

The Vale of Glamorgan Council

Homes and Safe Communities Scrutiny Committee: 5th December 2018

Report of the Director of Environment and Housing

Initial Revenue Budget Proposals 2019/20 and Revised Budget 2018/19

Purpose of the Report

1. To submit for consultation the initial revenue budget proposals for 2019/20 and to inform Scrutiny Committee of the amended original budget for 2018/19 for services which form part of this Committee's remit.

Recommendations

It is recommended that:

1. The amended revenue budget for 2018/19 as set out in Appendix 1 be noted.
2. The initial revenue budget proposals for 2019/20 be considered and any recommendations, including those relating to cost pressures and savings, be passed to the Corporate Performance and Resources Scrutiny Committee as the lead Scrutiny Committee.

Reasons for the Recommendations

1. To advise Committee of amendments to the 2018/19 budget.
2. In order that Cabinet be informed of the recommendations of Scrutiny Committees before making a final proposal on the budget.

Background

2. The Council's budget is determined largely by the Revenue Support Grant (RSG) settlement set by the Welsh Government (WG). The provisional RSG settlement was received from WG on 9th October 2018, with the final settlement due to be received on 19th December 2018.
3. The Council is required under statute to fix the level of Council Tax for 2019/20 by 11th March 2019 and in order to do so, will 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 needs to be carried out before the final RSG settlement is notified to the Council.

Revised Budget 2018/19

4. Appendix 1 to this report sets out the amended budget for 2018/19 for this Committee, together with the necessary adjustments to be made to the original budget.
5. Asset Rents, International Accounting Standard (IAS) 19, Transfers and Recharges - These adjustments have no overall effect on the net budget of the Council. These are accounting adjustments largely outside the control of services. They reflect charges for the use of capital assets, changes to inter-service recharges and transfers and pensions adjustments to comply with accounting standards.
6. Currently the Council Tax Reduction Scheme is included under the Private Housing heading. Due to changes in guidance received from the Wales Audit Office, the Council has been asked to report this scheme under the central Policy heading. A virement of £9.94m is therefore required and this change is included in Appendix 1 which shows the revised budget for 2018/19 and Appendix 4 which shows the base budget for 2019/20.

The following table compares the amended budget with the projected outturn for 2018/19.

	2018/19 Original Budget £'000	2018/19 Amended Budget £'000	2018/19 Projected Outturn £'000	Variance (+)Favourable (-) Adverse £'000
Directorate/Service				
Youth Offending Service	728	692	692	0
Regulatory Services	2,239	2,112	2,112	0
Council Fund Housing	1,383	1,382	1,382	0
Private Housing	11,003	1,058	1,058	0
Total	15,353	5,244	5,244	0

7. Youth Offending Service - It is anticipated that this service will outturn on target at year end.
8. Regulatory Services - The allocation represents the Vale of Glamorgan's budget for its share of the Shared Regulatory Service (SRS). A separate set of accounts is maintained for the SRS and periodically reported to the Shared Regulatory Service Joint Committee. At this stage in the year it is anticipated that the SRS will outturn on target.
9. Council Fund Housing - At this stage of the year, it is anticipated that this budget will outturn on target.
10. Private Housing - The income from Disabled Facility Grants (DFG) fees remains behind profile as at 30th September, due mainly to a reduction in applications coming through for DFG adaptations, hence capital expenditure has reduced and consequently agency fee income to revenue is also lower. This puts pressure on the revenue budget where fee income targets may not be achieved. There is very little

scope to actively reduce expenditure to mitigate this position, however there has recently been an indication of an upturn in demand. As such, should there be an overspend at year-end and the budget for the division cannot be balanced, the shortfall could be funded from reserves.

Savings 2018/19

11. As part of the Final Revenue Budget Proposals for 2018/19, a savings target of £6.298m was set for the Authority. Attached at Appendix 2 is a statement detailing the projected progress against savings targets for 2018/19 for this Committee.
12. Each savings target has been given a RAG status. Green indicates that it is anticipated that the target will be achieved in full within the year, amber indicates that it is considered that the saving in the year will be within 20% of the target and red indicates that the saving to be achieved in year will be less than 80% of the target.
13. It is anticipated that all savings will be achieved this year for this Committee.

Budget Strategy 2019/20

14. Cabinet approved the Budget Strategy for 2019/20 on the 16th July 2018, min no. C366.
15. The Budget Strategy for 2019/20 outlines that in order to establish a baseline, services should prepare initial revenue budgets based on the cost of providing the current level of service and approved policy decisions and including the existing savings target.
16. Increases to budgets approved during the course of a financial year can restrict the freedom the Council has to allocate its resources to priorities during the following budget cycle when it is aware of all the competing demands. Consequently:
 - Supplementary estimates will only increase the base budget if Council has given specific approval to this effect. Increases met by virement within a year will not be treated as committed growth.
 - Directors should find the cost of increments and staff changes from their base budget unless the relevant specific approval has been given for additional funding.
 - The effect of replacing grant from outside bodies that has discontinued will not be treated as committed growth. In addition, before any project or initiative that is to be met either wholly or partly by way of grant may proceed, the exit strategy must be approved.
 - Certain items of unavoidable committed growth will continue and these include the effect of interest changes and the financing cost of the Capital Programme, increases in taxes, increases in levies and precepts charged by outside bodies and changes to housing benefits net expenditure.
 - Services will be expected to achieve savings already approved by Cabinet as part of the 2018/19 final budget proposals and Directors are asked to continue work on achieving their Reshaping Services savings targets.
 - It is envisaged that the costs of service development will need to be met from within the respective directorates.
17. Having regard to the above, it is therefore proposed in respect of the 2019/20 Budget Process that Directors be instructed to prepare initial revenue budgets in accordance with a timetable agreed by the Head of Finance. Preparation should be on the following basis:

- Capital charges, central accommodation costs and central support costs to be estimated centrally.
- Services to prepare baseline budgets on current service levels as set out in the 2018/19 Final Revenue Budget report.
- Budgets to be broken down subjectively and objectively in as much detail as deemed appropriate by the Head of Finance.
- Budget reports to include revised estimates for 2018/19.
- Full account to be taken of the revenue costs, other than debt charges, of new capital schemes coming into use.
- Minimum savings targets to be met initially as detailed in the 2018/19 Final Revenue Budget report. Any savings made directly by services over and above individual service targets to count towards future saving targets or to meet unavoidable service cost pressures.
- Directors will continue to draw up Service Plans that set out the aims and objectives for the service and any possible future developments and efficiencies.
- As stated previously, it is expected that the revenue costs of service development will need to be met from within the respective services (in particular, from the savings made). As such, no revenue bids are initially to be made. However, services may still be asked to identify and prioritise any burgeoning revenue cost pressures for consideration.

Medium Term Financial Plan

18. The Medium Term Financial Plan (MTFP) 2018/19 to 2021/22 was presented to Cabinet on 17th September 2018 min no. C411.
19. It assumed a reduction in WG funding of 1% for the years 2019/20, 2020/21 and 2021/22. This resulted in the requirement to find savings of £15.714m over this period, with £3.627m currently having been identified. There was therefore further savings to be identified of £12.087m over the 3 year period.
20. The latest Plan factored in a managed level of cost pressures, a notional increase in Council Tax of 2.5% each year, projected annual pay awards and limited non pay inflation.

Provisional Settlement 2019/20

21. The Council's provisional settlement was announced by WG on 9th October 2018. The Council is currently in the process of responding to the provisional settlement and a report is being presented to Corporate Performance and Resources Scrutiny Committee which outlines a suggested response, with a reference to Cabinet for consideration on 19 November 2018.
22. WG has advised the Council that its provisional SSA (Standard Spending Assessment) for 2018/19 is £226.748m. SSA represents WG's view of the relative resources needed to provide a standard level of service in each Local Authority in Wales and its primary use is to allocate RSG to these Authorities.
23. The Council will receive from WG Revenue Support Grant of £110.163m and a share of the Non- Domestic Rates (NDR) of £41.76m. Together these figures constitute the Council's provisional Aggregate External Finance (AEF) of £151.923m. This represents a cash reduction of 0.7% (£1.037m) for 2019/20 after taking into account

adjustments. This is a slightly smaller reduction than the 1% (£1.524m) projected in the MTFP, although it does not take into account inflation. Wales as a whole has seen a decrease of 0.3%.

24. As part of the 2018/19 settlement, WG had also provided an indicative figure for the change in AEF for 2019/20 as a further reduction of 1%. No indicative figure has currently been provided for 2020/21.
25. On 29th October 2018, as part of the Chancellor's Autumn Budget, over £550 million of additional funding was confirmed for the Welsh Government through to 2020/21. Details of whether any of this funding will be provided to Local Government and if so when and in what form, is currently unknown.

2019/20 Initial Budget Proposals

26. As part of these initial proposals, it has 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 and an updated list for this Committee is shown in Appendix 3.
27. Further work is ongoing to identify future projects that will realise savings for the Council via the Reshaping Service Tranche 4 process.
28. A summary of the overall base budget for 2019/20 for this Committee is attached at Appendix 4. This has been derived by adjusting the 2018/19 budget for items such as pay inflation and unavoidable growth, but does not include identified cost pressures or savings. These are shown as a note to the table. Adjustments shown include the following :
 - Asset Rents, International Accounting Standard (IAS) 19 - Relates to accounting items outside the control of services. They reflect charges to services for the use of capital assets and adjustments in respect of pensions to comply with accounting standards.
 - Recharges/Transfers - Relates to changes in inter-service and inter Directorate recharges. It also includes the transfer of the £9.94m Council Tax Reduction Scheme budget from Private Housing to Policy.
 - Pay Inflation - This figure relates to pay awards for 2019/20. The projection is based on the preferred option included in the report that was approved by Cabinet on 17th September 2018 and is currently being consulted upon. Any further update will be included as part of the Final Budget Proposals report. Currently due to the level of the projected shortfall no non pay inflation has been included for 2019/20.
29. Once the base budget for 2019/20 has been established, it must then be compared to the funding available to identify the extent of any shortfall. With a projected AEF of £151.923m and Council Tax at a current level of £69.573m, total available funding would be £221.496m. When compared to a base budget of £226.416m, this would result in a funding deficit for 2019/20 of £4.920m.

If all identified cost pressures were funded, this would increase the shortfall to £14.164m. If all proposed savings were achieved, the shortfall would be reduced to £10.420m.

Projected Budget Shortfall	2019/20
	£000
Funding Available	
Provisional AEF	151,923
Council Tax (Assumes no increase) *	69,573
Projected Funding Available	221,496
Base Budget	226,416
Projected Shortfall Against Base Budget	4,920
Assume all Cost Pressures Funded	9,244
Projected Shortfall with Cost Pressures Funded	14,164
Assume all Savings Achieved (including Schools)	(3,744)
Projected Shortfall	10,420

* This assumes no increase in Council Tax at this stage.

30. This shortfall above does not include any increase in Council Tax. A 1% increase in Council Tax equates to £696k. The following table shows the funding that could be raised from a range of Council Tax increases. The level of increase in Council Tax will 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.

Examples of Council Tax Increase %	Additional Funding Raised £000
2.5%	1,740
3%	2,088
3.5%	2,436
4%	2,784
4.5%	3,132
5%	3,480
5.5%	3,828
6.0%	4,176

31. The shortfall above is also based on the assumption that the savings target of £3.744m set for 2019/20 will be achieved in full. However, a high proportion of these savings relate to Reshaping Services schemes which reflect a new way of working and therefore require a lengthy period of time to implement. While all services are working towards achieving their 2019/20 targets, not all savings will be achieved in

full for 2018/19. The potential for re-profiling savings will need to be assessed when setting the budget for 2019/20.

32. Further work will be undertaken by the Budget Working Group (BWG) in order to achieve a balanced budget for the final budget proposals for 2019/20. This will include a review of the use of reserves, a possible 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.
33. The BWG will consider the results of the budget engagement process in determining priorities for future savings and service delivery.
34. The BWG will also ensure that budget proposals consider the requirements of the Well-being of Future Generations Act and the Council's 4 well-being outcomes as detailed in the Corporate Plan. They will also ensure that the budget proposals reflect the 5 ways of working which are:-
 - Looking to the long term: The budget proposals are a means of planning for the future and should take a strategic approach to ensure services are sustainable and that future need and demand for services is understood.
 - Taking an integrated approach: The budget proposals should consider and encourage ways of working with partners.
 - Involving the population in decisions : As part of the budget proposal process there will be engagement with residents, customers and partners.
 - Working in a collaborative way: The budget proposals should recognise that more can be achieved and better services can be provided by collaboration and this way of working in the future should be encouraged.
 - Understanding the root cause of issues and preventing them: The budget process is proactive and will allow an understanding of the financial position so that issues can be tackled at the source during the process.

Next Steps

35. The next stage is for the estimates to be submitted to Scrutiny Committees for consultation. Committees are 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 is the lead Scrutiny Committee and will consider both the Initial Revenue Budget Proposals and any recommendations that other Scrutiny Committees have made. The responses of Scrutiny Committee must be made no later than the 13th December 2018.
36. The BWG held a series of meetings in November 2018 with the relevant Cabinet Members and officers to consider the budget proposals and they will submit their recommendations so that the Cabinet may make its final budget proposal. Before making its recommendation, the BWG will consider the comments made by Scrutiny, together with the results of consultation. The final proposals to Cabinet will include a review of the financial strategies required to achieve a balanced budget, which is sustainable in future years. Currently, the approved timetable requires Cabinet to approve the final budget proposals by no later than 18th February 2019 and that Cabinet's final budget proposals will be considered by Council at a meeting to be held on 27th February 2019 to enable the Council Tax to be set by 11th March 2019.

Resource Implications (Financial and Employment)

37. Based on the assumption that all cost pressures will be funded in full, the estimated funding shortfall for 2019/20 will be £14.164m assuming no increase in Council Tax.
38. WG has not issued details regarding the level of funding post 2019/20, however, it is anticipated that there will be further reductions in funding for Local Government going forward. It is therefore important that Directors achieve approved savings and look to mitigate further cost pressures through alternative means of service delivery and collaborative ventures.
39. Reserves are 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.
40. The Council has always taken a prudent approach with regard to specific reserves and uses them to mitigate known risks (financial and service) and contingent items, e.g. Insurance Fund. Other reserves have been established to fund Council priorities. This is important as the Council has limited capacity to realise sufficient sums from the sale of assets for capital investment. Sums have also been set aside to assist in budget management. The Housing Revenue Account Reserve is ring-fenced to Housing and will be used to fund improvements to the Council's housing stock.
41. The Council Fund Reserve as at 31st March 2019 is projected to stand at £13.634m. The possible use of this reserve will be considered by the BWG when setting the 2019/20 budget, however, use of this reserve to balance the revenue budget will result in a higher level of savings being required in future years. The Section 151 Officer currently believes that the minimum balance on the Council Fund Reserve should be no less than £7m. This is considered sufficient to cover unforeseen expenditure whilst, in the short term, maintaining a working balance. Unforeseen expenditure can be substantial and several instances can occur in a year. Whilst there is no set requirement for the minimum level for the Council Fund Reserve, some commentators use 5% of the net budget as a guide. For the Vale this is about £11m. However, in view of the prudent approach the Council takes with regard to specific reserves, £7m is considered a reasonable minimum.
42. The Council presently benefits from a reasonable level of reserves, however, they are not inexhaustible and have 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 is undertaken to ascertain their adequacy and strategy for use. A view to their level (i.e. whether the amount held in the fund is sufficient to requirements) and purpose (i.e. whether the need to hold the fund is still relevant) has been taken. The requirement for each specific reserve has also been considered in light of the Council's priorities and at this stage of the budget process no transfers between reserves are proposed.
43. Appendix 5 sets out actual reserves relating to this Committee as at 31st March 2018 and shows the estimated reserves balance for each year up to 31st March 2022.
44. The Council is planning to use a considerable amount of its specific reserves over the coming years, however, as reserves are a non-recurring means of funding, they can only be used as part of a specific financial strategy. The use of all reserves will be reviewed further, by the BWG, as part of the final budget setting process.

45. Not all the savings required to meet the shortfall in funding will result in a reduction in staffing. Although the impact on individuals is likely to be mitigated as a result of natural wastage and the deletion of vacant posts, it is, nevertheless, expected that there will be a number of redundancies. The Trade Unions will be consulted on the details of any possible redundancies once known. Staffing implications relating to budget pressures within schools, will need to be considered by individual governing bodies.

Sustainability and Climate Change Implications

46. The promotion of sustainability and action to arrest climate change is central to the work of the Council and a key consideration when allocating scarce resources to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Legal Implications (to Include Human Rights Implications)

47. The Council is required under statute to fix its Council Tax by 11th March 2019 and in order to do so will have to agree a balanced revenue budget by the same date.

Crime and Disorder Implications

48. The obligations of the Council with regard to Section 17 of the Crime and Disorder Act 1998 needs to be fully considered in the budget decision making process.

Equal Opportunities Implications (to include Welsh Language issues)

49. These initial budget proposals have due regard to the requirements of the Council's Strategic Equality Plan including the Equalities Act 2010 and Public Sector Equality Duty for Wales. The subsequent development of individual strategies for achieving savings will require the completion of Equality Impact Assessments. This involves systematically assessing the likely (or actual) effects of policies on individuals who have a range of protected characteristics under the Act.

Corporate/Service Objectives

50. Funds allocated in the budget contribute to the wide range of Corporate/Service Objectives as set out in the Corporate Plan.

Policy Framework and Budget

51. This report is following the procedure laid down in the Constitution for the making of the budget and so does not need to be referred to Council at the proposal stage. However, the final 2019/20 budget will require the approval of full Council.

Consultation (including Ward Member Consultation)

52. The Corporate Management Team has been consulted on this report. The initial budget proposals will be the subject of consultation with Scrutiny Committees. The Trade Unions and Schools Forum will also be consulted.

Relevant Scrutiny Committee

53. The lead Scrutiny Committee is Corporate Performance and Resources.

Background Papers

Medium Term Financial Plan 2018/19 to 2021/22
Budget Strategy 2019/20

Contact Officer

Carolyn Michael
Operational Manager - Accountancy

Officers Consulted

Corporate Management Team

Responsible Officer:

Miles Punter
Director of Environment and Housing

AMENDED BUDGET 2018/19

APPENDIX 1

	2018/19 ORIGINAL AMENDED BUDGET	ASSET RENTS, IAS19, TRANSFERS & RECHARGES	2018/19 AMENDED BUDGET
	£,000	£,000	£,000
Youth Offending Service	728	(36)	692
Regulatory Services	2,239	(127)	2,112
Council Fund Housing	1,383	(1)	1,382
Private Housing	11,003	(9,945)	1,058
COMMITTEE TOTAL	15,353	(10,109)	5,244

Title of Saving	Description of Saving	Target Saving £000	Projected Saving	RAG Status	Update Comments, Issues & Actions	Relevant Scrutiny Committee	Project Manager
<u>Youth Offending Service</u>							
Reshaping Tranche 3 - Procurement	More efficient and effective procurement of goods and services	1	1	Green	Savings allocated and will be achieved in-year	Homes and Safe Communities	Rachel Evans
Total Youth Offending Service		1	1	Green	100%		
<u>Council Fund Housing</u>							
Reshaping Tranche 3 - Procurement	More efficient and effective procurement of goods and services	12	12	Green	Savings allocated and will be achieved in-year	Homes and Safe Communities	Mike Ingram
Reshaping Tranche 3 - Establishment Review	Review of various payments to staff and efficient utilisation of staff	9	9	Green	Savings allocated and will be achieved in-year	Homes and Safe Communities	Mike Ingram
Total Council Fund Housing		21	21	Green	100%		
<u>Private Housing</u>							
Reshaping Tranche 3 - Procurement	More efficient and effective procurement of goods and services	3	3	Green	Savings allocated and will be achieved in-year	Homes and Safe Communities	Marcus Goldsworthy
Reshaping Tranche 3 - Establishment Review	Review of various payments to staff and efficient utilisation of staff	4	4	Green	Savings allocated and will be achieved in-year	Homes and Safe Communities	Marcus Goldsworthy
Total Private Housing		7	7	Green	100%		
COMMITTEE TOTAL		29	29	Green	100%		

Green = on target to achieve in full

Amber = forecast within 20% of target

Red = forecast less than 80% of target

No.	Service	<u>2019/20</u> £'000	<u>2020/21</u> £'000	<u>2021/22</u> £'000
	Private Housing			
R3	Homes Loan Officer - Key post, only funded until 31st March 2019. Delivering against performance indicator feeding into Council performance. Loss of post will lead to lack of direction and policy drift and almost certainly a drop in performance when compared to neighbouring authorities.	37	0	0
	COMMITTEE TOTAL	37	0	0

BASE BUDGET 2019/20**APPENDIX 4**

	Original Budget 2018/19 £'000	Asset Rents/ IAS 19 £'000	Original Budget 2018/19 £'000	Rechgs/ Transfs £'000	Pay Inflation £'000	Base Estimate 2019/20 £'000
Youth Offending Services	728	(16)	712	(6)	14	720
Regulatory Services	2,239	1	2,240	(96)	0	2,144
Council Fund Housing	1,383	(23)	1,360	(3)	27	1,384
Private Housing	11,007	(8)	10,999	(9,844)	10	1,165
COMMITTEE TOTAL	15,357	(46)	15,311	(9,949)	51	5,413

	Savings Applied £'000	Cost Pressures £'000
Youth Offending Services	0	0
Regulatory Services	0	0
Council Fund Housing	0	0
Private Housing	0	37
COMMITTEE TOTAL	0	37

ANALYSIS OF RESERVES

Name	Bal	In	Out	Est	Comments	Est	Est	Est
	31/03/18			Bal		Bal	Bal	Bal
	£000	£000	£000	£000		£,000	£,000	£,000
<u>Housing Revenue Account</u>	775	77	0	852	The fund is ring fenced by statute for use by the Housing Revenue Account (HRA). As well as acting as a working balance for the HRA, it is also used to fund repairs and the capital programme.	873	891	908
<u>Specific Reserves</u>								
Youth Offending Service	174	0	0	174	To assist with potential reductions in grant funding in future years and to carry out works at YOS building	174	174	174
Rural Housing Needs	56	0	-12	44	To be used to fund Rural Enabler post.	32	20	8
Homelessness and Housing	522	0	0	522	This sum will be used to support homelessness prevention work.	465	423	381
Community Safety	37	0	0	37	To fund community safety initiatives.	37	37	37
Gypsy Traveller	1,059	0	0	1,059	Provision of Gypsy/Traveller site and Gypsy Liaison Officer.	1,059	1,059	1,059
Regulatory Improvements	282	0	-20	262	Monies set aside for Regulatory Services issues and to be used for any future issues arising from the shared services collaboration.	262	262	262
Disabled Facilities	31	0	-31	0	To fund an Occupational Therapist within Disabled Facilities Grant team.	0	0	0
Temporary Empty Homes Officer	2	0	-2	0	To be used to fund an Empty Homes Officer.	0	0	0
Private Sector Housing	284	0	-65	219	To fund initiatives for Private Sector Housing, including an Occupational Therapist within the DFG team.	134	49	0
COMMITTEE TOTAL	2,447	0	-130	2,317		2,163	2,024	1,921