiency actions include (non-schools):
- Review of staffing arrangements (£2.407M)
 - Reductions in premises costs (£0.362M)
 - Reductions in external spend (£1.075M)
 - Use of new technology (£0.020M)
 - Budget review / alignment (£0.302M)

Income Generation

36. There has been a continued focus on exploring income opportunities delivering a further £2.205M for 2020/21. This sum includes potential price increases, as well as proposals to increase market share, and maximise available grant streams. Any areas of income generation

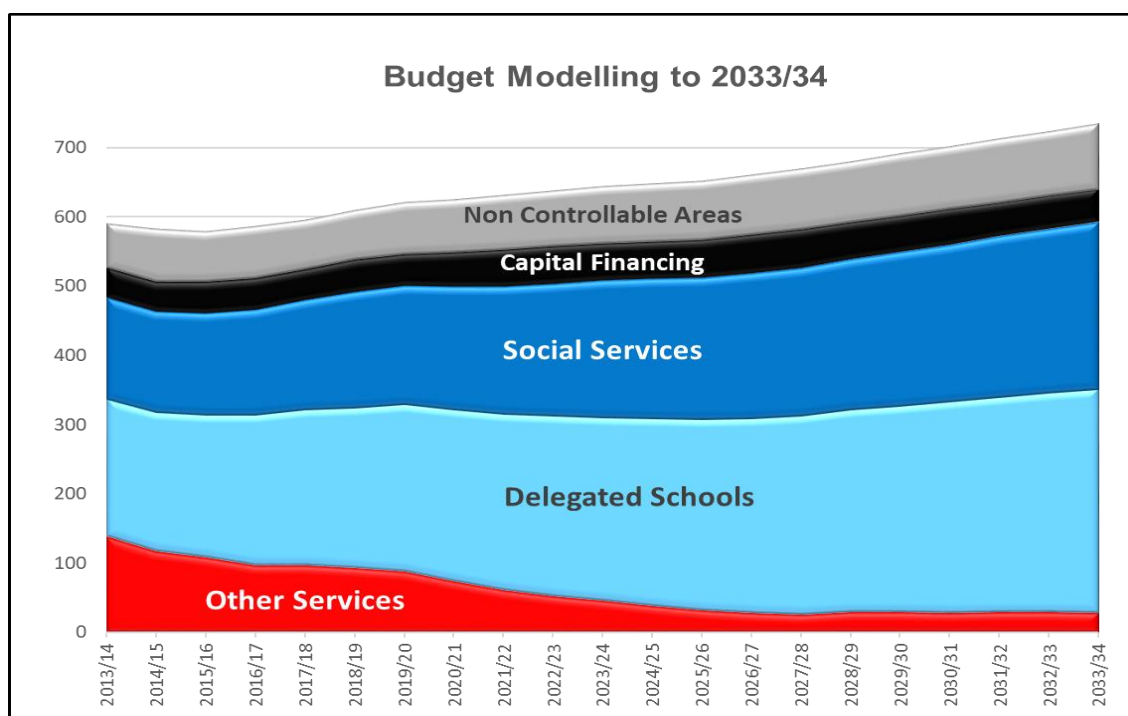
subject to consultation requirements are set out separately in paragraph 49.

Service Change

37. The remaining £1.900M of savings is proposed to be delivered through service change opportunities. These are proposals that whilst not an efficiency saving as per the earlier definition, do not have an adverse impact on service users and will deliver savings by changing service delivery. The bulk of this saving (£1.500M) represents the implementation of agreed new commissioning strategies and operating models across Adults and Children's Social Services. Any areas of Service Change subject to wider public consultation requirements are set out separately in paragraph 49. In addition, where any changes require specific / targeted consultation this will be undertaken as appropriate.
38. Delivery of savings identified will result in a balanced budget, although clearly this is based on current modelling assumptions.
39. The draft nature of the budget modelling needs to be emphasised and the expenditure and income assumptions underlying the budget position are continually being reviewed as part of normal budget preparation work. Examples of this include confirmation required in relation to specific grant arrangements in certain areas, confirmation of the NJC pay award, which is yet to be finalised for 2020/21 and the consideration of feedback received in respect of consultation.

Medium Term Planning Implications

40. The impact that the extended period of financial challenge has had on the Council's budget is illustrated in the chart below. The chart also models what the Council's budget *could* look like in future with comparable levels of service pressures to recent years, even if we were to take a slightly more optimistic view of funding, which is far from certain.



41. The graph highlights that when funding fails to keep pace with demand, unavoidable pressure in certain areas must ultimately be at the expense of others. In other words, in order to manage the significant financial pressures experienced by Social Services and Schools, the majority of savings tend to be borne by “other services”.
42. If this pattern were to continue over an extended period, the budgets for “other services” would contract to what would be an unfeasibly small level, given that they include areas of statutory responsibility. The Council must take every opportunity, including that provided by the more positive settlement for 2020/21, to reframe and reshape the potential trajectory depicted above.
43. In summary, whilst the position for 2020/21 is undoubtedly positive, the Council must use this opportunity to strengthen financial resilience and build a robust position from which to move forward. This must include ensuring that all savings newly proposed for 2020/21 are at a realistic and manageable level and that base budgets adequately reflect rising demand and inescapable pressure. There will also be a need to adequately resource service growth and modernisation, in order to help the Council approach the uncertainties of the medium term.
44. Whilst the focus of this report is the annual budget proposals for 2020/21, work is ongoing to revisit the assumptions within the MTFP and the detail of this will be reported along with the Council’s other financial strategy documents, as part of the 2020/21 Budget Report.

Consultation and Engagement

45. Budget consultation is an opportunity to understand what is important to our stakeholders and to encourage their involvement in shaping Council services. Detailed consultation in respect of 2020/21 budget proposals will

launch on the 19th December 2019 and run until 31st January 2020. The results of the consultation will inform Cabinet in preparing their final 2020/21 Budget Proposal for consideration by Council in February 2020.

46. As part of the 2020/21 Budget Consultation:

- The consultation document will be available for online completion.
- Hard copies of the consultation document will 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 citywide engagement.
- The Council will hold a number of face-to-face events throughout January at libraries and hubs across the city. These will be timed to coincide with high levels of footfall wherever possible, in order to maximise interaction with the public.
- The Council will aim to ensure that the consultation reaches seldom-heard groups by working in collaboration with Friends and Neighbours (FAN) groups.
- The Council will also work with the 50-plus forum and young people will be able to engage with the consultation through events at Cardiff's universities and colleges.

47. Further opportunities for engagement, including with Audit Committee and the Schools Budget Forum will also take place during coming months and Scrutiny Committee will review consultation proposals in early 2020. 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. Stakeholder engagement opportunities are a valuable way of informing the budget process and Cabinet's final budget proposal.

48. The Budget consultation details are attached at **Appendix 2**.

49. In summary, the specific and quantified savings proposals subject to Public consultation are shown below:

Proposals Being Consulted Upon	£000
Increase in Registration Fees	30
Increase In Burial and Cremation Fees	120
Increase in Pest Control Fees	27
Use of Technology in provision of care & support packages	100
TOTAL	277

50. In addition to public consultation where there are ongoing requirements for internal staff and trade union consultation, specifically in relation to ongoing delivery of efficiency savings, these will continue to be included

as part of the ongoing employee engagement process as described from paragraph 51.

Employee Engagement

51. A timetable for consultation and communication with trade unions and employees potentially affected by any of budget proposals is in place.
52. Through the Council's Trade Union Partnership meetings, trade unions have been consulted in advance on 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 April 2020, notwithstanding every effort being made to avoid them.
53. During the period of the consultation, employees will have the opportunity to comment on proposals that may affect them. Once the final budget is approved by Council, any employees affected will be supported. At that point, eligible employees will be given the opportunity to take voluntary redundancy or to access the redeployment process, which provide employees with a period of twelve weeks to look for alternative employment.
54. Whilst the exact number of proposed redundancies is not known at this stage, some are likely to occur. This will mean that following Cabinet on 19 December 2019 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.
55. Formal consultation with employees and trade unions will take place as part of the budget preparation work and views and comments about ways of avoiding, reducing and mitigating the consequences of the numbers of staff being made redundant e.g. by redeployment, will be considered.

Reason for Recommendations

56. To issue the 2020/21 Budget Savings Proposals for consultation, in order to provide stakeholders with the opportunity, through a range of mechanisms, to provide feedback to Cabinet. In addition, to note that the consultation will commence on 19 December 2019 and run until 31 January 2020.

Financial Implications

57. The financial implications are as described in the detail of the Report.

Legal Implications

58. Specific legal obligations relating to the setting of the budget and consultation are set out within the body of this report.
59. 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.
60. 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. 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.
61. The Well-being of Future Generations (Wales) Act 2015 requires the Council to consider how the proposals will contribute towards meeting its well-being objectives (set out in the Corporate Plan). Members must also be satisfied that the proposals comply with the sustainable development principle, which requires that the needs of the present are met without compromising the ability of future generations to meet their own needs.

HR Implications

62. The Human Resource implications are as described in the detail of the Report.

Property Implications

63. There are no property implications arising directly from this report.

RECOMMENDATIONS

Cabinet is recommend to

- (1) Note the updated Budget Position for 2020/21 at Provisional Settlement Stage.
- (2) Agree the proposed approach to Budget Consultation for 2020/21 proposals and subject to that agreement note that the formal budget consultation will commence on the 19th December 2019 and run until 31 January 2020. The results of the consultation process will then be considered by Cabinet in preparing their final 2020/21 budget proposal.

- (3) 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	CHRIS LEE Corporate Director Resources
	18 th December 2019

The following appendices are attached:

**Appendix 1 – Provisional Local Government Financial Settlement 2020/21
– Statement and Key Data Table**

Appendix 2 – Budget Consultation 2020/21 Details

The following background papers have been taken into account

- Budget Strategy Report 2020/21 and the Medium Term
- Equality Impact Assessments (EIAs) of Cardiff Councils 2020/21 Budget Savings Proposals
- WG Provisional Local Government Financial Settlement 2020/21