

THE VALE OF GLAMORGAN COUNCIL

CORPORATE PERFORMANCE AND RESOURCES SCRUTINY COMMITTEE:  
19<sup>TH</sup> DECEMBER, 2019

REFERENCE FROM ENVIRONMENT AND REGENERATION SCRUTINY  
COMMITTEE: 17<sup>TH</sup> DECEMBER, 2019

“ INITIAL REVENUE BUDGET PROPOSALS 2020/21 AND REVISED  
BUDGET 2019/20 (DEH) –

The Principal Accountant presented the report, the purpose of which was to allow the Committee to consider the Initial Revenue Budget Proposals for 2020/21 and to inform the Committee of the amended budget for 2019/20 for services which formed part of the Committee’s remit.

The Council’s budget was determined largely by the Revenue Support Grant (RSG) settlement set by the Welsh Government (WG). The provisional RSG settlement was expected to be received from WG in December 2019, with the final settlement due to be received in February 2020.

The Council was required under statute to fix the level of Council Tax for 2020/21 by 11<sup>th</sup> March, 2020 and in order to do so, would have to agree a balanced revenue budget by the same date. To be in a position to meet the statutory deadlines and the requirements for consultation set out in the Council’s Constitution, much of the work on quantifying the resource requirements of individual services needed to be carried out before the RSG settlement was notified to the Council.

Appendix 1 to the report set out the amended budget for 2019/20, together with the necessary adjustments to be made to the original budget.

The following table compares the amended budget with the projected outturn for 2019/20. Services were anticipating drawing down from reserves this year with the main areas outlined in the following table:

	<b>2019/20</b>	<b>2019/20</b>	<b>2019/20</b>	<b>Variance</b>
	<b>Original</b>	<b>Amended</b>	<b>Projected</b>	<b>(+)Favourable</b>
<b>Directorate/Service</b>	<b>Budget</b>	<b>Budget</b>	<b>Outturn</b>	<b>(-) Adverse</b>
	<b>£’000</b>	<b>£’000</b>	<b>£’000</b>	<b>£’000</b>
<b>Environment and Housing</b>				
Neighbourhood & Transport Services	25,442	25,538	27,058	-1,520

Unplanned use of reserves to fund overspend	0	0	(1,520)	+1,520
Building Services	0	0	0	0
Regeneration	2,057	2,022	2,022	0
Development Management	967	963	963	0
<b>Total</b>	<b>28,466</b>	<b>28,523</b>	<b>28,523</b>	<b>0</b>

Neighbourhood Services and Transport – This service was currently projected to have an adverse variance of £1.520m against the 2019/20 budget. The savings target for 2019/20 was £932k. Plans for saving this amount were underway and being continually monitored however several of the proposed savings had a long lead in time therefore it was currently projected that £470k of the savings target would not be achieved in 2019/20. This savings shortfall was included within the £1.520m adverse variance. Currently, there was a proposed unplanned transfer of £1.520m from reserves to cover this potential shortfall, with efforts continuing to identify further savings. The reserve had been funded by the setting aside of £2m from a one off surplus in the Policy Budget.

Within the Waste Collection Service it was anticipated that there would be an adverse variance of around £650k. There was still pressure on employee and transport budgets due to downtime involved in travelling to Cardiff to dispose of waste. Cowbridge was currently being used as a temporary transfer station for elements of recycling material with the aim of reducing this downtime however additional resource was still being utilised. There was also pressure on the budget due to the high price currently being paid to treat the Council's co-mingled recycling. The price had increased steadily over the last couple of years since China banned elements of recycling such as plastic into the country. This had been compounded by a high percentage of dry recycling collected since May 2019 being rejected by the new contractor. The rejected material had had to be sent for more expensive treatment or landfill which had cost an additional £150k from May to August 2019. Changes had been made to the collection process with the aim of ensuring the correct containers were placed on the kerbside for dry recycling therefore it was anticipated that considerably less recycling would be rejected going forward. The current service changes to enable a source separated recycling collection service were likely to require further resource in the initial period of service change however it was anticipated that this would reduce the costs currently being spent on treating recycling in the long term due to the reduced cost of treating the recycling. The rollout was being phased across the Vale from Autumn 2019 therefore the full benefit would not be achieved in 2019/20.

There was also currently a pressure of around £100k on the staffing budget at Barry Island. Due to the popularity of the resort additional resources had been utilised to maintain the expected cleanliness standards of the beach and promenade.

In addition there was a projected adverse variance against the street lighting energy budget. Although efforts had been made over previous years to turn a high percentage of street lighting to LED there had been significant increases to the cost of energy. The cost had increased by 13% in 2018/19 and now a further 9.5% in

2019/20. There was therefore a projected adverse variance of £150k against this budget.

Regeneration – This budget covered the Countryside, Economic Development and Tourism and Events functions. Although the forecast was again shown as a balanced budget at year-end, there remained concern over the long-established income targets for car parking charges and commercial opportunities within the Countryside Division, as these historic savings targets would be difficult to achieve this year if charges were not implemented. Efforts would once again be made to achieve a balanced budget at year-end, but the situation would be closely monitored.

Development Management – Fee income remained on track to achieve its target as a number of major applications had been received to date. Staff changes and short term vacancies whilst the recruitment process took place had resulted in an under spend on staff costs. In addition, the Division was also continuing to pursue the use of Planning Performance Agreements and some consultancy work along with other streams of income generation such as pre-planning application advice to help support the regulatory process, in line with 2019/20 savings targets.

As part of the Final Revenue Budget Proposals for 2019/20, a savings target of £1.076 was set for this Committee. Attached at Appendix 2 to the report was a statement detailing the projected progress against savings targets for 2019/20. It was currently projected that there would be a shortfall against the savings target of £470k.

Each savings target had been given a RAG status. Green indicated that it was anticipated that the target would be achieved in full within the year, Amber indicated that it was considered that the saving in the year would be within 20% of the target and red indicated that the saving to be achieved in year would be less than 80% of the target.

Neighbourhood and Transport Services – There was a savings target this year of £932k however, it was currently anticipated that £462k would be achieved leaving a shortfall of £470k to be identified. Work was continuing to identify schemes to close this gap. Any shortfall in 2019/20 would be offset by an amount set aside in the Neighbourhood Services reserve.

As part of these initial proposals, it had been necessary to revisit the cost pressures facing services in order to build up a complete and up to date picture of the financial position of the Council. An updated list was shown in Appendix 3 to the report. These were not shown in any order of priority. Since the production of the Medium Term Financial Plan (MTFP) the impact of additional pressures had been reviewed and were now included in the appendix. This had resulted in an increased level of cost pressures which would need to be assessed by the Budget Working Group as part of the final proposals.

There was still uncertainty regarding some of the assumptions made regarding pay costs. Pay awards for 2020/21 had not been agreed and had been included in those projections as a 2% increase.

The Council's employer pension contributions were reviewed every three years and were currently being reassessed to commence from 1<sup>st</sup> April, 2020. The final budget proposals would be amended accordingly when further clarification was received from the actuaries.

Details of the proposed areas for savings for 2020/21 to 2021/22 were attached at Appendix 4 to the report. The savings did not include the cost of any potential redundancies. Further work was ongoing to identify future projects that would realise savings for the Council via the Reshaping Service process.

A summary of the base budget for this Committee for 2020/21 was attached at Appendix 5 to the report. This had been derived by adjusting the 2019/20 budget for items such as pay inflation and unavoidable growth, but did not include identified cost pressures or savings. These were shown as a note to the table and were further detailed in Appendices 3 and 4 respectively. Adjustments shown included the following:

- Asset Rents, International Accounting Standard (IAS) 19 – Related to accounting items outside the control of services. They reflected charges to services for the use of capital assets and adjustments in respect of pensions to comply with accounting standards;
- Recharges / Transfers – Related to changes in inter-service and inter Directorate recharges;
- Pay Inflation – This figure related to pay awards for 2020/21.

Once the base budget for 2020/21 had been established, it must then be compared to the funding available to identify the extent of any shortfall.

Although the Council had not received its provisional settlement it had considered a number of scenarios as part of its MTFP which would now be updated in the context of the revised cost pressures submitted by service departments.

In Scenario 1 with a cash neutral or flat settlement, which would provide the same funding to the Council as in 2019/20 and a projected AEF of £152.07m and Council Tax reflecting a 4.9% increase and standing at £77.655m, total available funding would be £229.725m. When compared to a base budget of £230.148m, this would result in a funding shortfall for 2020/21 of £0.423m.

If all identified cost pressures were funded, this would increase the shortfall to £10.481m. If all proposed savings were achieved, the shortfall would be reduced to £8.968m.

If the Council Tax assumptions were further revised to take the Band D Council Tax in line with the Welsh Average, which reflected a 10.4% increase, the shortfall would be £4.896m.

<b>Scenario 1 Projected Budget Shortfall Cash Neutral Settlement from WG</b>	<b>2020/21</b>
Funding Available	<b>£000</b>
Provisional AEF	152,070
Council Tax (incl 4.9% Increase)	77,655
Projected Funding Available	229,725
Base Budget	231,148
Use of Reserves	(1,000)
Total Base Budget	230,148
<b>Projected Shortfall Against Base Budget</b>	<b>(423)</b>
Assume all Cost Pressures Funded	(10,058)
<b>Projected Shortfall with Cost Pressures Funded</b>	<b>(10,481)</b>
Assume all Savings Achieved (including Schools)	1,513
<b>Projected Shortfall</b>	<b>(8,968)</b>
Increase Council Tax to Welsh Average (increase to 10.4%)	4,072
<b>Projected Shortfall</b>	<b>(4,896)</b>

In Scenario 2 with a 1% reduction in Welsh Government funding settlement and a projected AEF of £150.549m and Council Tax reflecting a 4.9% increase and standing at £77.655m, total available funding would be £228.204m. When compared to a base budget of £230.148m, this would result in a funding shortfall for 2020/21 of £1.944m.

If all identified cost pressures were funded, this would increase the shortfall to £12.002m. If all proposed savings were achieved, the shortfall would be reduced to £10.489m.

Reserves were a way of setting aside funds from budgets in order to provide security against future levels of expenditure and to manage the burden across financial years. Funds no longer required may be transferred to the Council Fund and then set aside for other purposes or used to reduce Council Tax.

The Council had always taken a prudent approach with regard specific reserves and used them to mitigate known risks (financial and service) and contingent items, e.g. Insurance Fund. Other reserves had been established to fund Council priorities, e.g. Neighbourhood Services and the Capital Programme. This was important as the Council had limited capacity to realise sufficient sums from the sale of assets for

capital investment. Sums had also been set aside to assist in budget management, e.g. Early Retirement Fund.

The Council Fund Reserve as at 31<sup>st</sup> March, 2020 was projected to stand at £15.636m. There was also a £1m approved use of this reserve in 2020/21. This contribution would be further considered by the Budget Working Group (BWG) when setting the 2020/21 budget, however, use of this reserve to balance the revenue budget would result in a higher level of savings being required in future years. The Section 151 Officer currently believed that the minimum balance on the Council Fund Reserve should be no less than £7m. This was considered sufficient to cover unforeseen expenditure whilst, in the short term, maintaining a working balance. Unforeseen expenditure could be substantial and several instances could occur in a year. Whilst there was no set requirement for the minimum level for the Council Fund Reserve, some commentators used 5% of the net budget as a guide. For the Vale this was around £11m. However, in view of the prudent approach the Council took with regard to specific reserves, £7m was considered a reasonable minimum.

The Council presently benefitted from a reasonable level of reserves, however, they were not inexhaustible and had taken years of careful financial management to develop to their current level. As part of the usual Budget process, an examination of the level of reserves was undertaken to ascertain their adequacy and strategy for use. A view to their level (i.e. whether the amount held in the fund was sufficient to requirements) and purpose (i.e. whether the need to hold the fund was still relevant) had been taken. The requirement for each specific reserve had also been considered in light of the Council's priorities and at this stage of the budget process no transfers between reserves were proposed.

Appendix 6 to the report set out the Committee's actual reserves as at 31<sup>st</sup> March, 2019 and showed the estimated reserves balance for each year up to 31<sup>st</sup> March, 2023.

The Council was planning to use a considerable amount of its specific reserves over the coming years, however, as reserves were a non-recurring means of funding, they could only be used as part of a specific financial strategy. The use of all reserves would be reviewed further, by the BWG, as part of the final budget setting process.

If the Council Tax assumptions were further revised to take the Band D Council Tax in line with the Welsh Average which reflected a 10.4% increase, the shortfall would be £6.417m.

<b>Scenario 2</b>	<b>2020/21</b>
<b>Projected Budget Shortfall</b>	
<b>1% Reduction in WG Settlement</b>	
	<b>£000</b>
Funding Available	
Provisional AEF	150,549
Council Tax (4.9% Increase)	77,655
Projected Funding Available	228,204

Base Budget	231,148
Use of Reserves	(1,000)
Total Base Budget	230,148
<b>Projected Shortfall Against Base Budget</b>	<b>(1,944)</b>
Assume all Cost Pressures Funded	(10,058)
<b>Projected Shortfall with Cost Pressures Funded</b>	<b>(12,002)</b>
Assume all Savings Achieved (including Schools)	1,513
<b>Projected Shortfall</b>	<b>(10,489)</b>
Increase Council Tax to Welsh Average (increase to 10.4%)	4,072
<b>Projected Shortfall</b>	<b>(6,417)</b>

A 1% increase in Council Tax at the 2019/20 Council Tax base equated to £740k. The level of increase in Council Tax would need to be carefully considered in parallel with the other options available to the Council in order to reduce the funding gap and to consider the impact on the residents of the Vale. As the population in the Vale of Glamorgan had increased from the previous year there may also be additional funding from the change in the Council Tax base.

Further work would be undertaken by the BWG in order to achieve a balanced budget for the final budget proposals for 2020/21. This would include a review of the use of reserves, a review around an increase in Council Tax, a review of all cost pressures, possible changes to the approved saving targets, a review of the inflation assumptions and the current financial strategies.

The BWG would consider the results of the budget engagement process in determining priorities for future savings and service delivery and the possible increase in Council Tax.

The next stage was for the estimates to be submitted to Scrutiny Committees for consultation. Committees were asked to review the level of cost pressures with a view to suggesting ways in which these could be managed downwards and/or mitigated and to consider proposals for savings. Corporate Performance and Resources Scrutiny Committee was the lead Scrutiny Committee and would consider both the Initial Revenue Budget Proposals and any recommendations that other Scrutiny Committees had made. The responses of Scrutiny Committee must be made no later than 19<sup>th</sup> December, 2020.

The BWG would hold a series of meetings in November and December 2019 with the relevant Cabinet Members and officers to consider the budget proposals and they would submit their recommendations so that the Cabinet may make its final

budget proposal. Before making its recommendation, the BWG would consider the comments made by Scrutiny, together with the results of consultation. The final proposals to Cabinet would include a review of the financial strategies required to achieve a balanced budget, which was sustainable in future years. Currently, the approved timetable required Cabinet to approve the final budget proposals by no later than 3<sup>rd</sup> February, 2020 and that Cabinet's final budget proposals would be considered by Council at a meeting to be held 24<sup>th</sup> February, 2020 to enable the Council Tax to be set by 11<sup>th</sup> March, 2020.

The Principal Accountant advised that since the report had been published Welsh Government had outlined its draft budget settlement, which indicated that the Council's budget for 2020/21 would potentially see an increase of 4.9%. This equated to an extra £7.5m on top of the Council's budget for 2019/20. The Principal Accountant stated that the Council was still looking at all information and detail from Welsh Government as some grant money may have been curtailed. Therefore, the amount allocated for 2020/21 was different to the two model scenarios set out in the report. The Chairman stated, that the 4.9% was good news, and that further work was underway on the budgets but as it was early stages the Council would not have a complete picture.

A Committee Member asked a series of questions. The first was in relation to waste collection and an increase in Council Tax due to the increase in the number houses. In reply, the Head of Neighbourhood Services and Transport advised that although the Council would receive an increase in Council Tax this did not necessarily mean a direct increase to the amount allocated for the collection of household waste. This was why there had been a bid for extra funding.

The Members second query was in relation to savings, and the Member asked for examples of projects that had a 'long lead in time'. In response, officers advised that examples would be Third-Party Spending on external contracts, the Toilet Strategy and the revised Parking Policy.

The third query was in relation to how successful the Reshaping Services programme had been. In reply, the Head of Neighbourhood Services and Transport stated within her service area there had been a number of successful projects, such as the restructure of Visible Services, how the Council undertook grass cutting, transfer of bowling greens and the review of procurement. A lot of hard work had been undertaken and it was recognised that there was still a lot more to do, particularly in relation to Community Asset Transfers.

A Committee Member queried the additional £100k for Barry Island, and he asked how much of a percentage increase did this represent. In reply, the Head of Neighbourhood Services and Transport stated that the extra money was needed due to the increased popularity of the resort, which had meant that there was extra litter picking and cleaning to undertake. The increase in popularity and been seen over the past 3 to 4 years, and the extra £100k represented a 25% increase on last year's budget. The Council would also look at how it could raise income through concessions. In relation to parking at Barry Island, a Committee Member stated that a multi-storey car park was needed. The Head of Regeneration and Planning stated that it should not be forgotten that Barry Island had its own train station, which was



the busiest in Barry. The use of cars was not the future, so the Council had to look at alternatives.

The Chairman in coming back to the additional money from Welsh Government for 2020/21 stated that cost pressures would still remain, as the Directorate had been under financial pressure for some years. She suggested that this should be raised with Corporate Performance and Resources Scrutiny Committee. This was agreed by the Committee.

RECOMMENDED –

T H A T the Corporate Performance and Resources Scrutiny Committee recommend to Cabinet, that despite the indicative budget increase of 4.9% for 2020/21 from Welsh Government, that it be noted that the cost pressures for Environment and Housing will still remain and need to be fully considered.

Reason for recommendation

To highlight the significant cost pressures within Environment and Housing.”