

Report

Cabinet

Part 1

Date: 08 January 2021

Subject 2021/22 Budget and Medium Term Financial Plan (MTFP)

Purpose To highlight key issues affecting the development of the Council's 2021/22 budget and Medium Term Financial Plan (MTFP) and present the draft proposals for the 2021/22 budget. Cabinet are asked to agree the proposals in order to commence the budget consultation process for this year. Consultation results will be reported back to Cabinet in February 2021, when Cabinet will agree a final budget and recommend the required / corresponding council tax level to full Council.

Author Head of Finance

Ward All

Summary This report presents the draft budget proposals for 2021/22. It has been the subject of significant work over the last few months; much of it done within a challenging context of very little or no information from UK or Welsh Government (WG) regarding core and short term Covid-19 related funding for 2021/22 and uncertainty coming out of Brexit. The Council only received details of its draft 'Revenue Support Grant' (RSG) on 22 December and given the significant uncertainties mentioned above, finalised proposals after that. The result of that is a slightly later start to budget consultation but the remaining budget-setting timetable has been adjusted to maximise the time available for consultation and residents, service users and stakeholders, such as the independent Fairness Commission, will have four full weeks to take part in the consultation.

Details of the budget are shown within this report and its appendices and as always, both savings and an increase in local council tax are key elements of the proposed budget to ensure it is sustainable and able to maintain key services as best as possible for both Newport as a whole and the most vulnerable in our communities.

Section:

- 1 Our financial challenge
- 2 Setting the budget
- 3 Financial planning assumptions
- 4 Budget savings
- 5 Budget process and consultation
- 6 Risk, financial resilience and performance
- 7 Report review and statutory comments

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Proposal

1. **Cabinet is asked to agree the following draft proposals for public consultation:**
 - i) Budget savings proposals in appendix 2 (summary table) and appendix 5 (detailed proposals), including the decision making point (either full Cabinet or Head of Service) for each one
 - ii) Approve implementation of the delegated decisions in appendix 3 by Heads of Service with immediate effect, following the usual Council decision making processes
 - iii) A council tax increase of 5%, a weekly increase of £0.77 - £1.02 for properties in Band A to C, the most common bands in Newport, as set out in paragraphs 3.21 – 3.24
 - iv) Proposed fees and charges in appendix 7
 - v) The budget investments shown in appendix 1
 - vi) The budget investment provision in schools of up to £4,937k, which is based on an assumed teachers/ NJC pay increase and provides for a fully funded increase funding requirement, based on that, plus the cost of new/ expanding school provision as noted in paragraph 3.14 – 3.20. Specifically here, Cabinet agrees to confirm and finalise this when there is certainty on Teacher's pay from September 2021 with the intention of retaining the objective described above, within the funding provision available.

2. **Cabinet is asked to note:**
 - i) The position on developing a balanced budget for 2021/22, acknowledging that the position will be subject to ongoing review and updates especially in light of the late announcement from WG in respect of the final 2021/22 funding
 - ii) The medium term financial projections, assumptions contained within and that projections contain investments required to implement the Corporate Plan promises
 - iii) That initial Fairness and Equality Impact Assessments have been completed for all those requiring one
 - iv) The need to prioritise the development of a 'strategic change programme' in order to develop a long-term sustainable financial footing for services.

Action by Chief Executive / Heads of Service

Timetable Immediate:

1. Delegated decisions in appendix 3 will be implemented with immediate effect, in line with internal decision making protocols
2. Decisions subject to consultation in appendix 2, fees and charges, and schools funding position to form the basis of the budget consultation process.

This report was prepared after consultation with:

- Cabinet Member for Community & Resources
- Chief Executive
- Head of Finance
- Head of Law and Regulation
- Head of People and Business Change

Signed

1 Our Financial Challenge

- 1.1 The medium term financial plan (MTFP) included within the Council's 2020/21 budget report identified a potential budget gap of £5 million (m) in 2021/22 and £9.9m over the period 2021/22 to 2022/23. This report provides an update to the planning assumptions made over the medium term, includes a further two years to 2024/25 and outlines the 2021/22 budget strategy and associated timetable. It highlights considerations directly associated with the coronavirus pandemic that will need to be kept under close review from a financial planning perspective over the coming months as well as an assessment of the Council's financial resilience given the continued challenges the Council faces in these unprecedented times.
- 1.2 The Council provides over 800 services, for over 156,000 people, living in over 69,000 households. Newport's population is growing and increasing demand and pressure for services means that the council continues to face financial challenges, namely:
- increasing inflationary costs e.g. contracts and pay;
 - costs of funding the Council's increasing levels of planned debt, linked to its substantial capital programme in its commitment to improving the city and its infrastructure plus the reduction in its 'internal borrowing' capacity;
 - increasing demand for services and therefore costs. These stem from demographic and societal changes and are most acute in the larger budget areas of social services and education;
 - local government funding in Newport sees the 'Revenue Support Grant (RSG)' funding over 75% of its net budget. Funding is therefore controlled largely outside of the Council's influence, resulting in a disconnect from its own spending pressures, requirement and priorities. In addition, the lack of any medium term indication of the grant level and increasingly late notification of the following years value is not helpful for medium term financial planning and increases uncertainty;
 - a historically low relative council tax level, which based on 2020/21 rates would provide a further £8.3m and if calculated at 100% council tax base would provide equivalent to £9.2m as set out in paragraph 3.21. If it was set at that level assumed by Welsh Government (WG) when setting the Councils 'standard spending assessment' compared to current levels or £8m if it was at the average rate in Wales.
- 1.3 In addition, the Council has demonstrated its ability and willingness to invest in services over the longer term, linked to priorities as set out in the Corporate Plan in order to fulfil its ambition of 'Improving People's Lives'. The Council's Corporate Plan sets out 20 clear promises and, in some cases, these require financial investments, which are included in the 2021/22 budget and the MTFP as appropriate.
- 1.4 The council has made savings of £35m over the last 5 years and in order to achieve this has helped people to live independently, rationalised the Council's estate, invested in prevention and early intervention and seen a significant reduction in the number of staff supported by digitalisation and automation of processes.
- 1.5 The public sector has faced a prolonged period of real term reductions in funding levels for a number of years and core spending is still below 2008/9 levels, in real terms. Unprecedented challenges lie ahead for services across local government, not least because of the coronavirus pandemic. Despite Newport being one of the better off councils last year and this year in terms of funding allocation, this uncertainty coupled with increasing demand and therefore costs, in particular within social care / schools, means that, prior to the acceptance of the proposed savings, further savings must still be found – at least £9m by 2024/25 based on current planning assumptions and projections.

2 Setting the budget

- 2.1 This section outlines the key contextual areas and events, which influence the Councils medium term financial planning and within that; next year's budget. This year has brought some new and very significant challenges over and above previous years, the future year impact of which is

currently unknown but could well be significant. The key context areas which have shaped the thinking and the preparation of the draft proposals include:

- the significant economic challenge, resulting from UK Government response to the Covid -19 pandemic;
- the UK national context coming out of the annual spending review and what that meant for WG funding for 2021/22;
- the local Newport City Council context given the draft RSG funding which was confirmed on the 22 December and issues coming out of how the Council is funded and lack of medium term certainty on funding availability;
- the Council Corporate Plan, which drives priorities. These factors are explained in more detail below.

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

- strategic planning; the MTFP
- within that, the annual council budget.

2.3 The Council reviews its budgetary position regularly and produces a rolling four-year plan known as the medium term financial plan (MTFP). This plan considers the financial climate at both the local and national level together with forecast available resources and budgetary pressures in arriving at a financial strategy. Importantly, it is linked to the Councils Corporate Plan to ensure that key priorities are funded, where additional funding is required. The Council is required by law to set a balanced budget every year. For over a decade councils across Wales have faced continued financial pressures, therefore meaning that savings are to be found to meet the funding gap between the funding available (RSG grant and local council tax), and expenditure on the wide variety of services provided.

2.4 To meet this gap, in putting together the budget proposals each year we review:

- budget commitments (both investments and savings) agreed in the MTFP previously;
- new areas in need of investment and growth;
- new proposals for savings and efficiencies;
- new proposals on our fees and charges.

2.5 As in previous years, Cabinet will be asked to keep the medium term position in mind, and in February will approve the new medium term savings and investments over the life of the MTFP, to be added to those already approved / in progress.

Economic Context

2.6 As a result of the pandemic, Wales and the UK experienced an unprecedented collapse in economic output (gross domestic product (GDP)) in the second quarter of this calendar year, followed by a large recovery in the third quarter. On this basis, economic recovery is extremely uncertain and the longer-term impact of national and local lockdowns and ongoing public health measures remains to be seen.

2.7 Further adding to the uncertainty is Brexit. Although the UK left the European Union (EU) on the 31 January 2020, it was only at the end of 2020 that the UK completed its formal separation from the EU. The medium to longer-term economic impact of the new arrangements is still uncertain at this time.

2.8 Government support for jobs and businesses during the pandemic has had a significant impact on public sector borrowing. In September, UK debt reached almost £2.1 trillion for the first time and further heavy borrowing is anticipated. At the end of September, debt was 103.5% of GDP, the first time it has exceeded 100% in almost 60 years. The significance of this and the need to restore debt to more sustainable levels clearly has the potential to affect spending on public services in the future. Having said this, the Chancellor states within the spending review announced at the end of November that the coronavirus health emergency is not over and that the "economic emergency has only just begun".

National Context

2.9 The Chancellor has conducted the 2020 Comprehensive Spending Review (CSR) in unprecedented conditions as the nation continues to deal with the impact of the Covid-19 pandemic on people, the economy and public finances. The Treasury had initially planned to carry out a three year review, however, the 2020 pandemic has thrown public finances into such uncertainty that it opted for another single year review. The key headlines, for local government, as set out within the spending review include:

- forecasts from the Office for Budget Responsibility (OBR) show that the economy will contract by 11.3% this year, the biggest decline in three centuries;
- it will take until the end of 2022 for the economy to return to its pre-pandemic size;
- Welsh Governments core resource Departmental Expenditure Limit has risen £694m, an increase of 4.6% in cash terms. In addition, the Chancellor also confirmed additional funding in relation to Covid-19, which will provide an extra £766m. The extra cash means new funding for Wales will rise to £1.3 billion next year to deal with 'exceptional circumstances';
- the Chancellor announced that public sector pay outside of the NHS and the lowest paid would be frozen. However, uncertainty exists as he also acknowledged that Local Government had its own pay review arrangements and decisions on teachers, doctors and nurses pay in Wales will rest with ministers in Cardiff. Pay pressures remains a key budget risk, in particular as local council workers/ teachers work through some of the most challenging conditions to support their communities and vulnerable residents.

The Welsh Government budget was published on the 21 December 2020 with the Minister for Finance stating that the budget has been based on 'the needs of the people of Wales to deliver the fairest possible settlement for Welsh public services'.

Local Context

2.10 Local Government in Wales do not receive medium term funding allocations even though the sector has asked for this over many years. For the second year running, due to delays in concluding the UK spending review, the WG draft budget has been significantly delayed and this has unavoidably delayed the notification of Councils draft RSG, which makes up 76% of Council core funding.

2.11 In light of the above issues, this Council, like others, are planning in a void with no certainty on the level of funding they will receive over the medium term, and for the following year didn't receive the allocation until recently. The settlement dates were/ are as follows:

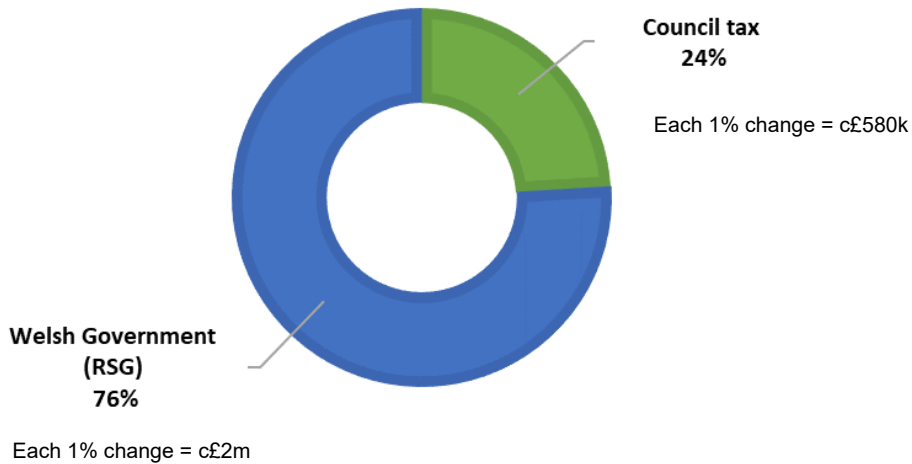
22 December 2020	Provisional local government settlement for 2021/22 published
2 March 2021	Final local government settlement for 2021/22 published

2.12 The outcome of this announcement has been pivotal to agreement of the Council's 2021/22 draft budget as this accounts for the largest part of council's funding, and the 5.48% uplift is welcome and has enabled the Council to deal with a number of pressures, including a number that will assist in reducing the budget gap over the medium term. This funding is provided through a non-hypothecated grant – the Aggregated External Finance (more commonly referred to as the "Revenue Support Grant"- RSG). In addition to this, other grants provide funding for specific purposes. The scale of the budget challenge is very sensitive to changes, both current and future, to RSG funding as shown in table 5. Less than a quarter of a councils funding is raised through local council tax, representing a small proportion of funding that is under the councils own decision-making. Given the above scenario in Wales, there is a relatively weak connection between individual Council's own decision-making on spending priorities / pressures and its ability to raise the funds required to meet that. Consequently, the lack of medium term funding from this source adds to uncertainty and challenges in financial planning.

2.13 In Newport, the RSG funding makes up 76% of its net budget, with council tax at 24%. As the RSG makes up such a large proportion of the councils budget, what happens to this grant is

crucial, as any reductions cannot be easily offset by an increase to council tax. For example, it would take a 3.5% increase in council tax to offset a 1% reduction in the RSG.

Chart 1: Newport Council funding sources – 2020/21



- 2.14 The headlines of the draft settlement received on the 22 December confirms:
- Whilst WG core resource Departmental Expenditure Limit has risen by £694m in 2021/22, an increase of 4.6% in cash terms, core budget for day to day spending per person in 2021/22 will remain more than 3% lower in real terms than in 2010/11;
 - £766m additional funding in Wales for Covid-19 next year which is far below the £5bn allocated to Wales this year;
 - An increase of £10m to the social care workforce grant in 2021/22 to £50m to support the delivery of sustainable services and sustainability of the workforce;
 - £176m to support pressures on schools and social services;
 - A further £40m to support the Housing Support Grant, over £20m to meet sixth form and further education demographic pressures;
 - £58.6m (£30.6m revenue) in flood and coastal defence;
 - Additional £3m revenue to support our high streets, and town and city centres recognising the important contribution they make to the economy;
 - An additional £13.4m to support children and young people, including £8.3m for curriculum reform;
 - Extra £40m investment in education infrastructure, including £5m for the net-zero carbon schools pilot and boosting active travel funding by £20m, and providing a total investment of £274.7m in rail and metro.
- 2.15 Overall, the draft RSG was positive compared to previously modelled assumptions, and confirmed that the council would receive £240,796k for 2021/22. After allowing for new specific grant transfers into the RSG, this is a cash increase of £12.5m (+5.48%) from current funding, compared to a Welsh average of +3.8%. There remain a number of uncertainties around specific grants; however, these should be confirmed between this report and the final settlement from WG early March 2021.
- 2.16 A key contributing factor to the significant growth in Newport's RSG is due to the correction and rebasing of population data for authorities, which drives a significant amount of the share of the overall core funding for Local Government in Wales. Newport's population growth estimates have been under-estimated and whilst over the last few years, while being one of the better off Councils in terms of annual RSG uplift, was still lower than it should have been. Like the current 2020/21 financial year, Newport's RSG change for next year is the highest across Wales, due to it having the fastest growing population. This comes with pressures on budgets as noted above, in particular on our schools. The distributional impact of this correction is estimated to have contributed around £4m to our overall increase as noted above.

- 2.17 The Council's final RSG settlement will be announced on 2 March 2021. Apart from late transfers of specific grants into/ out of the final settlement, which are 'neutral' in their impact, the main changes would usually come from Council's confirmation of their individual 'tax bases' – i.e. the number of Band D equivalent properties. The late draft settlement has meant that any adjustments required to allow for the 'equalisation' process for council tax base has already been included, which usefully takes away that particular uncertainty in the final settlement. At this point therefore, we will be assuming that the final grant settlement will not change from the draft other than for 'cost neutral' issues.
- 2.18 The Head of Finance (HoF) has set the tax-base for 2021/22 and it will increase by 0.4%, which is similar to the all Wales average over the last two years. This council tax base is net of a decrease of 0.4% in collection rates reflecting the historical and current increasingly challenging task of collecting council tax income, which will increase further due to the ongoing economic uncertainty. This is consistent with all Councils across Wales and given that Newport's budgeted collection rates continue to be one of the highest in Wales the impact of the pandemic on collection has been particularly challenging and will continue to be reviewed. Council tax 'equalisation' is a key feature of the Local Government grant settlement process and provides some challenges to those Councils, like Newport, who have significant cost pressures resulting from housing and population growth. The impact on the RSG funding for Newport council this year is a reduction of £286k from this.

Implementing the Corporate Plan

- 2.19 The Council's business and financial planning is underpinned by the Council's Corporate Plan 2017-22 that sets out a clear set of aspirations and plans for the future under our mission of 'Improving Peoples Lives'. This provides a focus for decisions around spending and will direct activity across the council.
- 2.20 The current medium term financial projections included in appendix 9 and the detailed budget investments in appendix 1 includes funding for the key priorities and promises set out in the plan, as needed. The Council has yet to develop a 'strategic change programme', which outlines the key areas and initiatives, which will guide services and the Council in the future to deliver sustainable services. Such a programme's financial impact would be reflected in the Council's MTFP, contribute towards delivering a balanced / sustainable medium term financial position, and is recognised as a priority throughout the organisation.

3 Financial planning assumptions

- 3.1 Whilst the above section highlights challenges for this and other Councils in carrying out effective medium term financial planning, it nonetheless needs to be completed. Clearly, a number of important assumptions are required in order to do this. This section deals with the key areas affecting the MTFP and the budget for next year. These are:

- the impact of increasing costs and demand on the Councils budget;
- the impact of the Councils significant capital programme on its need to increase borrowing to fund that and resulting increased revenue costs to pay for that;
- the impact of increased costs in the Councils schools budgets, and in particular from new/ growing schools;
- Council tax funding which makes up 24% of the Councils core funding and is the only element of funding controlled by the Council.

Increasing costs and demand

- 3.2 Financial pressures and demands on our services have increased over a number of years and this increase is projected to continue. The main issues include:
- inflationary cost increases – of the council's £300m net revenue budget, over three quarters of expenditure relates to pay and contracts subject to inflationary increases year on year and whilst a one year pay freeze was announced by the Chancellor in the UK spending review,

he has confirmed that Local Government has its own pay review arrangements. In addition, WG decides on teacher's pay in Wales, advised by a pay review body and a stated commitment to at least match any pay increase in England. This is a high risk area of the budget and therefore provision in pay budgets for an inflationary increase has been made for 2021/22 (and future years) but the extent to which what, if any, of it will be required in 2021/22 will not be known until well into the Spring 2021.

- significant increases in demand led services – specifically social care;
- cost of new and growing schools, linked to the continued growth of the city.

3.3 Unavoidable pay and inflationary cost increases, excluding schools, equate to £5,196k in 2021/22 and £19,482k over the four-year period to 2024/25, based on current planning assumptions.

3.4 In addition to these cost increases, the council has also seen a significant increase in demand led service pressures since 2015/16. Whilst independent fostering continues to forecast overspends against budget there are also two other areas facing significant demand and will continue to be monitored closely:

- Independent fostering £373k overspend
- Emergency placements £493k overspend
- Leaving care £354k overspend

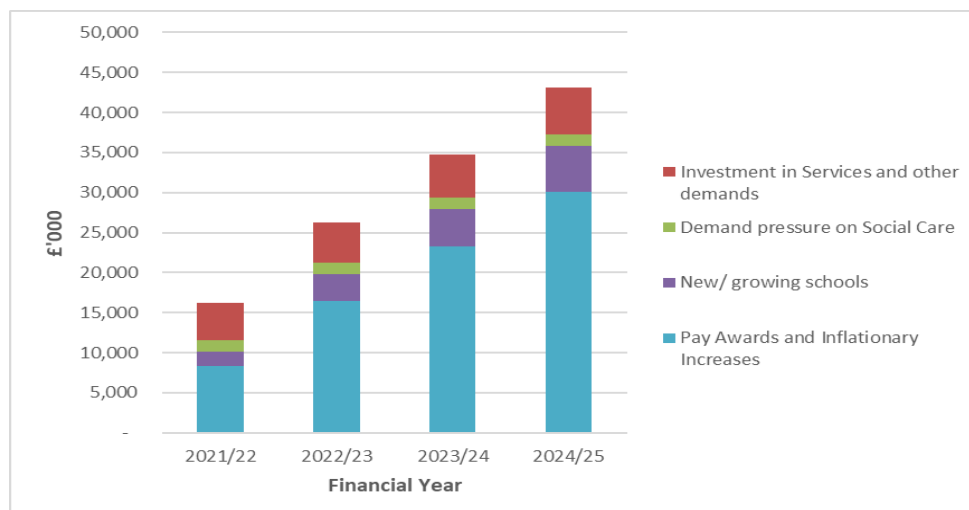
3.5 During 2020/21 these three areas alone are contributing over £1.2m to service area forecast overspend. Despite investment in independent fostering agency placements in 2020/21, demand continues to accelerate beyond the budget available. As a result of the demands in key areas, specifically emergency placements, investments in areas across children's social care are proposed within 2021/22 to support the level of demand that is being experienced and to ensure a robust and deliverable budget.

3.6 Detailed demand models for social care have been included within appendix 6 and form the basis of the investments proposed for inclusion within the medium term projections.

3.7 For 2021/22 specifically, the council is currently planning to invest almost £8m in the draft budget over and above an allowance for pay and pricing inflation. More details on proposed investments are included in appendix 1 and some of the key items include:

- £1,848k investment in school budgets
- £1,476k for increasing demand in social care demand for both children and adult services
- £305k investment to deliver the promises set out within the Corporate Plan such as the delivery of digital aspirations and a new household waste recycling centre

Chart 2: Cumulative pressures up to 2024/25 by source



3.8 The financial pressures facing the Council continue to increase significantly over the four-year period. Despite Newport receiving a favourable settlement in recent years even with different and more optimistic funding assumptions in the future, the budget pressures remain higher and savings therefore are likely to be needed. The following table illustrates the cumulative funding assumed over the 4 year period compared to the investment required for the council to achieve a 'stand still' position i.e. investments for unavoidable pay and pricing inflationary increases and committed investments for new and growing schools – things that the council have no choice over. This confirms that savings of over £3m are required over the life of the MTFP before taking account of additional investment to support demand in social care and to deliver corporate plan promises.

Table 1: Savings requirement over the medium term to achieve 'stand still' position

MTFP Summary	2021/2022 £'000	2022/2023 £'000	2023/2024 £'000	2024/2025 £'000
RSG Increase +5.58% in 21/22, +1.85%, +1.18% and 1% thereafter	(12,719)	(17,016)	(19,771)	(22,121)
Council tax increase	(2,956)	(5,390)	(7,922)	(10,555)
Change in Income	(15,675)	(22,406)	(27,693)	(32,676)
Standstill/ committed pressures	10,133	19,804	27,931	35,854
Cumulative savings requirement (before non-pay and pricing investments)	(5,542)	(2,602)	238	3,178

3.9 As can be seen, the increase/ change in RSG funding has a significant impact and provides significant increased funding to potentially reduce savings required. Notwithstanding this, in the context of what might actually happen given no medium term funding certainty and what might happen to public service funding over the medium term as explained above, it is important that the council continues to carefully review all budget pressures/ investments and that services operate in such a way as to managing/ minimise demands to the extent possible.

Capital programme and financing / Cardiff Capital Region City Deal

3.10 The capital expenditure undertaken by the Council gives a long-term and fixed commitment to fund the associated revenue costs for the provision of the repayment of that borrowing (Minimum Revenue Provision (MRP)) and interest costs – together called 'capital financing costs'. The current Council's capital financing costs make up for almost 7.8% of the net revenue budget, which is high when compared to other Welsh local authorities. The MTFP period includes £3,088k of pressures for the increasing cost of capital financing due to the borrowing required to complete the Council's current capital programme, ending in 2022/23. The Council's very significant capital programme in its commitment to improving the city and its infrastructure requires a significant increase in borrowing with the associated increase in costs outlined above.

3.11 The Capital Strategy, which details the capital programme and the long-term impact of capital expenditure, is approved by full Council, alongside the budget report setting the Council Tax level.

3.12 Within the capital programme is the Council's contribution to the Cardiff Capital Region City Deal (CCR). The CCR is funded by both UK Treasury and its ten constituent Councils and for the latter; a total 'funding envelope' was agreed over its life.

3.13 The Council's contribution to the City Deal was agreed by full Council in 2017/18. Newport City Council contributes just under 10% of the Local Authorities contribution to its overall funding. Whilst this Council, like others, has medium term capital programmes, this is the one individual project within it, which spans over multiple programme periods and the funding commitment for this goes into 2035/36. Funding is made up of two aspects:

- making capital funds available to the CCR. This will incur capital financing costs of MRP and Interest for this Council as it will need to 'borrow' funds itself to pass it on to the CCR
- making capital funds available in advance of UK Treasury funding. In this respect, this Councils capital financing costs is just the interest element, as borrowing will be reimbursed when funds are made available by Treasury in line with current agreements.

The CCR latest business plan requires accelerating proposed funding in order for them to increase spending at an earlier date than previous estimates given. This Councils contribution therefore have been pulled forward and capital expenditure of £8.2m is required to 2022/23 and a further £17.4m is required across the life of the MTFP to cover capital funds in advance of UK Treasury funding. This is estimated to have brought forward revenue costs into the current MTFP of c£500k.

Schools funding

- 3.14 The current position provides for a cash increase for the overall school budget. This has been developed within the context of significant uncertainty around teacher's/ non-teaching staff pay from September/ April 2021 respectively. As pay is the most significant cost heading within school budgets, any funding decision needs to be informed by any change to this. Whilst the UK Chancellor indicated there would be no pay increases for this part of the public sector, the Council is taking a prudent view and making provision within these budget plans for a pay increase from September 2021. The Welsh Government were explicit in informing Councils that the draft funding settlement would need to fund any pay increases. The actual change in pay is a matter for the relevant Welsh Minister, informed by an independent pay advisory body and Councils will have no choice but to implement.
- 3.15 The draft budget makes provision for schools to receive investment of up to £4,937k in 2021/22, which represents a 4.6% growth in schools budget. This is based on an assumed level of inflationary pay award increase as noted above plus the additional costs of new/ expanding schools as the table below shows. In this respect, it represents a 'standstill increase in budget' and fully funds the pay increase (to that assumed) and new/ expanding schools. It is proposed that all of the budget increase provision will be added to the 'Individual School Budgets' with the exception of the allowance for the pay award increase, which will be considered by Cabinet when a final figure is known/ agreed, up to the value of the budget provision made. The intention of fully funding cost increases in the school budget sector remains.
- 3.16 The context for this proposed funding is the challenging financial management position within schools. Throughout the 2020/21 and previous two year financial years in particular, the level of in year overspending at schools has been highlighted as a risk. However in the latest monitoring position, schools are forecasting to be underspent against budget, mainly due to the impact of Covid-19 which has seen many schools closed/ substantially closed for prolonged periods and specific costs reimbursed. Excluding the temporary impact of this current situation, their baseline / core position continue to be a significant area of concern given that £2.7m has been transferred from schools reserves over the last 2 years to fund overspending on their budgets. Current projections of £542k underspending would see reserve balances increase to £1,655k, which based on previous financial positions is not a sustainable position. Officers continue to work closely with schools to ensure that deficit recovery plans are in place and that action is taken to reduce spend.
- 3.17 Whilst the proposed budget increase seeks to fully fund the cost increases in the school sector, it represents a 'standstill' budget increase. Therefore, it is not sufficient to deal with the extent of accumulated deficits in schools at this time and therefore schools will need to find robust solutions to ensure they manage within available budget and repay these accumulated deficits. This resolution is critical as current spending levels in schools is not sustainable and has the potential to cause a significant and adverse impact on the councils overall finances if it continues as previous years.
- 3.18 Assessed budget pressures in school budgets over the life of the MTFP amount to £16.4m based on current assumptions on teacher's pay and new/ expanding schools costs. These will, like

other MTFP assumptions, need to be reviewed regularly and any actual proposed funding increases confirmed through the budget process.

Table 2: School budget pressures 2021/22 to 2024/25

	2021/2022	2022/2023	2023/2024	2024/2025
	£'000	£'000	£'000	£'000
Teaching staff - pay award - 2.75% Sept 2021, 2% there	1,398	1,285	960	986
Teaching staff - increments	712	605	489	375
Non Teaching school staff - pay award - 2% per annum	642	659	674	688
Non Teaching school staff - increments	165	101	82	42
Contract & Income Inflation	172	179	186	194
New and growing Schools	1,115	865	846	1,050
Secondary School Transitions	733	682	463	25
	4,937	4,375	3,700	3,360

- 3.19 Final allocations of specific grant are yet to be determined across the Education Achievement Service (EAS) region. Officers will assess these allocations once confirmation has been received.
- 3.20 Whilst it is recognised that schools have experienced significant financial challenge, school funding in overall terms is better than other parts of the council, and has increased by 19% over the last 5 years. This includes specific grants and is shown in the table below.

Table 3: School budgets by sector – 2015/16 to 2020/21

Year	Nursery £'000	Primary £'000	Secondary £'000	Special £'000	Total £'000
2015/16	519	52,924	47,480	3,724	104,647
2016/17	494	54,627	48,619	4,040	107,780
2017/18	512	54,959	47,505	4,247	107,223
2018/19	562	57,396	47,497	4,773	110,228
2019/20	496	58,492	49,619	5,091	113,698
2020/21	484	64,118	54,851	5,144	124,597

Increase in funding over 5 year period (incl. specific grants)	19%
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Increase in funding (excl. specific grants & delegations)	24%
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Council tax

- 3.21 It is well documented that Newport's council tax is low compared to others in Wales, generating 24% of our income. This council's current year budget is well below its 'standard spending assessment', a relative spending needs assessment between all Welsh councils, by £9.2m, which is almost entirely due to our low level of council tax funding. If Newport's council tax were set at the average rate in Wales this would generate additional income of £8m.
- 3.22 A base 4% increase in council tax is already included in our MTFP each year. This year, the draft budget proposals include an additional 1% increase to council tax in 2021/22 (appendix 2 & 5) bringing the proposed increase to 5%. This is subject to consultation and a final recommendation to Council on the council tax level and will be confirmed in the Cabinet's February 2021 meeting.
- 3.23 For contextual purposes, the table below shows the weekly increases in council tax based on a 5% increase. Given the low starting point on Newport council's tax, it will still be lower than most (if not all) of the neighbouring authorities, even at a 5% increase and the actual monetary increases in tax are low in themselves. Newport City Council proposed tax increase would maintain its position as one of the lowest in Wales.

Table 4: Scenarios illustrating weekly council tax increases

Band	A	B	C	D	E	F	G	H	I
Annual increase based on 5% increase	£39.93	£46.58	£53.24	£59.89	£73.20	£86.51	£99.82	£119.79	£119.79
Weekly increase based on 5% increase	£0.77	£0.90	£1.02	£1.15	£1.41	£1.66	£1.92	£2.30	£2.30

3.24 Given that over half of Newport’s chargeable properties are banded A – C the majority of households would see an increase of between £0.77 and £1.02 per week based on a 5% increase.

Summary of key budget assumptions

At this point, the following assumptions are included.

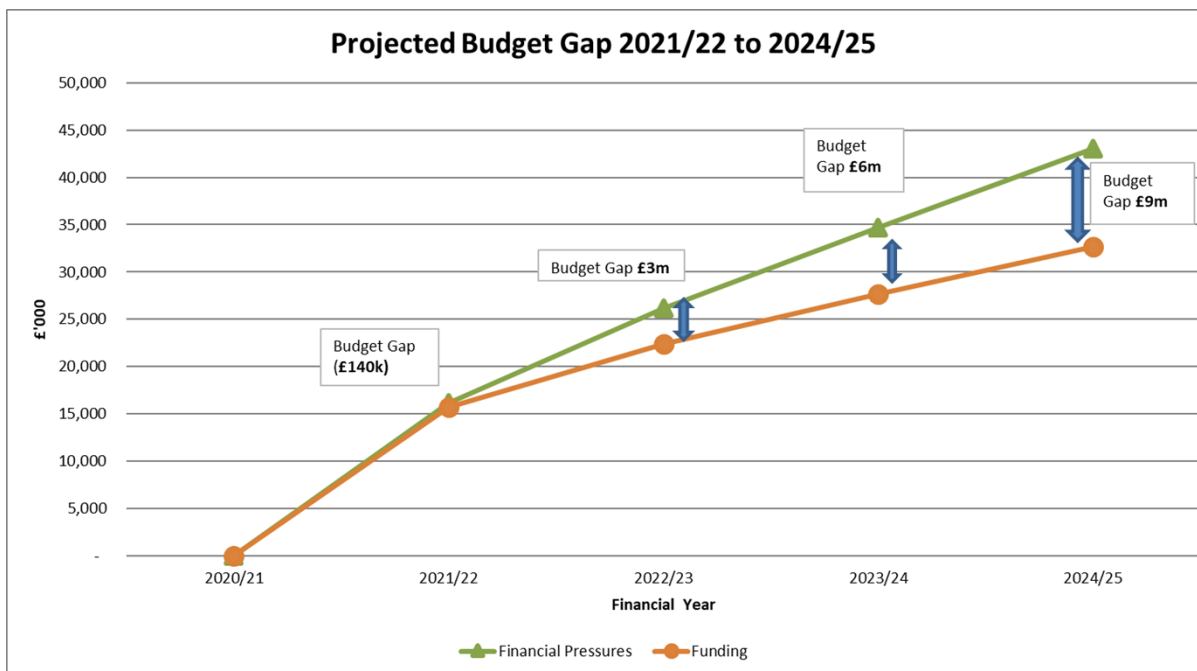
Table 5: Summary of key assumptions

MTFP Summary	2021/2022 £'000	2022/2023 £'000	2023/2024 £'000	2024/2025 £'000
RSG Increase +5.58% in 21/22, +1.85%, +1.18% and 1% thereafter	(12,719)	(4,297)	(2,755)	(2,350)
Council tax increase +5% in 21/22 and 4% pa thereafter	(2,956)	(2,434)	(2,532)	(2,633)
Budget pressures/ investments (appendix 1)	16,184	9,959	8,519	8,398
Previously agreed budget savings (appendix 4)	(649)	(563)	0	0

Resulting budget gap and sensitivity of assumptions

3.25 In summary, the following chart shows the impact that the above assumptions lead to in terms of the Councils medium term financial gap projection.

Chart 3: Projected budget gap 2021/22 to 2024/25



3.26 Clearly, the gap is based on assumptions, listed above, over the life of the MTFP. In light of the final settlement received on the 2 March 2021, Cabinet will need to consider and review key funding assumptions over the medium term.

3.27 The HoF will continue to work with the corporate management team and Cabinet to develop the budget strategy over the medium term, however, some of the key issues, currently, are:

- on-going financial issues on school budgets;
- increasing demand within service areas over and above provision already made within the MTFP;
- increasing costs of funding the Council's increasing levels of planned debt, linked to its substantial capital programme and the reduction in its 'internal borrowing' capacity
- uncertainty around future funding from WG;
- on-going impact of covid-19 and subsequent economic recovery;
- Brexit.

Sensitivity analysis

3.28 As table 5 above confirms, the budget gap is significantly affected by funding assumptions - the WG grant and council tax increases projections. The graph and table below show the sensitivity that the council faces in respect of these.

Chart 4: Sensitivity analysis – budget gap based on RSG and council tax assumptions



3.29 The table below shows how sensitive each of the variables are to changes in assumptions. The key elements within the medium terms projections, which also have the greatest level of sensitivity, include RSG funding, council tax increases, pay and contract inflation.

Table 6: Sensitivity analysis – key projections

RSG Sensitivity	£'000
RSG growth +/- 1%	2,281
Council Tax Sensitivity	
Council tax change +/- 1%	578
Pay Sensitivity	
Pay inflation - NJC staff +/- 1%	1,024
Pay inflation - Teachers and soulbury +/- 1%	519
Contract Inflation Sensitivity	
Contract inflation - +/- 1%	1,245

4 Budget savings

- 4.1 The draft proposed savings identified for 2021/22 to date total £3,360k. The table below provides a summary of the savings by decision over the 4-year planning horizon.

Table 7: Summary of projected savings

Savings Decision Type	2021/2022 £'000	2022/2023 £'000	2023/2024 £'000	2024/2025 £'000	Staff Impact FTE
Budget savings for full Cabinet decision (appendix 2 & 5)	924	239	0	0	24.09
Budget savings delegated to officers (appendix 3)	1,787	19	0	0	6.9
New Budget Savings	2,711	258	0	0	31.0
Previously agreed budget savings (appendix 4)	649	563	0	0	0.0
Total Budget Savings	3,360	821	0	0	31.0

- 4.2 Under the constitution and our scheme of delegation, the Cabinet takes some budget decisions collectively. These proposals total £924k for 2021/22 and £1,163k over the life of the MTFP. Some lower level, operational and efficiency type budget proposals are delegated to Heads of Service for decision and implementation. These proposals, totalling £1,787k for 2021/22 and £1,806k over the life of the MTFP are listed in appendix 3.
- 4.3 In previous years, only those proposals requiring Cabinet decisions were subject to public consultation. This process was changed last year and an impact-based approach adopted whereby each proposal is considered on a case-by-case basis, regardless of where the decision approving the saving is taken. The list of new savings in appendix 2 and 3 identifies if the proposal is subject to public consultation or not. Regardless of their categorisation, the normal protocols for staff, unions and any other required consultation are being adhered to in respect of all savings.
- 4.4 The savings already agreed in the February 2020 MTFP are either in progress of implementation or due to be implemented in 2021/22. The pandemic has had an impact upon delivery in some areas therefore delaying the implementation to 2021/22. No further details are shown for these savings, as they have already been approved.

Fairness and Equality Impact Assessments (FEIAs)

- 4.5 All budget proposals have been reviewed against our Equality and Welsh language duties, and, where appropriate, have had an initial Fairness and Equality Impact Assessment completed. The initial FEIA identifies potential negative or positive impacts in relation to protected characteristics,

as defined by the Equality Act 2010, and on Welsh language. These FEIAs will be further informed as a result of public consultation, and developed in line with the new Socioeconomic Duty, coming into force on the 31 March 2021. FEIAs for all proposals requiring one can be found [here](#).

Medium term strategic change

- 4.6 Whilst good progress has been made on the 2021/22 budget, challenges remain over the medium term, even with more optimistic assumptions around funding as the sensitivity analysis above shows. In particular, significant spending pressures remain to be tackled, particularly in Adults and Children's social care because of growing demand. Containing and then reducing such pressures will require a whole council response, and the active collaboration of our partners such as health services, as part of our new longer-term strategy in going forward.
- 4.7 The success of this longer-term approach will depend on the councils starting with a stable financial platform, and the budget proposals and draft budget set out in this report are designed to do this. A key element of this is taking a longer-term strategic view on how funds are deployed to contribute towards sustainable services, as well as meet priorities. Proposals for major change in service delivery will be considered early in the New Year and will include the need for investment in service redesign, new technological tools and the re-skilling of our staff at all levels to improve productivity and job security.

5 Budget process and consultation

- 5.1 This report presents the draft proposals for the 2021/22 budget. The report asks Cabinet to note:
- the position on developing a balanced budget for 2021/22, acknowledging that the position will be subject to ongoing review and updates;
 - agree that delegated decisions in appendix 3 will be implemented with immediate effect;
 - in addition, where appropriate that all proposals have had an initial Fairness and Equality Impact Assessments completed.
- 5.2 The report also asks Cabinet to agree a series of proposals for public consultation. This includes:
- budget savings proposals in appendix 2 (summary table) and appendix 5 (detailed saving proposals);
 - proposed fees and charges in appendix 7;
 - the position regarding the proposed school funding for 2021/22 in section 3.

Budget engagement

- 5.3 As part of the budget engagement strategy there has been a targeted engagement approach with members of the public to inform budget priorities for the next three years. This will help with budget and service planning. However, the outbreak of Covid-19 and subsequent restrictions in 2020 has meant that the usual pre-budget engagement activities have not been possible. For example, outreach engagement work and events like the over 50's information day were cancelled and bus Wi-Fi surveys were suspended whilst passenger numbers dropped considerably. Instead, engagement resources have focused on ascertaining which services have been most important in supporting households and the wider communities. Community engagement sessions were held with eight of the groups worst affected by Covid-19 as identified in the community impact assessment. This focused engagement will inform the budget setting

process as Covid-19 looks set to shape Council strategic and financial planning at least for the medium term.

- 5.4 As the usual budget engagement mechanisms were not available, the Council has pursued innovative ways to strengthen the resilience of communities whilst involving them in financial decision-making. A participatory budgeting project in partnership with Aneurin Bevan University Health Board is currently underway. This will allow the communities who have been worst affected by Covid-19 to decide on the allocation of £100k funding (provided by ABUHB) to put in place additional services, support and projects.
- 5.5 In recent years (before 2020), there have been a series of outreach engagement sessions with communities across public venues including Newport Central Library and Newport City Council Information station. Officers have attended these venues and using an engagement tool have captured the views of residents to gain an understanding of how the public perceives the Council and how the authority uses its budget. Primarily feedback has focused on livability issues including community safety, recycling and lighting. The findings of this engagement remains relevant and an important evidence base to inform budget planning for 2021/22.
- 5.6 Seeking to capture and understand the opinions, needs and suggestions of the public, specific service users and other stakeholders has been an important part of the Council's budget setting process in recent years. Each year the budget is informed by extensive consultation, which allows our knowledge and understanding to grow over time. Over the last four budget cycles, we received almost 20,000 responses from the public with over 3,800 in the last financial year alone. It, however, needs to be recognised that for 2021/22, this level of response will not be possible because of social distancing and further restrictions on public gatherings and travel continue to take effect.
- 5.7 In addition to external public consultation, proposals will be reported to Scrutiny Committees, the Fairness Commission, Youth Council, older people's forums, Unions, Schools Forum and Third sector/ Business community throughout January. As already noted, further work is required on the Council's Corporate Plan, Change programme and proposals to balance the overall MTFP both in total and over individual years.
- 5.8 A second budget report will be presented to Cabinet on 22 February 2021. This will ask Cabinet to agree its final proposals for the 2021/22 budget and the resulting recommended level of council tax to fund that. The February report to Cabinet will include:
- the results of the public consultation process;
 - any updates from Welsh Government about future grant settlements
 - any emerging details on specific grants, which have financial implications.
- 5.9 Setting the council tax level and resulting total net revenue budget is the responsibility of full Council, so Cabinet's recommendations will be presented to the Council meeting on 3 March for approval and adoption.
- 5.10 Below is this year's timetable for consulting on and approving the 2021/22 budget:

Table 8: Budget consultation timetable 2021/22

Cabinet agrees budget proposals as a basis for consultation	8 January 2021
Consultation period	8 January 2021 to 12 February 2021
Cabinet considers feedback from consultation and agrees final budget proposals and recommends resulting overall budget and council tax required to full Council	22 February 2021

6 Risk, financial resilience and performance

- 6.1 A key driver in our budget strategy and MTFP framework is the need to manage the Councils general and financial risks, its financial resilience and performance. This next section looks at these issues and identifies how they are dealt with, whilst considering how they influence the councils 2021/22 budget and medium term projections.

Risk

- 6.2 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.
- 6.3 The quarter 2 corporate risk register reported to December Cabinet identifies 11 severe risks some of which are linked to the issues set out within the economic context of this report. In some cases, it is increasingly difficult for the Council to effectively prepare and quantify the financial impact of some of these risks until outcomes are known. There are a number of risks identified in the risk register that to fully mitigate would be unaffordable i.e. highways asset backlog maintenance. In these cases, the risk is identified and the Council will provide adequate budgets based on risk based assessments and will lobby WG to provide more funding in these areas, as these risks are not unique to Newport. These areas do, however, continue to be monitored closely to ensure that where information is available these risks are considered and where appropriate factored into the councils financial planning.
- 6.4 Two current risks with significant uncertainty are Brexit and the Covid-19 pandemic:

Covid-19

During 2020/21, external support from WG in the form of the hardship fund has seen loss of income and additional costs relating directly to the pandemic being reimbursed. It is hoped that key elements of the hardship fund will continue into 2021/22 to support the ongoing pressures and subsequent recovery of income. There are currently no pressures factored into the MTFP for Covid as the ongoing projections remain so uncertain.

Brexit

Whilst there is an acknowledgement that any trade negotiations are likely to result in increasing tariffs the impact on costs to the council are unknown at the time of writing.

In both of these cases, whilst the financial impact remains unknown the councils financial resilience set out in appendix 8 provides mitigation in the form of a good level of reserves and the general contingency budget. As we progress with discussions over the next few months, it is hoped that any potential impact will be known with greater certainty and the medium term projections updated.

- 6.5 Appendix 11 sets out the current risks included within the register. Key mitigation includes the Council's (i) revenue contingency budget (ii) 'Invest to Save' reserve to support and fund implementation costs of the current and future change programme, and (iii) capacity to develop the strategic and change programmes to meet the corporate plan within financial context. At this

point, the Council's finances and reserves provide the financial capacity to deal with the current risks identified.

Financial Resilience

6.6 A robust view is taken in 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 8 shows the current 'snapshot' of the key data and information showing an overview of the health of the Council at this time. Key headlines include:

- The council maintains a good level of reserves with the vast majority earmarked for specific purposes and already committed. The contingency base budget and other risk reserves held by the council are taken into consideration when assessing the level of the general reserve, and help to mitigate the risk to the Council. The decline in school reserves over the last few years is a concern and although current projections suggest a forecast of £542k under budget this is a result of lower than estimated costs due to Covid. The forecast underspend will see reserve balances increase to £1,655k at the end of this financial year but unless schools continue to manage within budget in future this has the potential to significantly impact on the financial resilience of the overall council. This will need to be considered between this meeting and the February 2021 meeting when the budget is finalised.
- The council has identified and continues to monitor budget reductions of £4.5m in 2020/21. This is alongside delivering outturn within budget over recent years, despite the delivery of £35m savings over the last 5 years. This needs to be viewed within the context of continued significant demands which are faced by service areas namely children's social care and schools, which have been highlighted throughout the year as part of the budget monitoring process.
- Although the 2020/21 forecast is within budget the overspending position in some key areas is not sustainable in the longer term and is a risk should the level of investment in 2021/22 be insufficient to match demand.
- In light of the continuing financial pressures and demands placed on the Council further savings of at least, £13m need to be found by 2024/25 based on current assumptions. A strategic longer-term approach is recognised as being needed to deal with this given savings found to date over the last 5 years and more.

6.7 Overall, whilst there are some underlying issues and challenges, the Council's financial resilience remains strong and it has financial capacity to develop and change services in response to continuing pressure on funding and increased demand for services.

7 Report review and statutory comments

7.1 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?
Planning parameters around inflation are incorrect	M	M	<ol style="list-style-type: none"> 1 Use of contingency, where required 2 Use of reserves, where appropriate 	<p>Head of Finance</p> <p>SLT</p>
Planning parameters around Welsh Government revenue grant	H	M	<ol style="list-style-type: none"> 1. Use of contingency, where required 2. Keep the assumptions under constant review 	Head of Finance

are incorrect over medium term			3. Use of conservative assumptions	
Increasing budget pressures over medium term	M	M	<ol style="list-style-type: none"> 1. Manage demand, where possible 2. Keep MTFP under constant review 3. SLT review of all budget pressures within MTFP 	SLT

* Taking account of proposed mitigation measures

7.2 Links to Council Policies and Priorities

The overall aim of the budget and MTFP is to ensure resource allocation is based on priorities, supports the delivery of the Council's change programme and saving proposals and protects the financial health of the Council.

7.3 Options Available and considered

There are few options available as the Council is required to consult on its budget where decisions do not fall under delegated authority and therefore needs to agree the basis of its consultation.

7.4 Preferred Option and Why

To consult on the new medium term package to ensure that savings are deliverable from the earliest opportunity.

7.5 Comments of Chief Financial Officer

The key financial impacts are contained within the body of the report and Appendixes.

The main purpose of this report is to agree the budget investments and savings for consultation. Whilst specific budget savings have been identified for specific public and other consultation processes, he details of all individual investments and savings are either shown in detail or referenced in this report. Final decisions will be taken in the February Cabinet meeting, taking account of consultation responses and as always, the budget process will continue and develop over the consultation period, before finalisation in February. A Council Tax rate will be recommended by Cabinet at that point and reviewed/agreed by full Council in their early March meeting.

7.6 Comments of Monitoring Officer

There are no specific legal issues arising from the Report at this stage. Cabinet is being asked to approve the draft savings and investment proposals and council tax rate set out in the Report in order to recommend to Council a balanced budget for 21/22. Cabinet are also asked to agree to the draft budget proposals being submitted for public consultation, where the relevant business cases will have an impact on service delivery and are not operational matters delegated to Heads of Service. Cabinet will then take the final decisions on those business cases in the light of the responses to the public consultation, prior to making a recommendation to Council regarding the budget for 21/22. The implementation of all the savings business cases are executive matters, with the exception of any consequential staffing proposals, which are non-executive matters delegated to Heads of Service. However, whichever decision-making process applies, all of the savings business cases have been the subject of fairness and equality impact assessments to ensure that the Council has regard to its public sector equality duties under the Equality Act and is also acting fairly in terms of the impact of the proposed changes on service delivery. In addition, where specific savings proposals require more focussed consultation with staff and key stakeholders, this will be carried out prior to the implementation of any proposed changes. Public consultation is also required to evidence that the Council has had due regard to the socio-economic duty which will form part of the equalities obligations as from 1st April 2021 and has considered what impact, if any, the savings and investment proposals may have on the socially

disadvantaged. Because the additional schools funding is specifically for any additional increase in teachers' pay, the recommendation is that the necessary funding should be ear-marked for this purpose but only paid over as part of the delegated ISB's if and when any additional pay increase is confirmed. The setting of the overall base budget and council tax rate for 21/22 is a matter for full Council as these are non-executive reserved matters under the Constitution.

7.7 Comments of Head of People and Business Change

The report outlines the proposals for Cabinet consideration in order to set a balanced budget for 2021/22 and also looking forward, with consideration of the medium term financial plan.

Proposals that have an impact on staff will be subject to the required consultation, and consultation with trade unions. As is the case each year when setting the budget, there is a conscious effort to minimise impacts on staff, whilst focusing on priority services and setting a robust and balanced budget. With the continued constriction of governmental funding and the increase in cost pressures, this becomes more and more difficult each year. Due to this the decisions presented for consideration and public consultation are often inevitably a difficult series of 'trade-offs' between service priorities.

In recent years, the business case process has further embedded the five ways of working expressed within the Well-being of Future Generations Act and the organisation has moved to the development of a broader equality impact process, which also includes the five ways of working, alongside protected characteristics and concepts of fairness (developed with the Newport Fairness Commission).

Public consultation on the proposals seeking Cabinet agreement will commence on 8th January 2021 and will run until 12th February 2021. Alongside the traditional paper based consultation process and on-line questionnaires, a bus Wi-Fi survey will be used, although the health crisis will preclude face-to-face consultation activity. As previous, the Fairness Commission will be asked to provide a consultation response.

7.8 Comments of Cabinet Member

The Chair of Cabinet, as Cabinet Member for resources has approved the report for consideration and approval by Cabinet.

7.9 Scrutiny Committees

The constitution requires that Scrutiny Committees be consulted on Cabinet's draft budget proposals.

7.10 Equalities Impact Assessment and the Equalities Act 2010

This is referenced in paragraph 4.5 of the report.

7.11 Children and Families (Wales) Measure

All proposals will be consulted on widely, as required.

7.12 Wellbeing of Future Generations (Wales) Act 2015

The Act is referenced in the report.

7.13 Crime and Disorder Act 1998

Section 17(1) of the Crime and Disorder Act 1998 imposes a duty on the Local Authority to exercise its various functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent, crime and disorder in its area.

Dated: 8 January 2021