# Report

## Council

**Part 1**

Date: 27 February 2018

Item No:

## Subject 2018/19 Budget and Medium Term Financial Plan

**Purpose** To agree the council's council tax increase for 2018/19 and resulting total net revenue budget, the council tax resolution, 2018/19 capital budget, the council's treasury management strategy, investment strategy, minimum revenue provision policy and prudential indicators as recommended by Cabinet on 14 February 2018.

**Author** Head of Finance

**Ward** General


**Summary** Following recommendation by Cabinet, the Council needs to make decisions on:

- the level of council tax, resulting total net revenue budget and capital budget;
- the council's treasury management and investment strategies; and
- minimum revenue provision policy and prudential indicators.

Cabinet met on the 14 February and finalised detailed budget recommendations plus the various treasury management strategies and policies outlined above. This paper sets out the overall 2018/19 budget, resulting service cash limits, council tax increase and recommendations for the council's general reserve and contingencies. An increase in council tax of 4.8% (£1,057.14 per annum at Band D) for Newport City Council is recommended.

The Cabinet have built on the medium term financial plan (MTFP) approved last March and approved further savings to meet the increased financial challenges facing the council. The programmes are included within the MTFP (appendix 6).

Based on the key priorities set out in the Corporate Plan, Cabinet has taken a strategic and medium term view and agreed all investment and saving proposals over the life of the current MTFP, together with next five year capital programme.


**Section:**

**Appendix:**

| | |
|---|---|
| Appendix 1 | Service area draft budgets |
| Appendix 2 | Precepts and council tax |
| Appendix 3 | Council tax resolution |
| Appendix 4 | Capital programme and budget 18/19 to 2022/23 |
| Appendix 5 | Treasury management strategy and Prudential Indicators |
| Appendix 6 | Medium term financial plan (MTFP) |
| Appendix 7a | Financial resilience snapshot |
| Appendix 7b | Projected earmarked reserves |

## Proposal

Council is asked:

**Revenue budget and Council Tax 18/19 (paragraphs 2-8)**

1 To note that an extensive consultation exercise has been completed on the medium term change and efficiency programme, including the 2018/19 budget proposals. Cabinet have taken these into account in recommending final details of the programme and the resulting 2018/19 overall revenue budget to Council;

2 To note the Head of Finance's recommendations that minimum general fund balances be maintained at £6.5million, the confirmation of the robustness of the overall budget underlying the proposals, and the adequacy of the general reserves in the context of other earmarked reserves and a general revenue budget contingency of c£1.5million and People services specific budget contingency of £2.2m;

3 To consider and approve a council tax increase for Newport City Council of 4.8%, a Band D tax of £1,057.14; and resulting overall revenue budget shown in appendix 1;

4 To approve the formal council tax resolution, included in appendix 3 which incorporates The Police and Crime Commissioner for Gwent and Community Council precepts.

**Capital Programme and 2018/19 budget (paragraph 9)**

5 To approve the new five year capital programme and 2018/19 capital budget. Detail contained in appendix 4.

**Treasury Management and Investment strategies, Minimum Revenue Provision Policies and Prudential Indicators (paragraph 10)**

6 To approve treasury management policies in line with the detail contained in appendix 5;

7 To approve the annual investment strategy in line with the detail contained in appendix 5;

8 To approve the Council's counterparty list (external bodies for council investments) in line with the detail contained in appendix 5;

9 To approve the prudential indicators in line with the detail contained in appendix 5;

10 To approve the minimum revenue provision policy in line with the detail contained in appendix 5;

**Medium Term Financial Plan and Capital programme (paragraphs 2 – 4 and 9)**

11 To note the MTFP and the challenging financial climate over the medium term;

12 To note Cabinets approval of the implementation of the full four year change and efficiency programme, including all budget investments and saving options, as summarised within the medium term financial plan (appendix 6) and the new capital programme (appendix 4). Noting they are subject to on-going review and updating.

## Action by

Head of Finance – 2018/19 council tax billing and detailed budgets to be prepared in line with recommendation.

## Timetable

Immediate

This report was prepared after consultation with:

- Chief Executive
- Strategic Directors
- Head of Law and Regulation
- Head of People & Business Change

## Signed

# 1 Our financial challenge

1.1 The Council provides over 800 services, for over 147,800 people, living in over 65,000 households. Newport's population is growing, with the largest growth for children under five, and people aged over 65. The Council also provides employment for over 6,000 people.

1.2 Financial pressures and demands on services are increasing due to:

- Ageing population
- Increases in demand led services
- Care for the elderly and children
- Schools funding
- National Minimum Wage
- Inflationary costs

1.3 Over the last five years, the council has made savings of £41m. To achieve this, it has:

- reduced the number of staff employed by around one quarter
- sold land, buildings and property no longer needed
- set up a property services joint venture
- set up a charitable trust for leisure services
- reviewed services to become more efficient
- developed shared services such as IT
- helped people to live independently

However, ongoing public sector austerity measures, coupled with continuing financial pressures and demands mean that even more savings must still be found, as shown in the MTFP.

## Setting the budget

1.4 There are two main elements to the council's financial planning:

- strategic planning: the medium term financial plan (MTFP)
- within that, the annual council budget.

1.5 The Council is required by law to set a balanced budget every year. At the same time, the medium term financial plan (MTFP) is reviewed and updated to help plan savings and investments across the next four years. For a number of years, the Council has faced continued financial pressures together with reducing funding allocations, so has had to find savings to meet the funding gap between the income received through grants and council tax collection, and expenditure on the wide variety of services provided.

1.6 To meet this gap, in putting together the budget proposals each year, reviews are made of:

i) budget commitments (both investments and savings) agreed in the MTFP last year
ii) new areas in need of investment and growth
iii) new proposals for savings and efficiencies
iv) new proposals on fees and charges

1.7 The Council is required to approve an overall budget and resulting council tax level for 2018/19. The proposed budget is included within appendix 1 and Cabinet are responsible for the detailed spending plans associated with this budget. The revenue budget is based on detailed proposals reported to Cabinet on 14 February 2018 and shared with Members via the councils Scrutiny Committees in January 2018. The detailed proposals can be found appended to the Cabinet agenda Budget investments (weblink) and Budget savings (weblink).

### A ‘joined up approach’

1.8 As in prior years, and in line with best practice for the budget setting process, Council is asked to consider the key budget issues collectively and:

- approve the 2018/19 revenue budget and resulting council tax to the Council;
- approve the five year capital programme and 2018/19 capital budget;
- approve the council’s treasury management and investment policies, plus its prudential indicators.

1.9 Council should note that Cabinet continues to take a strategic and medium term view and approve the implementation of the council’s four year change and efficiency programme, including all budget investments and saving options as summarised within the MTFP and the capital programme. Noting that these plans are subject to ongoing review and updating.

1.10 A key part in considering and agreeing the annual budget and MTFP is a consideration of key financial resilience issues and how the budget deals with its improvement plans and risks. These were considered in detail by Cabinet on 14 February and are outlined below in this report for Council.

## 2 The Medium Term Financial Plan

2.1 The Council approved a new Corporate Plan which sets out a clear set of aspirations and plans for the future back in their November 2017 meeting. This is the first budget setting period within this strategic plan. There is work ongoing to develop our new change programme and ensure that the necessary investment (revenue and capital) is available to achieve the priorities set out in the Corporate Plan.

2.2 As highlighted within the Corporate Plan, our mission is ‘Improving People’s Lives’. To deliver this the council must be modern and forward looking and aligned with the aspirations of the Well-being of Future Generations Act.

2.3 Under the Council’s mission to Improve People’s Lives’ , there are 20 commitments for change relating to the following four areas;

- Resilient communities
- A thriving City
- Aspirational people
- A modernised council

These will represent a significant budget challenge on the MTFP.

2.4 The Council’s future plans and change programme will need to ensure a strategic approach is taken on the future direction of Council services. This means that it will need to meet the medium term financial sustainability challenge, meet key priorities set out in the Corporate Plan and our duties under the Well-Being of Future Generations Act in terms of sustainability and well-being objectives. The new Corporate Plan is rightly ambitious and whilst this presents significant financial challenges within the current climate of austerity, the Authority has made a commitment to address key priorities over the plan’s lifespan.

2.5 The latest MTFP is shown in appendix 6 and is the articulation of the financial challenges and the current organisational change programmes and savings over the next four years. It includes those service changes/ savings which have already been approved for these years from the February 2017 Cabinet meeting as well as new proposals. Whilst the Council is required to set a balanced budget for 2018/19, this is to the backdrop of sustaining over £40m of savings over the last five years and future uncertainties such as the impact of future pay awards and Welsh

Government (WG) financial settlements. It should be noted that this ‘plan’ will inevitably develop and change as assumptions are updated or confirmed for future years.

# 3 Welsh Government Funding Settlement and Tax Base

3.1 The Council received its final RSG settlement from Welsh Government (weblink) on 20 December 2017 and overall this confirmed that the council would receive £212,790k for 2018/19. This, together with a 1.47% increase in the tax base for 2018/19 meant that the budget position improved by c£1.4m in cash terms. With the proposed 4.8% increase in council tax this represents an overall net budget for 2018/19 of £274,596k which is funded from £212,790k WG revenue support grant and £61,806k council tax income.

3.2 Council should note the inherent uncertainty and risk associated with future funding assumptions and that Welsh Local Government Association (WLGA) and others continue to push for medium term settlements or indicative future funding. Whilst not ideal or helpful, it does not necessarily prohibit medium term planning.

3.3 Although councils have until the 11 March each year to set council tax, in practical terms, to delay beyond this meeting date would cause delays to billing and collection of council tax. This would have a significant adverse impact on the council’s cashflow.

# 4 2018/19 Budget Requirement

4.1 Cabinet considered the pressures and savings included within the February Cabinet report. Funding levels for service areas, based on the final proposals, are shown in appendix 1 with the detailed budget investments / pressures and savings shown in the February Cabinet report (weblink). These funding levels include a number of investment decisions that were taken at the February Cabinet meeting, details of which are set out below:

| | |
|---|---|
| • Additional investment in schools | £420k |
| • Reduce council tax from 5% increase to 4.8% | £94k |
| • Remove Gwent missing children’s service saving (CFS181903) | £20k |
| • Fund integrated property unit contract pressure | £85k |
| • Reduce the Oakland’s respite saving from 2 days to 1 day(CFS181901) | £94k |

4.2 Proposals for 2018/19 include c£14m of budget investments / pressures over and above the costs of inflation. The most significant areas of additional expenditure are linked to:

- £3,985k specific grants transferred into RSG – mainly social care related
- £2,200k People services risk contingency
- £1,135k pension deficit
- £1,100k permanent transfer of funds into schools
- £1,313k new schools, including a new social, emotional and behavioural difficulty school
- £800k out of authority residential placements
- £777k non-teaching staff increments
- £671k new responsibilities as set out in RSG – homelessness prevention and increasing capital limits for residential care
- £420k additional funding to schools

4.3 Significant specific grants are received from WG each year and at this time we still await the finer details of funding levels for 2018/19. It is highly probable that we will see decreases in some of these grants. It is proposed, in line with the council’s current working policy, that service areas deal with these matters with Cabinet Members in terms of identifying issues as they become aware of them and developing necessary solutions to resolve them. This may involve reducing / stopping services that WG specific grants no longer fund.

4.4 There has been over £30m of service area investments between 2013/14 and 2017/18 over and above inflation. This has been incorporated into budget planning and investment allocated to services to ensure that the best possible services are provided to the people of Newport. The necessary investment continues within an increasingly challenging funding environment.

4.5 Following the consultation process, Cabinet made the decision to allocate an additional £420k of funding to schools. This is in addition to the £1,100k one-off funding received in 2017/18 that has been made permanent in 2018/19. This would contribute to cost pressures such as inflationary pay awards/ pay increments etc. Furthermore, the existing budget will not be expected to absorb the cost of new schools as new funding is also included for this. In summary, the current schools budget will increase by almost 3% in 2018/19.

4.6 There are, however, uncertainties in respect of education specific grants. Although specific grant reductions are anticipated, outlined in the Cabinet report, we continue to await the finer details.

4.7 Following this meeting, individual school's funding will be confirmed and governing bodies will need to finalise their budgets by early May.

## 5 General and Specific Reserves, Contingencies and Financial Risks

5.1 The proposed budget incorporates a number of assumptions in terms of levels of income and expenditure in future years. There are, therefore, inevitably a number of financial risks inherent in the proposed budget. This was described in detail to Cabinet for consideration when finalising budget proposals but in summary:

Key, inherent risks include;

- Current year overspending
- Delivery of savings
- Inflationary pressures on the budget
- Financial risks and issues requiring one –off resources

5.2 A robust view is being taken on managing budget risks and protecting the financial health of the council. In that respect, the council's financial resilience is a key consideration and appendix 7 shows the current 'snapshot' of key data and information, alongside the current and projected position on the council's reserves.

5.3 The financial resilience 'snapshot' shows that the council is mitigating potential risks through a number of avenues, there are sufficient levels of general reserves (discussed further below) and there are a number of earmarked reserves which are set aside to mitigate against specific risks such as the insurance reserve. There are also earmarked reserves set aside to fund expected future increases in costs for projects and reserves set aside for the funding associated with these projects, the most significant example being the Private Finance Initiative (PFI) reserves. These contribute to a strong balance sheet position that is shown in the 'snapshot'. Cabinet also approved a further specific revenue budget contingency for Peoples' services for 2018/19 to mitigate anticipated on-going budget overspending here – Children's / Adult's services plus Special Education. This will provide short term financial risk mitigation whilst plans are developed to stabilise those areas and then used for investing in the agreed solutions, in due course.

5.4 Whilst a 'rule of thumb' analysis of general reserves suggests a c£8.5m requirement; in the context of the above and the financial risks inherent in the proposed budget, it is recommended that the minimum level of general reserves remain at its current level of £6.5m, supported by the base general budget contingency of £1.5m and a People services contingency of £2.2m.

5.5 The base general budget contingency, specific People services budget contingency, alongside the level of recommended general and earmarked reserves reflect the overall potential financial risk associated with delivering the budget in 2018/19. With general reserves, these provide sufficient capacity to cover financial risks. In light of this approach, the Head of Finance, as part of his S151 responsibilities, is content that the 2018/19 overall budget as proposed is robust.

## 6 Budget consultation and Fairness and Equality Impact Assessments (FEIAs)

6.1 The budget proposals agreed by Cabinet in December have been widely consulted on through a range of stakeholder groups and formats which are as follows (reports, conclusions and responses can be found in the February Cabinet report):

- With Trade Unions via the Employee Partnership Forum on 11 January 2018;
- With all Scrutiny Committees in their January 2018 meetings where Members discussed the detailed change and efficiency programmes plus the MTFP;
- With the Schools' Forum on 16 January 2018;
- With the public from 21 December 2017 to 31 January 2018;
- Newport Fairness Commission has also reviewed the proposals in terms of their parameters of fairness.

In summary, there was a general acknowledgement of the financial pressures facing the Council.

### Equalities Impact Assessments (EIA)

6.2 In delivering its services, the Council has been mindful of its duties to discharge its statutory obligations for Equal Pay, Disability Discrimination Act (DDA) and other equalities legislation including The Race Relations (Amendment) Act 2000 and the Equality Act 2006.

6.3 The council carries out an impact assessment to identify equalities issues across the breadth of the budget as part of the MTFP and annual budget setting process to inform spending decisions. As part of the budget process, equalities implications are considered for all budget proposals and an EIA is carried out by the relevant service manager, supported by the council's policy team.

## 7 Risk and Performance

7.1 As part of setting the councils budget, key consideration is given to the risks the council faces and the improvement objectives that the council has put in place. The council maintains a corporate risk register and an Improvement Plan.

7.2 The council maintains a corporate risk register which is regularly reviewed by the Corporate Management Team and Cabinet, as well as the Audit Committee from a procedural/ risk management framework viewpoint. The council's budget strategy and MTFP framework needs to reflect risks and incorporate appropriate financial mitigation, where required. The corporate risk register and associated mitigation can be found within the February Cabinet report and demonstrated that key financial risks are mitigated within the 2018/19 budget, medium term financial plan and reserves / contingencies.

7.3 The impact of these challenges are reviewed as part of the financial monitoring process and through the corporate risk register both of which are reported regularly to the Cabinet, Senior Leadership Team and the council's Audit Committee.

## 8 2018/19 Proposed Council Tax

8.1 Newport continues to have the second lowest council tax in Wales, amongst the lowest in the UK and significantly spends lower than its standard spending assessment (SSA) compared with other Local Authorities. Whilst changes in council tax levels are usually noted in percentage terms, the cash increase this delivers in Newport will be smaller against other Local Authorities as our starting point is lower in the first place.

8.2 Based on the recommended 4.8% council tax and changes to the draft budget outlined in 4.1 above, the table below illustrates the net budget and funding which Cabinet considered at its meeting on 14 February 2018.

| The table below shows the net budget and funding with a 4.8% increase in council tax. In setting council tax, the Council needs to be aware of the requirement to set a balanced budget. | **4.8% Increase** |
|---|---|
| **Council Tax at Band D at 4.8%** | £1,057.14 |
| | |
| **Budget requirement** | **£000** |
| Base Budget 2017/18 | 266,372 |
| Inflation & Re-pricing adjustments | 3,523 |
| Transfer from Reserves | (1,200) |
| **BASE BUDGET 2018/19 (before investments/savings)** | **268,695** |
| | |
| Budget investments – (£14,043k shown in list of pressures plus increase of £736k required in council tax benefit based on 4.8% council tax increase) | 14,779 |
| Budget savings | (8,878) |
| | |
| **DRAFT BASE BUDGET 2018/19** | **274,596** |
| | |
| **Funding available** | |
| Final WG Settlement | 212,790 |
| Current council tax at new tax base | 58,975 |
| Increased council tax @ 4.8% | 2,831 |
| **Total** | **274,596** |
| **Balance** | **-** |

8.3 The final budgets, as detailed in appendix 1, incorporate the above recommendations. In finalising the budgets from the draft, which was consulted upon, Cabinet were aware of the key messages/ concerns/ support coming out of the consultation.

8.4 The Cabinet was also mindful of the need to balance the interests of service users with tax payers given the current economic climate and in addition, noted that the council tax, even with the increase recommended, would still be the second lowest in Wales, below other Welsh cities and well below the average for Wales.

## Community / Police precepts and Council Tax calculation

8.5 The council tax calculation includes proposed precept figures from The Police and Crime Commissioner for Gwent and precept figures from Community Councils within the City as well as the City council's own budget. These are shown in appendix 2. The resulting council tax resolution is set out in appendix 3. These are based on the budget proposals agreed by Cabinet on 14 February 2018.

# 9 Capital Budget

9.1 The council's capital resources come from four main sources:

(i) Supported borrowing allocation from Welsh Government;
(ii) Unsupported or "Prudential" borrowing;
(iii) Capital receipts from the sale of Council owned assets;
(iv) WG General Capital Grant / other external grants and contributions.

9.2 In reality, there is little difference between (i) and (ii) as they are both 'borrowing' and the council is required to identify a revenue budget to fund the financing costs that result from this type of capital expenditure (i.e. capital principle repayment – MRP, and interest charges).

9.3 2017/2018 marks the final year of the current four year programme. A new five year capital programme covering the period 2018/19 – 2022/23 has been produced and set out in appendix 4.

9.4 The current capital programme which finishes this year is forecasting to have spent £132,292m over the four years. Through Newport City funding, grant funding and S106 monies, as well as capital receipts, the programme has enabled a number of important projects to be developed and completed within the city which have aimed to improve the lives of the residents living and working in Newport, including:

- School investment through the Band 'A' programme - new Welsh Medium School, replacing demountables, new ASD facility and expansion of Maes Ebbw special school.
- City Centre regeneration – Friars' Walk, VVP programme, Newport market / arcade,

## Funding Envelope and Affordability

9.5 Given the on-going financial constraints on the council's funding, the HoF has recommended that the capital programme is developed within an 'affordability envelope' re: borrowing costs. In setting that envelope - an additional £250k has been added to the revenue MRP budget for each of the years 2019/20 and 2020/21 within the MTFP. This will provide additional capacity to the capital expenditure spend that could be afforded within the budgets available to fund new borrowing and the programme was then developed within that total affordability envelope. It will need to be re-assessed periodically if the financial position changes.

9.6 Given the inevitable constraint this brings about and being mindful of the demand for capital expenditure, the Cabinet considered the following framework to maximise expenditure but keep within the available revenue budget to fund new borrowing:

a. Funding from sources other than borrowing needs to be maximised, by securing grant funding whenever possible and, maximising capital receipts
b. Regeneration schemes would be funded from ring-fencing the capital works reserve only and Joint Venture funds. Other kinds of support through making of loans etc. would then be considered to support schemes, where it was needed and appropriate e.g. Mill Street offices development.
c. Any change and efficiency schemes or schemes which save money requiring capital expenditure would be funded by netting off the capital funding costs from the savings achieved
d. Schemes and projects which generate new sources of income would need to fund any capital expenditure associated with those schemes.

This framework ensures that the capital programme can be maximised but those schemes which cannot fund any resulting borrowing costs e.g. schools programme can themselves be afforded and maximised within the headroom available.

9.7 The programme has been compiled with regard for the latest demands on the capital programme which include;

- Current known slippage against the 2017/18 capital programme
- Ongoing capital funded maintenance schemes
- Cyclical Fleet / equipment replacement schemes
- Schemes linked to the Corporate Plan
- One off Schemes resulting from Service area requirements / pressures
- 21st Century Schools – completion of Band A in 2018/19 and Band B from 2019/20

### New Key Schemes

9.8 The new programme includes significant investment of £127m in a number of areas, this will enable the council to achieve a number of its objectives from the Corporate Plan. This includes investment in improving schools assets, assisting regeneration and economic development, increase waste capacity, and delivering civil parking enforcement. Further schemes will be added to the capital programme to support the Corporate Plan objectives as they are developed, within the affordability envelope.

9.9 The key schemes which have been included within the next year's programme (shown in appendix 4) are as follows:

- 21st Century Schools Band B – Following agreement by WG in full at £70m over five years starting in the second year of the programme, 2019/2020. This is a challenge as the council will have to match WG funding by 50%.
- Annual Sums of £4.5m which are used to fund Asset Maintenance, Highways maintenance, GWICES, Telecare, Disabled Facilities Grants, IT replacement and Fleet.
- Peterstone Sewerage – £235k to provide and adopt a packet pumping station for the former council houses at St Peter's Crescent.
- Landfill - £2.155m has been included within the Capital programme for the development of Cell 4 of Docks Way Landfill site. As recycling increases, it is also resulting in a new end of process waste (process fines) being produced in higher amounts which is only suitable for landfill.
- Up to £12m development loan for Mill Street Sorting Office.
- Contribution to the Regional City Deal - £4,293k

9.10 As well as the known schemes above, included within the programme are additional estimates for the following schemes. This are subject to further approval of Heritage Lottery Fund (HLF) bids which are currently at the first stages;

- Market Arcade – To develop a large proposal to Heritage Lottery Fund to support the renovation of the Market Arcade, including its two entrances.
- Transporter Bridge – To carry out renovation works on the Transport bridge which will be funded partly by HLF at 90% and the rest be matched funded by the council.

## 10 Treasury Management Strategy & Prudential Indicators 2018/19

10.1 The council is involved in two types of treasury activity:

- Borrowing long-term for capital purposes and short term for temporary cash flow;
- Investment of surplus cash

Within this, the overarching strategy is

- Limit the need to actually borrow cash by using the positive cash-flow and cash backed reserves the council has to fund capital expenditure funded from long-term borrowing, wherever possible, known as 'internal borrowing';

- Borrow and invest in the short-term to manage the shorter term cash-flow requirements of the council.

10.2 The borrowing and investment activities are controlled primarily via the council's Treasury Management Strategy and various measures and limits set via its Prudential Indicators to regulate/control the implementation of that strategy. These were reviewed and discussed at the Authority's Audit Committee on the 25 January 2018.

10.3 CIPFA requires local authorities to determine their Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) on an annual basis. This requires approval by full Council following a recommendation from the Cabinet. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the WG's Investment Guidance.

10.4 Our detailed Treasury strategies for 2018/19 are included in appendix 5. In addition, planned strategies to 2021/22 are also included, in line with the Council's four year medium term plan. Key points of interest are summarised below.

10.5 The strategy and indicators are based on the 2017 Prudential Scheme. This was updated very recently and the new scheme was published January 2018. The biggest change is the need to include a 'capital strategy', with changes beyond that limited to smaller issues and updates to Prudential Indicators. Given the late publication, the updated Code is not required to be fully implemented until 2019/20.

## Treasury Management Strategy

10.6 The council's overall Treasury Management Strategy takes into account the current outstanding borrowing that it has due to capital expenditure incurred in the past and links this into the future expectations for the council around future capital expenditure to be incurred and future cash flows. As noted, the plan aims to limit new long term borrowing, wherever possible by using internal cash resources.

10.7 This Treasury Management Strategy highlights that the council has an inherent need to borrow and therefore the borrowing strategy discussed below is a vital part of the overall Treasury Management Strategy.

10.8 Due to the revenue implications of undertaking capital expenditure and the need to charge a Minimum Revenue Provision (MRP) for capital expenditure funded by borrowing, the strategy of the council is, where possible, to limit increases in the capital expenditure financing costs in the MTFP. 2017/18 is the final year of our current capital programme and the next five year programme will be approved alongside this strategy at February's Council. The PI's for these are shown in the appendix to this report.

10.9 In summary the council is expected to limit the amount of new long-term borrowing over the short-term to a minimum, but in conjunction with advice from our Treasury Advisors, there will become a point where current borrowing will need to be re-financed, and a decision will need to be taken as to the appropriate timing of that borrowing.

10.10 The detailed Treasury Management Strategy is shown in appendix 5.

## Borrowing Strategy

10.11 The council has significant long term borrowing requirements but in recent years, the strategy has been able to fund its capital expenditure from reducing investments rather than undertaking more expensive new borrowing i.e. using 'surplus cash', known as 'internal borrowing'. This is because the rates achievable on the council's investments are lower than the rates that would be payable on long-term borrowing and therefore this strategy is more cost effective. This borrowing strategy is recommended to remain over the foreseeable future in the current low interest rate environment.

10.12 In terms of the revenue budget, the council must ensure it sets aside sums to repay capital expenditure funded from borrowing (irrespective of whether the borrowing itself is undertaken externally or through dis-investing). This is done via the MRP. In addition, a budget is also needed to fund actual interest payable on loans taken out, which are based on predictions of actual external borrowing. Both are discrete budget lines in the council's overall revenue budget.

10.13 2017/18 is the final year of the current four year programme, and work has commenced on providing figures for the future programme from 2018/19 to 2022/23 which has been finalised alongside the budget report. Appendix 4 shows the estimated capital expenditure for the council over the medium term and is based on keeping capital expenditure funded by borrowing within the capital financing revenue budgets that are included within the MTFP. This means that there would not be additional pressure on the MRP budget from the capital expenditure funded by borrowing. An estimate has also been included for the capital expenditure that can be funded by reserves, capital receipts, grants etc. which will not impact on the level of the CFR or the MRP charge.

10.14 A paper on the future capital programme has been taken to Senior Management and a framework for future capital expenditure has been agreed for Cabinet's review and approval, which seeks to limit capital expenditure funded by borrowing to the current funding envelope we have for capital financing within the MTFP. This will mean that no pressure will be put on new borrowing in the future, other than that shown in the table below, which shows the inherent need to borrow for replacing maturing loans and pressure on 'cash balances' from reducing earmarked reserves, hence reducing the ability to be internally borrowed.

10.15 Local Authorities measure their underlying need for long-term borrowing through their 'Capital Financing Requirement' (CFR). This takes into account the amount of capital expenditure that needs to be funded through borrowing, (as opposed to external funding - from cash grants, capital receipts or S106 contributions for example) irrespective of whether the borrowing itself is undertaken externally or through dis-investing.

10.16 The table below shows the estimated Capital Financing Requirement / New Net Borrowing Requirement position for Newport City Council for 2018/19 to 2020/21:
(all figures are cumulative)

**Newport City Council – CFR**

| | 31.3.17 Actual £m | 31.3.18 Estimate £m | 31.3.19 Forecast £m | 31.3.20 Forecast £m | 31.3.21 Forecast £m |
|---|---|---|---|---|---|
| General Fund CFR | 279.1 | 281.8 | 292.0 | 294.2 | 295.2 |
| Less: Other debt liabilities * | (47.2) | (45.1) | (43.1) | (42.3) | (41.3) |
| **Borrowing CFR** | **231.9** | **236.7** | **248.9** | **251.9** | **253.9** |
| Less: External borrowing ** | (211.7) | (146.1) | (144.7) | (103.2) | (100.9) |
| **Internal borrowing** | **20.2** | **90.6** | **104.2** | **148.7** | **153.0** |
| Less: Usable reserves | (107.2) | (86.3) | (76.9) | (73.2) | (70.6) |
| Less: Working capital | 84.7 | 4.6 | 4.6 | 4.6 | 4.6 |
| **Investments (or New borrowing)** | **2.3** | **(8.8)** | **(31.9)** | **(80.1)** | **(87.0)** |

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt

** shows only loans to which the Authority is committed and excludes optional refinancing

10.17 As the table shows, the inherent 'need to borrow' over this period is predicted to be £87 million. The CFR is expected to remain relatively steady over the next four years, as the capital strategy is to fund capital expenditure within the budgets of the current MRP, therefore keeping the CFR stable. The increase in the CFR is due to an anticipated capital loan to a company in relation to redevelopment in which the council will undertake borrowing to finance; this is similar to the treasury arrangements for the loan to Queensberry. The terms of loan will require full repayment of the loan four years following the anniversary of the first payment; this will reduce the CFR back to c£283m in 2021/22.

10.18 Given **current** borrowing levels a further c£20m long term borrowing is likely to be required during 2018/19. This is due to the expected capital loan and the level of earmarked reserves decreasing. However, the authority will be required to be flexible to borrow up to the Authorised Limit.

10.19 The authority will adopt a flexible approach to any borrowing necessary in consultation with its treasury management advisers, Arlingclose Ltd. The following issues will be considered prior to undertaking any external borrowing:

- Affordability
- Maturity profile of existing debt
- Interest rate and refinancing risk
- Borrowing source

## Investment Strategy

10.20 The authority holds minimal invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the authority's investment balance has ranged between £0.6m and £96 million, the large balance being when the Council received the receipt from the sale of Friars Walk. In 2018/19, the level of investment is likely to decrease over time to align with the borrowing strategy of keeping new long-term borrowing to a minimum. However, due to the implementation of the second Markets in Financial Instruments Directive (MiFIDII), as highlighted in the Treasury Management half year report, the Authority will be required to maintain a minimum investment balance of £10 million. Whilst this put's a limit to the extent the council can be internally borrowed, it is a relatively small balance in the wider scheme of the council's cash-flows and borrowing and the strategy of being 'internally borrowed still stands.

10.21 **Objectives:** Both the CIPFA Code and the WG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses.

10.22 Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority aims to diversify into more secure and/or higher yielding classes during 2018/19.

10.23 **Approved Counterparties:** Whilst investment funds remain available and based on the treasury management advice from Arlingclose; the Authority may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown will invest in the following areas:

**Approved Investment Counterparties and Limits**

| Credit Rating | Banks Unsecured | Banks Secured | Government | Corporates | Registered Providers |
|---|---|---|---|---|---|
| UK Govt | Not applicable | Not applicable | £ Unlimited<br>50 years | Not applicable | Not applicable |
| AAA | £5m<br>2 years | £10m<br>2 years | £10m<br>2 years | £5m<br>2 years | £5m<br>2 years |
| AA+ | £5m<br>2 years | £10m<br>2 years | £10m<br>2 years | £5m<br>2 years | £5m<br>2 years |
| AA | £5m<br>2 years | £10m<br>2 years | £10m<br>2 years | £5m<br>2 years | £5m<br>2 years |
| AA- | £5m<br>2 years | £10m<br>2 years | £10m<br>2 years | £5m<br>2 years | £5m<br>2 years |
| A+ | £5m<br>2 years | £10m<br>2 years | £5m<br>2 years | £5m<br>2 years | £5m<br>2 years |
| A | £5m<br>13 months | £10m<br>2 years | £5m<br>2 years | £5m<br>2 years | £5m<br>2 years |
| A- | £5m<br>6 months | £10m<br>13 months | £5m<br>2 years | £5m<br>13 months | £5m<br>2 years |
| BBB+ | £2.5m<br>100 days | £5m<br>6 months | £2.5m<br>2 years | £2.5m<br>6 months | £2.5m<br>2 years |
| BBB | £2.5m<br>overnight | £5.0m<br>100 days | Not applicable | Not applicable | Not applicable |
| None | £1m<br>6 months | Not applicable | £10m<br>25 years | Not applicable | Not applicable |
| Pooled funds | Not applicable | | | | |

10.24 Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. Whilst the credit ratings score drives the approved listing, the day-to-day operational counterparties are generally limited to named counterparty listing as documented in appendix 5. However, where it is prudent to do so the Authority may also use other approved investments based on the approved credit ratings as documented in the table above.

10.25 A more detailed explanation of the different approved counterparty types are included in appendix 5 but for the sake of clarity, the Council's investment strategy will, as per the WG's Investment Guidance, give priority to security and liquidity and will aim to achieve a yield commensurate with these principles.

## Minimum Revenue Provision (MRP) Policy

10.26 The MRP Policy is detailed in appendix 5. As per the Treasury Management half-year report brought to Council on 30 January 2018, it was agreed that the MRP charge for supported borrowing will be changed from 2017/18. This is in line with guidance and the policy attached.

### Prudential Indicators

10.27 The council must establish certain ‘checks’ required by CIPFA to ensure that its Treasury Management Strategy is operating effectively. These are known as Prudential Indicators, and they will be reported to the Council on a six monthly basis.

10.28 Examples of our key indicators are noted below; again more detail is supplied at appendix 5.

**Net Borrowing/Capital Financing Requirement**

The Council’s net borrowing should not exceed its Capital Financing Requirements as outlined earlier. This ensures that borrowing is only used to finance capital over the long term. The Council does not note any difficulty in meeting this requirement.

**Financing Costs to Net Revenue Stream**

This ratio shows how much of the Council’s total revenue budget is used for capital financing costs, as a percentage. The ratio for 2018/19 is 7.6%.

**Timetable**

The timetable for approval of the 2018/19 budget is as follows:

| | |
|---|---|
| Cabinet agrees budget proposals as a basis for consultation | 20 December 2017 |
| Consultation period | 21 December 2017 to 31 January 2018 |
| Cabinet considers feedback from consultation and agrees final budget proposals for recommendation to Council | 14 February 2018 |
| Council approves the 2018/19 budget and council tax level | 27 February 2018 |

**Risks**

| Risk | Impact of Risk if it occurs* (H/M/L) | Probability of risk occurring (H/M/L) | What is the Council doing or what has it done to avoid the risk or reduce its effect | Who is responsible for dealing with the risk? |
|---|---|---|---|---|
| | | | | |
| Budget savings not delivered | H | L | (i) robust budget monitoring<br>(ii) service planning<br>(iii) retention of reserves and budget contingency | Head of Finance<br>Heads of Service |
| Budget savings not delivered on time leading to | H | M | (i) robust budget monitoring<br>(ii) retention of reserves and budget contingency | Directors / Heads of Service<br>Head of |

| | | | | |
|---|---|---|---|---|
| in year overspending | | | | Finance |
| Unforeseen Pressures | H | L | (i) retention of reserves and budget contingency<br>(ii) robust budget review | Head of Finance<br>Directors / Heads of Service |

* Taking account of proposed mitigation measures

**Links to Council Policies and Priorities**

In drawing up budget proposals, due regard has been given to key council policies and priorities and Cabinet, in setting the detailed budget and spending plans, considered these in detail in their February meeting. Details are included in the February 2018 budget paper which confirm that the new Corporate Plan objectives are funded appropriately to meet the targets proposed.

**Options Available and considered**

The Council must approve a recommended council tax and 2018/19 resulting overall revenue budget and capital budget, plus the council's treasury and investment strategies and prudential indicators.

**Preferred Option and Why**

Council has various options open to them on the level of council tax and therefore the overall total revenue budget for the Council.

## Comments of Chief Financial Officer

The detailed financial implications stemming from this report are contained within the body of the report, including the statement from the HoF on the robustness of the budget.

The Council is required to set council tax by 11 March but in reality, it will need to be done at this meeting as to delay further will mean bills cannot be produced in time to give the required notice before the first instalments of council tax are due. Therefore, it is important that the Council decides on the level of council tax at this meeting.

The MTFP shown in appendix 6 points to a significant on-going financial challenge and is an issue facing all Local Authorities across the UK. This Council has been successful in balancing its annual budgets whilst also investing in key priority areas over the last five years but this is becoming increasingly difficult to do as most / significant efficiency savings and tactical savings available have been implemented over this time. Increasingly, a different approach will now be needed in going forward which takes a more strategic and medium term approach to ensure the Council can set a balanced budget over the medium term, matched to strategic changes in services.

## Comments of Monitoring Officer

The Revenue Budget Report has been prepared in accordance with the requirements of the Local Government Act 2003 and the Local Government Finance Act 1992. In accordance with Section 25 of the 2003 Act, the Cabinet must have regard to the advice of the Head of Finance, as the Council's Chief Finance Officer, regarding the robustness of the budget estimates and the adequacy of the financial reserves. This advice must be taken into account when considering the proposals in the Report and in making recommendations to Council regarding the budget and the Council tax rate. In accordance with the Functions and Responsibility Regulations, agreeing the overall budget and setting the Council Tax rate under the 1992 Act is a matter for full Council. Therefore, the recommendations of the Cabinet will be subject to ratification and approval by full Council, insofar as they relate to the overall budget and Council tax proposals for 2018/19.

However, the implementation of the individual savings proposals within the MTFP are executive matters for the Cabinet, provided that they are in accordance with the general budget framework set by the

Council before the beginning of each financial year. Therefore, Cabinet is able to approve the 4 year programme as set out in the MTFP, subject to future budget decisions.

## Comments of Head of People and Business Change

The 2018/19 Budget and Medium Term Financial plan report gives Cabinet the opportunity to consider the implications and opportunities in the deployment of resource across a range of functions and services over the next four years. This is set against the backdrop of on-going financial pressure which has created a challenging environment. Staff have been impacted by changes to date in a number of ways and the Council now employs significantly fewer staff than it did five years ago. Inevitably there will be further staffing impacts as a result of financial settlement for 2018/19 and the extent of this will be finalised following the decision making process. All staff potentially impacted upon by this have been offered the opportunity to be consulted with and the relevant Trade Unions have made representations, contained within this report.

As part of the annual process in place a range of opportunities have been made available for the public to express their views and again these are included in the report for the consideration of Cabinet. Views have been gathered through face-to-face sessions, Ward meetings, via email, letter and petition and via the on-line consultation pages.

The Local Authority is required to ensure it considers the impact of decisions made today on future generations. This has been done through the expanded use of the Equality Impact Assessment process. It should be noted that this is becoming ever more difficult to do in the wake of on-going reductions in funding.

## Comments of Cabinet Member

The Cabinet Member for Finance and the Chair of Cabinet confirm that they have approved this report.

## Local issues

The budget proposals as shown affect the City as a whole although some specific proposals may affect certain localities more than others.

## Scrutiny Committees

All detailed proposals were reviewed by all Scrutiny Committees in their January 2018 meetings, as part of the wider budget proposals consultation undertaken and considered by Cabinet.

## Equalities Impact Assessment and the Equalities Act 2010

In finalising its budget proposals, Cabinet took account of the equalities impact assessments carried out, which was reported to them in their meeting on 14 February 2018.

## Children and Families (Wales) Measure

Wide consultation on the budget has been undertaken, as outlined in paragraph 6 of the report.

## Wellbeing of Future Generations (Wales) Act 2015

The Wellbeing of Future Generations Act 2015, which came into force in April 2016 provides a framework for embedding sustainable development principles within the activities of Council and has implications for the long-term planning of finances and service provision. The business cases used to develop savings proposals include specific linkage with Future Generation Act requirements of the “five ways of working”. These pose the following questions:

***Integration –*** *How does this proposal contribute towards the objectives of the key strategic documents of the Council i.e. Newport 2020, Corporate Plan, Single Integrated plan, Improvement plan etc.*

***Long Term*** *– How does this proposal ensure that the short term and long term requirements are balanced in line with our key strategic plans. I.e. Newport 2020, Corporate Plan, Single Integrated Plan, Improvement Plan.*

***Prevention*** *– How does this proposal prevent future problems occurring or getting worse in trying to meet our objectives.*

***Collaboration -*** *How does this proposal demonstrate that we are working in collaboration either across the organisation or between organisations.*

***Involvement –*** *How does this proposal involve key stakeholders in the development and implementation of this proposal.*

Similar revisions have been made to report templates and the Fairness and Equality Impact Assessment format.

The Well-being of Future Generations Act has involvement as one of the five ways of working under the sustainable development principle. Involvement in the development of this budget has included a four week period of public consultation and consultation with Trade Unions via the Employee Partnership Forum, with all Overview and Scrutiny Committees, with the Schools' Forum, with the Council's Fairness Commission and with representatives from the business and voluntary sector.

### Crime and Disorder Act 1998

N/A

## Consultation

Wide consultation on the budget has been undertaken, as outlined in paragraph 6 of the report.

## Background Papers

Budget report presented to Cabinet on February 14 2018.

Dated: