

Report

Cabinet

Part 1

Date: 19 July 2017

Subject **Update to Medium Term Financial Strategy**

Purpose To update the Cabinet on the current financial outlook and resourcing for Welsh local authorities, and outline the current planning assumptions and projections which form the basis of Newport City Council's medium term financial plan.

Author Head of Finance

Ward N/A

Summary The Chancellor's budget in March confirmed that the economic outlook remains unchanged with continuing austerity and visible impact on local services. Whilst the macro picture for public finances has improved slightly, with borrowing in 2016/17 expected to be £16.4bn less than previously forecast, it remains at £51.7bn. The Chancellor set out a trajectory of gradually reducing annual deficits for the next few years, confirming the tight spending environment for public services as the UK begins the formal process of exiting the European Union (EU). Although it has been suggested that the new Chancellor might reduce the level of cuts in the short term, this is likely to come at the cost of additional – and possibly even larger – cuts later on.

Under this context, the Council needs to follow a robust strategy in planning for and delivering against its medium term financial outlook. Essentially, there are 2 distinct parts to this overall strategy – (i) updating our financial strategies and assumptions, where necessary, to identify the medium term financial challenges, and (ii) developing plans to deal with these challenges and deliver sustainable services to the public whilst continuing to meet the Council's priorities.

This report updates the Council's financial strategy by reviewing and updating, where necessary, the key contextual issues affecting our planning assumptions, key issues around managing risk, performance and financial resilience and to update the resulting budget challenges over the medium term.

The report sets out some of the key strategies already in place to reduce and minimise some of the financial challenges identified and other strategies to address the potential budget gap over the medium term.

Proposal Cabinet is asked to:

- Approve the current key planning parameters in setting out the current budget gap for 2018/19 and the medium term, noting that this work is subject to on-going refinement;
- Note and approve the current working strategies officers are working under to provide budget solutions to the current financial challenge;
- In particular, to approve the working strategy in relation to schools funding in the next financial year which funds school inflation, demographics and school reorganisation

pressures whilst noting that this could be reviewed in light of the draft settlement when known;

- Agree the approach to the one off funding that was allocated to schools from 2016/17 unused contingency budget. This was one off funding which is to be reviewed as part of the 2018/19 budget process;
- Note the Head of Finances comments and observations on the current risks facing the budget, how they are being managed and financial resilience issues;
- Note the current level of reserves, projected use and their utilisation in the context of the medium term.

Action by HoF / SLT / CMT – develop budget proposals and discuss with Cabinet
HoF / Chief Education Officer – discuss schools funding strategy with school's / school's forum and develop plans to meet the financial challenges of the funding strategy outlined.

Timetable Included within this report

This report was prepared after consultation with:

- Senior Leadership Team
- Statutory officers

Signed

Background

Economic Context

1. This budget strategy update report is written in the context of continued and sustained financial restraint. While stronger economic activity is expected in the short term, the medium term outlook for public finance remains essentially unchanged since the Autumn statement 2016. Although the Chancellor set out the government's strategy to return public finances to balance as soon as possible in the next parliament, the commitment is now to 'return the public finances to a sustainable position in the long term'. Although the Office of Budget Responsibility (OBR) expects the level of Gross Domestic Product (GDP) in 2021 to be broadly the same as forecast in the Autumn statement the profile of the growth has changed. The OBR now forecast GDP growth of 2.0% in 2017, 1.6% in 2018, 1.7% in 2019 followed by 1.9% in 2020 and 2.0% in 2021.
2. Global growth remained broadly stable in the second half of 2016. The International Monetary Fund (IMF) forecasts that global growth will increase slightly to 3.4% in 2017. It judges that the outlook has improved in advanced economies while growth prospects have marginally worsened in emerging countries. Uncertainty around the global outlook is heightened at present, associated, among other things, with policy and political risks.
3. The OBR anticipates that effects of rising inflation, largely caused by the post referendum sterling depreciation, and stronger GDP growth will give a shallower, but slightly longer period of slower growth. In the longer term, the economy is expected to adjust to new relationships within the European Union (EU) and the rest of the world. The OBR has not attempted to predict the precise outcomes of negotiations; however, it is believed that the effects of leaving the EU on trade are unchanged from those which underpinned the Autumn Statement 2016 forecast.
4. The national uncertainties summarised above are compounded further in respect of Welsh Government (WG) policy decisions affecting Local Government funding as there remain no indicative figures on future settlements or future priority areas.

Welsh Government Context

5. The WG 2017/18 settlement was as predicted, and planned for, confirming a significant reduction in grant. Although the average increase in grant (Aggregate External Financing) was 0.2% across Wales, the final settlement for Newport reduced significantly between draft and final due to the increased tax base in Newport, with the ability to raise funding from council tax being higher than the Welsh average.
6. As set out in the February 2017 Cabinet report, the final 2017/18 budget was based on the final Revenue Settlement Grant (RSG) of £208.3m, which represents a 0.4% decrease in cash funding from the 2016/17 level, but a 0.7% decrease after taking account of specific grant transfers into the settlement and new responsibilities. Allowing for inflation i.e. a standstill position, the real term decrease in grant was close to 4%. This settlement, as per previous settlements, was for one year only, and did not provide any indicative figures for future years. Whilst the Welsh Local Government Association (WLGA) continues to lobby WG for more certainty for councils in respect of financial planning no indication has been given to date that this information will be provided.
7. The 2018/19 settlements are likely to be received on or around **October 18th 2017** for the publication of the provisional settlement and **December 20th 2017** for the final settlement. This will allow the Council to have timely assurance on the 2018/19 funding position though this does not detract from the need to work up detailed business plans to meet the predicted budget challenge as soon as possible. The current assumption in the MTFP is for a 1% reduction in central grant from WG which equates to a £2.1m cash reduction. This has been reduced from 1.5% to 1% since February 2017 budget report based on historical trends and the settlement taking into account increases in population expectations and other demographic changes.

8. As indicated, the economic context that not only Local Government, but also WG work under is difficult and uncertain; there is the expectation that WG will also face budget reductions in the coming years. The Welsh Local Government Association (WLGA) agree that it's not just a case of seeking to achieve further funding, but to seek a new relationship with WG where the gravity of the situation is recognised, accurate and that transparent information is reported and flexibility is maximised. They highlight a number of ways in which this can be achieved:

- Greater equity of consideration of the preventative services provided by local government such as social care and housing;
- De-hypothecation of all specific grants into the RSG;
- Greater coordination across WG departments in any aspects of policy making that affect local government;
- A thorough review of the costs and benefits of audit and regulation;
- A review of the impact of universal benefits and subsidised service delivery where these are proving unsustainable for councils;
- Full consideration of the devolution of powers to councils, including the retention of business rates growth;
- Greater clarity for the future with the issue of multiyear settlements;
- Recognition that at a time of increasing financial risk, a council making cuts also needs to increase reserves to reflect the increased volatility of its budget;
- Realism in terms of new legislative duties for Councils and far more robust financial impact assessments of new policies.

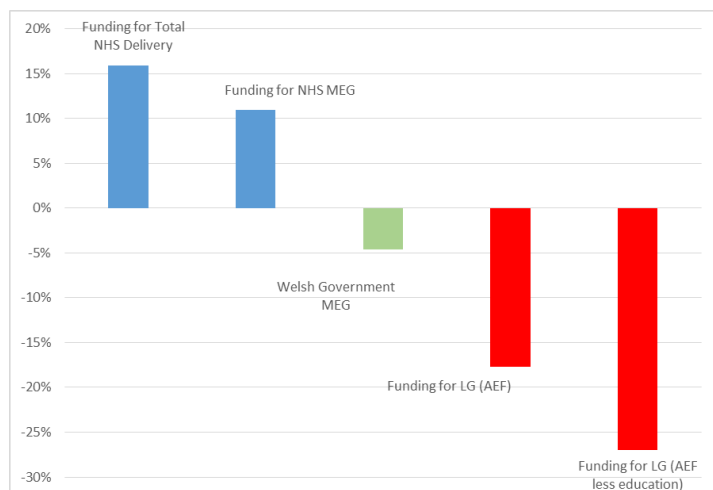
Whilst some progress on one or two of the above are being made, there is little improvement on most of the above and these, in themselves, makes the current position more challenging for Local Government.

9. Whilst considering the local context it is appropriate to note that it is not only about the level of funding that is received by the Welsh Government but the decisions that are taken in terms of where they choose to spend this money. The chart below shows that WG funding continues to increase year on year although the funding devolved to Local Government has decreased considerably since the onset of austerity with significant increases going to the health sector.

Table 1 – WG Budgets 2012/13 to 2016/17

2012/13	£15.482bn
2013/14	£15.432bn
2014/15	£15.669bn
2015/16	£15.930bn
2016/17	£16.486bn

Chart 1 – WG Changes in Funding Levels since 2009/10



Council Context

10. The Council's Corporate Plan 'Standing up for Newport' for the period 2012-2017 set out the strategic ambitions for the five year period, with financial planning being a critical part of ensuring that viable, effective services can continue to be delivered to local people. A key objective of the plan was to ensure the Council priorities and plans were funded and driven by the MTFP. The Council previously identified 8 Improvement Objectives which fit into the Corporate Plan themes of (i) A caring City (ii) A fairer City (iii) A learning & working City (iv) A green & healthy City, and (iv) A safer City.
11. This Corporate Plan has served the Council up to this point. Following the local elections, Newport has a new administration for the next five years and a revised Corporate Plan is currently in the process of being developed. Officers are working with Cabinet to identify the emerging priorities and core themes. This work will be concluded over the next two months and coupled with other corporate strategies will ensure that a clear strategy exists to deliver services at a lower cost and, whilst being supported by the Councils change programme, priorities are funded in a sustainable manner. This will be in the context of a vastly different Local Government and economic environment in comparison to the current Corporate Plan and will need to reflect the current position of local authorities.
12. Finally, Cabinet will be aware of the following local issues:
- WG revenue support grant makes up 78% of the Councils total net funding. What WG do with this grant is very significant. This figure is high across all Welsh Councils relative to English Councils and is one of the highest in Wales, given this Council's total funding position against its Standard Spending Assessment (SSA).
 - The Council spends £8.25m less than its SSA, due to its low council tax. This limits the opportunities to find savings, relative to other Councils, and it is clear that 'capacity' within Newport Council is lower relative to others.
 - Newport's council tax is historically one of the lowest across Wales (and the UK). It is not possible to increase it to that level assumed within the SSA and average across other Councils due to 'capping'. In addition, 20% of any increased funding coming from council tax increases are lost locally, due to the need to fund a corresponding increase in Council Tax Reduction Scheme (CTRS) payments since funding responsibility for this was transferred to the Council from WG.
 - As a 'growing city' demands and costs are increasing right across the services provided by the Council, while funding is being reduced. This is causing increasing pressures on the MTFP requiring further savings to be found to balance the budget. The demands of a growing City can be seen from the following data tables:

Table 2 - Population Growth 2014 - 2020

Newport	2014	2015	2016	2017	2018	2019	2020
Population Statistics 2014-2020	146,841	147,284	147,749	148,234	148,729	149,243	149,770
Actual increase		0.30%	0.32%	0.33%			
Projected increase					0.33%	0.35%	0.35%

The average annual increase in Wales over the same period is 0.2%.

Table 3 – PLASC (Pupil Level Annual School Census) Growth 2014 – 2020

Newport	2015	2016	2017	2018	2019	2020
January PLASC Roll Count	22,807	23,254	23,606	24,173	24,530	24,915
Actual increase		2%	2%			
Projected increase				2%	1%	2%

- Timing is likely to be a key challenge in the context of future transformational change and the development of robust business cases. As part of the work to prioritise Council functions, benchmarking and cost benefit analysis exercises will be required before the business cases can be developed to ensure that they reflect all aspects of the Councils Corporate Plan.

RISKS, FINANCIAL RESILIENCE & PERFORMANCE

13. A key driver in setting out 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 currently and issues which need to be considered in setting out the Councils 2018/19 and medium term budgets.

Risk

14. The Council maintains a corporate risk register which is regularly reviewed by the Corporate Leadership 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 table in appendix 7 lists the current approved corporate risks at the time of writing, though these will be updated at the September Cabinet which will then require further on-going review from our budget strategy viewpoint.
15. Key mitigation issues include the Council's (i) revenue contingency budget (ii) capacity provided by the '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 new 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. Appendix 7 also details other risks which have the potential to have financial impact for the Council.

Financial Resilience

16. The 2017/18 budget report set out the responsibilities of both Cabinet and the Section 151 Officer to set a balanced budget. It also highlighted the financial risks inherent in the proposed budget and set out the financial risk context of the Council including:
- The delivery of the £5.6m of savings in order to achieve balanced budget in 2017/18;
 - Low inflationary assumptions.
17. The budget report also set out the financial resilience of the Council and the measures in place to mitigate the risks highlighted in the risk register and those included above. A robust view is being 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 1 shows the current 'snapshot' of the key data and information showing an overview of the health of the Council at the time of setting this budget strategy.
18. The Council has identified and continues to monitor budget reductions of £5.6m in 2017/18. This is alongside delivering outturn within budget over recent years, despite the delivery of c£25m savings over the previous 3 years. The financial resilience 'snapshot' and 2016/17 outturn shows a balanced budget position in the financial year and an increase in the level of reserves on the previous year. This, however, needs to be viewed within the context of continued significant pressures within service areas and schools into 2017/18, which have been highlighted in early monitoring of the financial year.
19. The level of general reserve is maintained at £6.5m following assessment by the Head of Finance. This is deemed to be the minimum level of general reserve necessary and represents c2.4% of the

Council's net budget. If this were to be utilised in year, actions would need to be put in place to replenish the reserve back to the minimum position within adequate timescales. The contingency base budget and other risk reserves held by the Council are all taken into consideration when assessing the level of the general reserve, and help to mitigate the risk to the Council.

20. The Authority's reserves are an integral part of how the Authority deals with its financial risks as well as its high level strategic financial planning. As can be seen from the 'snapshot' over the last 4-5 years the level of the Authority's earmarked reserves have increased and the main reasons for this increase are outlined below:
- Managing the risk of making a £90m loan to developers to bring about the Friar's Walk scheme, a key piece in the regeneration of the City (total c£10m) and funding the insurance risks previously covered by MMI (£0.6m);
 - To fund one off school funding (£1.1m) and other spending priorities (£1.5m) which, in the main, have been funded by revenue underspends in previous years;
 - To fund capital expenditure and to manage key risks around the future capital programme;
 - Funding of significant one-off costs related to cost saving measures, in the face of increasing challenging financial pressures and lower funding;
 - Setting aside future increased costs of PFI, whilst the PFI grant received was higher than the expenditure required (this now forms part of the revenue support grant);
21. The budget strategy needs to be aligned with the financial resilience of the Council and reserves are a key part of this resilience at times of uncertainty as they provide mitigation against volatility. Appendix 2 shows the planned/ forecast use of specific reserves within the annual budgets over the MTFP period as it is known currently. The projection shows a significant reduction in the reserve level over the current life of the MTFP.
22. General utilisation of reserves in supporting the budget setting process needs to take into account the finite nature of the reserve i.e. once used it has gone and is not a recurring budget saving, therefore creates an immediate funding gap in the following year. The Section 151 Officer will consider the level of all reserves during this budget setting process.
23. Although the 2016/17 outturn position reports a balanced position there are a number of significant risks and pressures across service areas, including community care budgets, out of area residential placements within Children and Young People services and special educational needs. Furthermore, the non-delivery of previously agreed MTFP savings are causing significant pressures within Streetscene & City Services. These pressures are ongoing and will need to be reflected in the budget strategy.

The Council's Capital Programme and affordability

24. As WG capital funding to local authorities has reduced, the Council, in common with other local authorities, has had to fund a greater share of its capital funding requirement. Coupled with recent high value capital schemes that supported the Councils priorities such as new schools and city centre regeneration etc., this has led to increasing levels of borrowing commitments being undertaken. The Council has to ensure that any borrowing is affordable, prudent and sustainable, not only now, but in the long term.
25. As a proportion of the Council's revenue budget, capital financing costs are currently taking a significant amount and this cost is a long term commitment against the Council's revenue budget. The table below shows this; the fall in 2019/20 reflects the saving which is included in the MTFP due to maturity of relatively high interest borrowing, which will be refinanced at a lower interest level.

Table 4 – Impact of capital financing costs on revenue budget

	2017/18	2018/19	2019/20	2020/21
% of revenue budget used for capital financing	8.9%	8.8%	8.2%	8.2%

Newport is amongst the highest in Wales in terms of debt financing.

26. 2017/18 is the final year of the previously approved 4-year capital programme which commenced in 2014/15. Therefore alongside the development of the MTFP, the next 4-year capital programme will need to be formed for 2018/19 onwards. While the finalisation of a small amount of the current programme will roll into 2018/19, the new programme will need to be developed within, amongst others, the financial context of affordability and the cost of borrowing that will be required to finance the new programme.

27. Early work has been carried out with senior officers on the current affordability envelope of a new programme over the next 4 years, assuming that the current budget for financing borrowing costs does not increase. The ‘envelope’ of capital expenditure funded from borrowing would then be augmented by other funding sources such as capital receipts, grants and capital reserves. Any capital expenditure funded from borrowing over and above the headroom indicated would require additional budget and increase the MTFP ‘revenue budget gap’. This is a key consideration when setting the new capital programme.

28. Current levels of capital receipts have largely been earmarked for the completion of the Band A 21st Century Schools programme. A decision will need to be made on the use of future capital receipts and this will need to take into account the expected timings of the associated disposals.

29. The table below shows the approximate level of capital expenditure over the next 6 years that would be affordable within the headroom (assumptions are made on the average asset lives of the capital expenditure) – the ‘affordability envelope’ mentioned above.

Year of capex	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	
Total Capex affordable	8,262	3,800	6,868	7,595	5,300	3,157	34,983

30. The above table shows that the next Capital Programme could be at a level of approximately £35m and still be within the current revenue budget headroom. However, within the future Capital Programme there are a number of significant projects and pressures, which would require significant capital investment, including:

- Ensuring a sustainable property asset base and that property is fit to deliver service
- The development of the Band B 21st Century Schools Programme
- City centre regeneration and economic development activity
- Meeting the aspirations of services to invest in existing assets or create new capital assets in order to improve service delivery and meet pressures of increasing demand.
- The need to maintain the highway and associated infrastructure such as roads, traffic signals, bridges, street lighting
- Newport’s share of the City Deal funding

Due to the above there has been an additional £250k included as a pressure in the MTFP in both 2019/20 and 2020/21, in order to achieve a capital programme which will meet the needs of the Authority in the coming years.

31. Clearly, the Council will need to continue to incur borrowing costs to both meet the objectives of the Corporate Plan and invest in schemes that generate a return for the Council and citizens. As the Council revenue budget decreases, it will need to consider the level of debt and potential financial

resilience issues that may be a consequence of increasing borrowing. As highlighted, previously in this report, earmarked reserves have been set aside for capital expenditure, in addition to capital receipts that the Council has realised. Use of these reserves for capital purposes would reduce the revenue implications of increased capital financing costs. Inevitably, choices on what projects can be prioritised within an affordable and prudent financial envelope will need to be made.

32. The Council's Treasury Strategy is currently one which has limited the need to take out any 'new' physical borrowings, by dis-investing its own cash resources to fund capital expenditure. However, this is proving increasingly challenging to maintain and our budget strategies to meet the on-going financial challenge are crucial issues which will dictate how quickly the Council will need to physically take out new borrowings and therefore the increasing revenue costs this results in, via interest costs. Use of reserves to fund both revenue and capital expenditure will, for example, put strain on cash-flow and trigger the day when new 'actual borrowing' is finally required.

BUDGET STRATEGY UPDATE AND KEY ASSUMPTIONS

33. The 2017/18 budget report identified a budget reduction requirement of £13.6m for 2018/19 and £45.1m over the four year MTFP period to 2021/22. Following review since the 2017/18 budget report, the gap for 2018/19 has reduced by £2.1m to £9.4m. The current medium term plan is shown in appendix 3, and appendix 4 shows a full reconciliation between the 2017/18 position approved at February Cabinet to the current budget 'gap'.

34. Key changes that have arisen since the February 2017 update to the MTFP and budget strategy include (i) new pressures that are outside of the Councils control, for example, due to changes in legislation and (ii) changes to assumptions that were previously used in regards to tax base and funding:

(i) External Factors:

- Adult Services - changes to the fees that can be charged for residential care due to the increased capital limit which is a commitment from WG (£350k);
- Children's Out of Area Residential placements – the number of placements have been increasing since December 2015. This, coupled with the increasing costs over the last 5 years, has resulted in a pressure of £800k has been included for this in the MTFP;
- During early 2017 an actuarial review of the Local Government Pension Scheme was undertaken. The outcome of this review was a requirement for an increase to the employer's contribution to fund the ongoing pension deficit. A 1% rise in employer contributions on a base of 12.4% contribution has resulted in a pressure of £660k. This valuation further impacted in respect of existing joint venture arrangements as Newport remains liable for any subsequent pension uplifts (£347k).

(ii) Changes to assumptions:

- The 2017/18 budget report assumed a 1.5% reduction in WG revenue support grant in 2018/19 which equates to a £3.1m reduction in funding. The assumption for the reduction has been revised downwards for 2018/19 to 1% which equates to an increase in the funding assumption of £1.0m. The Council will be made aware of its provisional level of funding by mid-October, which gives a lot more clarity on the budget requirement.

35. The MTFP is a dynamic model and it will need to be updated throughout the autumn. Some of the key areas requiring further work and refinement include:

- Ongoing review of the in-year monitoring position and delivery of savings that could impact on the MTFP;
- Changes to level of funding from WG when confirmation of provisional settlement is received.

Budget Strategy for 'closing the Gap'

36. It is evident that the budget gap is considerable and is subject to further refinement and updating as we move closer to December 2017 when we consult on detailed budget proposals and finally February/ March 2018 when the budget and council tax is finalised. An equally flexible and on-going process is required on the Councils strategy to close the gap, over the medium term and in particular 2018/19.

37. In order to address the gap the following budget strategy is currently being pursued:

- Reducing existing budget pressures in 2018/19 and medium term , where possible;
- Prioritisation of services in the context of costs versus benefits which is to be developed with the new administration. The Corporate Plan is in the process of being developed with the new administration and will ensure it can deliver on meeting the greatest needs and priorities whilst ensuring that the provision is sustainable;
- Service area budget savings, within the framework set by a new corporate plan and our Newport 2020 strategy;
- Review of 'non-service' expenditure to explore whether there are options available to make savings in areas such as capital financing costs or expenditure on what is deemed as 'non-controllable' expenditure;
- Increasing external income where possible.

38. As stated previously, the current strategy is not to use reserves to fund the budget gap. While there may be some flexibility on the use of reserves, this needs to be aligned with the long term planning and implications of utilising the reserves and the evaluation of risk around their use, in particular around how well the services are managing their budgets.

39. The summary table below shows the position of the budget gap for the Council over the next four years and the savings that are required to enable this gap to be addressed. A more detailed summary can be found within appendix 3 and 8 of the report.

Table 5 – Medium Term Financial Plan (MTFP) Summary

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	Total £'000
Financial Pressures	11,542	8,851	9,046	7,431	36,870
Funding Reductions	2,083	2,062	2,041	2,021	8,207
Budget Requirement Reduction	13,625	10,913	11,087	9,452	45,077
Consequential to deal with Social Care Pressures	(160)	0	0	0	(160)
Increase in tax base	(1,958)	(1,880)	(1,896)	(1,912)	(7,646)
Savings	(2,080)	(1,610)	(20)	0	(3,710)
Budget Gap	9,428	7,422	9,171	7,540	33,562

It is vitally important that work begins on compiling business cases to meet the gap at the earliest opportunity, as the timing is crucial to complete before draft settlement in order for Cabinet to consider the options available.

BUDGET CONSULTATION & TIMETABLE

40. Ahead of the setting of the 2017/18 budget engagement work focused on building on the extensive feedback received in recent years and sought to better inform the public and stakeholders about the financial pressures and the formal consultation process. The Policy, Partnership and Involvement Team were present in over 20 public locations across Newport and engaged with over 2,300 people as part of an engagement programme for the Wellbeing of Future Generations Act 2015 The formal budget consultation process commenced in December 2016 and 371 completed feedback questionnaires were received which represents a significant improvement on the previous year (230 responses). The knowledge acquired through previous budget consultation and work on wellbeing work is cumulative and transferable and will also be relevant for the 2018/19 budget.

41. The 2018/19 budget engagement programme will follow a similar format to that for 2017/18, particularly with regards to phase 1 (before formal proposals are released). As a major public consultation exercise was undertaken in 2016/17 in support of the Wellbeing of Future Generations Act 2015, engagement work in 2017/18 (for the 2018/19 budget) will further exploring the services that are relevant to local people's wellbeing, the assets they value and what they want to see more of in the longer term, In addition to this, engagement will also seek to inform the public of the formal budget consultation process e.g. key dates, how they can keep informed; and will ask for suggestions on how savings can be made. This will be achieved through a combination of attendance at public events, various forums and a range of public communications. In 2016/17 there was a particular focus on engaging with hard to reach/seldom heard/minority groups and this approach will be continued in preparation for the 2018/19 budget, for instance through working with the Engage Project (representing 7 hard to reach groups), Rainbow Newport (LGBT), youth forums, tenants networks and BME representative groups. Formal consultation (phase 2) will include engagement with employee trade unions, Scrutiny Committees and the Schools Forum.
42. Following the release of budget proposals in December a formal budget consultation process will commence and will run for a four week period. The results will be reported to February Cabinet as an analysis report.
43. A response to the budget proposals from the Fairness Commission will be facilitated and the Chair will of the Commission present their conclusions to February Cabinet.
44. It should be noted that whilst corporate engagement is valuable in gathering wide ranging feedback and gaining an overview of public opinion on budget proposals (in phase 2), but service areas are also expected to involve and engage with service users as MTFP business cases are developed. It is also expected that reference will be made to the results of earlier consultation and engagement which may offer relevant insight into opinions and views on the development of services.

Timetable

The timetable for the budget process and consultation is included in Appendix 6.

Risks

Risk is a key consideration in the Council's Financial Strategy and has been incorporated into the body of the report.

Reducing budgets by the amounts shown is inherently risky, from both a financial resilience and service provision perspective. These are managed through regular financial resilience reviews and all business cases for budget saving highlighting clearly the impacts on service provision, including statutory services.

The financial strategy includes a number of key assumptions, in particular WG grant levels which will not be confirmed until December 2017. Late notification of WG grant increases the impact of this uncertainty.

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?
Key assumptions are incorrect	M	M	-Key assumptions and sensitivity made clear - Plan for delivering savings requires contingency for this risk	HoF SLT

Very late notification of WG grant	M	H	- Plan for delivering savings requires contingency for this risk -Revised consultation plan and timetable - Close contact with WG officials to ensure we know as soon as possible of what date this will be available	SLT SLT HoF
Service impact of resulting proposals	H	M	-Business Cases make impacts clear -Robust review by Cabinet	All HoS SLT / Cabinet

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

The budget strategy is key in the delivery of the Council's priorities

Options Available

N/A

Preferred Option and Why

N/A

Comments of Chief Financial Officer

All financial issues are contained within the body of the report.

The key challenge is closing the significant budget gap over the medium term of c£34m and within that the immediate gap of £9.4m in 2018/19. In order to achieve this, the Council require a strategic view on how to deliver proposals and a programme that reduces the gap and this needs to be linked with the Council's priorities and developing Corporate Plan.

Comments of Monitoring Officer

There are no specific legal issues arising from the Report. The Council has a statutory duty to set a balanced budget and to ensure financial resilience in accordance with Treasury Management principles, in terms of the use of reserves and contingent liabilities. The report sets out a proposed budget strategy for bridging the anticipated funding gap in the medium term, having regard to increased pressures, statutory duties and corporate priorities.

Comments of Head of People and Business Change

The change and efficiency programmes will have a direct impact on employees across the Council, including, potentially, schools. Changes to structures and staffing will be required to make the necessary savings and service transformation.

The Council will aim to minimise the impact of resulting proposals on employees across our services, however, given the scale of the challenges facing the Council over the next 5 years, it has to be recognised that the Council cannot rule out having to make redundancies. All employees directly affected will be supported by the provisions of the Council's Job Security Policy, which aims to minimise compulsory redundancies and retain employees in our employment wherever possible.

A progressive approach to engagement will be vital going forward in ensuring that the Council's strategic and budget planning is not only legally compliant but also reflect the views and needs of communities

and build on their assets as we look to develop sustainable services in an increasingly challenging financial climate. It should be stressed that engagement should not be considered a corporate function but as a way of working that is intrinsic to good service delivery and planning and ultimately improving wellbeing.

Local issues

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

Equalities Impact Assessment

The detail of Equalities Impact Assessment will be included in the February report to Council.

Children and Families (Wales) Measure

All proposals will be consulted on widely, as required.

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 will include 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 is to be undertaken, as outlined in paragraph 40-44 of the report.

Background Papers

Corporate Plan 2012-2017

Newport 2020 Strategy

Budget Report 2017/18

Appendices

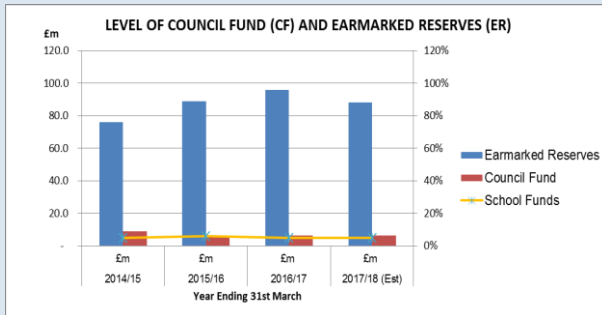
- Appendix 1 Financial Resilience 'Snapshot'
- Appendix 2 Planned Use of Reserves
- Appendix 3 Medium Term Financial Plan (MTFP)
- Appendix 4 Reconciliation of 2017/18 Budget Report to MTFP
- Appendix 5 Budget Sensitivity
- Appendix 6 2018/19 Budget Timetable
- Appendix 7 Corporate Risk Register
- Appendix 8 Summary Position of Budget Gap

Appendix 1 Financial Resilience Snapshot

FINANCIAL SNAPSHOT REPORT - UPDATE TO JULY CABINET

The following tables, charts and figures give an indication of the financial of the financial resilience of the Council as per the Statement of Accounts

Level of Council Fund (CF) and Earmarked Reserves (ER)



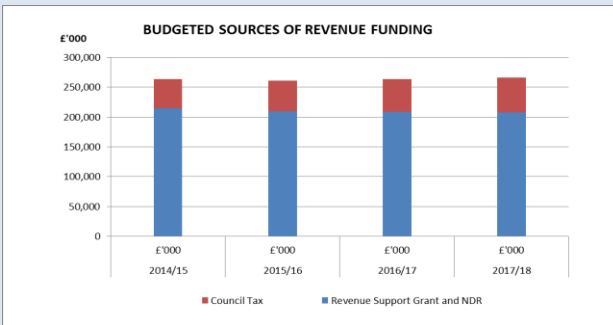
Level of Reserves

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18 (Est)
Earmarked Reserves	64.5	71.2	76.1	88.9	95.8	89.2
Council Fund	5.0	5.0	6.5	6.5	6.5	6.5
School Funds	4.4	4.2	4.8	5.9	4.8	4.8

Budgeted Sources of Funding

Total Revenue Funding	2014/15	2015/16	2016/17	2017/18
Revenue Support Grant and NDR	214,826	209,254	209,142	208,250
Council Tax	49,104	52,117	54,796	58,122

Budgeted Revenue Funding Split



Financial Performance and Ratios

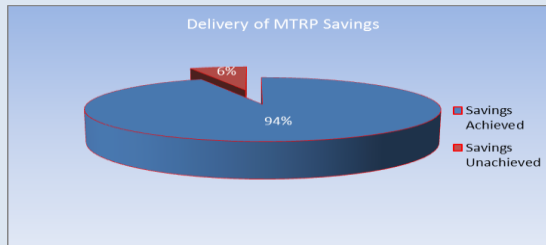
Ratio	Calculation	2012/13	2013/2014	2014/2015	2015/2016	2016/2017
Net Worth	(Asset - Liabilities)	53,668	96,061	45,887	61,260	24,739
Net Worth (excl Pension Liab.)	(Asset - Liabilities)	286,220	289,675	288,037	341,081	349,533
Working Capital Ratio	(Curr. Assets / Curr. Liabilities)	0.68	0.79	0.89	1.82	1.17
Gearing Ratio	(Borrowing / Total Reserves)	44.1%	51.2%	45.5%	44.0%	49.3%

The figures below shows the 16/17 forecast position for both revenue and capital

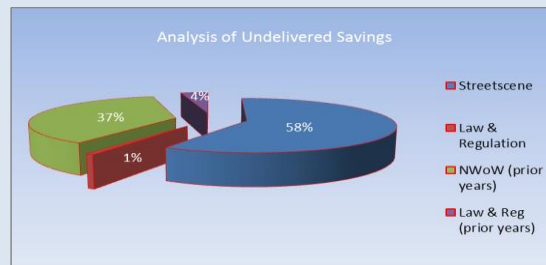
2016/17 Revenue Outturn Position

Directorate	Current Budget	Outturn	Variance	Variance
	£'000	£'000	£'000	%
Children & Young People	21,033	21,213	180	1
Adult & Community Services	39,748	40,266	518	1
Education	13,807	14,300	493	4
Schools	90,000	91,050	1,050	1
Regeneration, Investment & Housing	9,041	8,910	(131)	(1)
Streetscene & City Services	16,911	18,929	2,018	12
Corporate Services	16,235	15,610	(625)	(4)
Total Directorates	206,775	210,278	3,503	2
Capital Financing	28,183	24,834	(3,349)	(12)
Contingency Provisions	6,159	4,723	(1,436)	(23)
Levies / other	21,735	20,427	(1,308)	(6)
Reserves / Transfer	1,086	5,215	4,130	380
Total Budget	263,937	265,476	1,540	1
Additional funding - CT surplus	(76)	(1,616)	(1,540)	
Projected Over/ (Under) spend				

Revenue Savings Achieved and Unachieved (March FIP)



Analysis of Unachieved Savings



2016/17 Capital Outturn Position

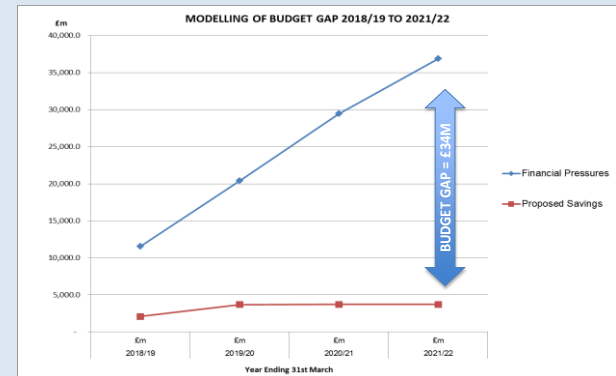
Directorate	Final Budget	Final Outturn	Variance Slippage	Variance (Under)/ Overspend
	£'000	£'000	£'000	£'000
Education, Investment & Housing	19,048	18,797	(251)	136
Regeneration, Investment & Housing	8,990	8,395	(595)	(24)
People & Business Change	1,199	404	(795)	(673)
Law & Regulation	189	183	(6)	-
Adult & Community Services	782	890	108	108
Children & Young People Services	55	54	(1)	(1)
Streetscene & City Services	5,087	3,670	(1,417)	(268)
Total Budget	35,350	32,393	(2,957)	(722)

The tables below show the Medium Term Financial Plan (MTFP) and the risks facing the Council.

MTFP Scenario (To be approved by July Cabinet)

	2018/19	2019/20	2020/21	2021/22	Total
	£'000	£'000	£'000	£'000	£'000
Financial Pressures	11,542	8,851	9,046	7,431	36,870
Funding Reductions	2,083	2,062	2,041	2,021	8,207
Budget Requirement Reduction	13,625	10,913	11,087	9,452	45,077
Consequential to deal with Social Care Pressures	(100)	0	0	0	(100)
Increase in tax base	(1,958)	(1,880)	(1,896)	(1,912)	(7,646)
Savings	(2,080)	(1,610)	(20)	0	(3,710)
Budget Gap	9,428	7,422	9,171	7,540	33,662
RSG Reduction scenarios					
Balance - @ -0.5% WG reduction	8,387	6,396	8,161	6,545	29,490
Balance - @ -1.5% WG reduction	10,470	8,437	10,161	8,505	37,573
Balance - @ -2% WG reduction	11,511	9,442	11,130	9,440	41,523

Modelling of Budget Gap 2018/19 to 2021/22



Capital Expenditure & Capital Financing Requirement (CFR)

Capital Expenditure	2016/17	2017/18	2018/19	2019/20	2020/21
	Actual	Estimate	Estimate	Estimate	Estimate
Total capital expenditure	32.4	39.5	N/A	N/A	N/A
Capital Financing Requirement					
Financing requirement	10.8	10.8	10.8	10.8	10.8
CFR	279.1	279.1	279.1	279.1	279.1

N/A as Capital Programme to be developed in line with MTFP

Affordability Indicators -

Ratio of Financing Costs to Net Revenue Stream - highlights the revenue implications

of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs.

	2017/18	2018/19	2019/20	2020/21	2021/22
	Estimate	Estimate	Estimate	Estimate	Estimate
Ratio of Financing Costs to Net Revenue Stream	8.4	8.3	7.7	7.7	7.7
Incremental Impact of Capital Investment Decisions					
Increase in Band D Council Tax*	£ 2.02	£ 1.75	£ 3.21	£ 3.36	£ 3.38

* Assumes 4% cumulative increase in Council Tax although no decision has been taken to this effect.

Appendix 2 Planned Use of Reserves

Reserve	Balance at	Balance at	Balance at	Balance at	Balance at
	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21
	£'000	£'000	£'000	£'000	£'000
Council Fund:	(6,500)	(6,500)	(6,500)	(6,500)	(6,500)
Balances held by schools for future use	(4,831)	(1,831)	0	0	0
Earmarked Reserves:					
Pay Reserve	(1,418)	(1,418)	(1,418)	(1,418)	(1,418)
Music Service	(167)	(167)	(167)	(167)	(167)
Insurance Reserve	(1,706)	(1,706)	(1,706)	(1,706)	(1,706)
MMI Insurance Reserve	(602)	(602)	(300)	(300)	(300)
Legal Claims	-	-	-	-	-
Health & Safety	(16)	-	-	-	-
Council Tax Reduction	-	-	-	-	-
Education Achievement Service	(92)	(92)	(92)	(92)	(92)
Schools Redundancies	(708)	-	-	-	-
Friars Walk	(9,985)	(9,485)	(9,485)	(9,485)	(9,485)
NEW - European Funding I2A & CFW	(79)	-	-	-	-
NEW - Metro Bus	(9)	-	-	-	-
SUB TOTAL - RISK RESERVES	(14,782)	(13,470)	(13,168)	(13,168)	(13,168)
Capital Expenditure	(5,817)	(4,317)	(2,817)	(1,317)	-
Invest to Save	(11,050)	(9,109)	(8,638)	(8,618)	(7,618)
Super Connected Cities	(670)	(550)	(430)	(310)	(190)
Landfill (Door Stepping Campaign)	(345)	(345)	(150)	(150)	(150)
Christmas Lights	(15)	-	-	-	-
Usable Capital Receipts	(11,742)	(3,742)	(2,742)	(2,242)	(1,742)
SUB TOTAL - ENABLING RESERVES	(29,639)	(18,062)	(14,776)	(12,636)	(9,699)
STEP School Computers	(473)	(313)	(213)	(113)	(13)
Municipal Elections	(154)	(54)	(84)	(114)	(144)
Local Development Plan	(572)	(634)	(533)	(360)	(260)
Glan Usk PFI	(1,499)	(1,499)	(1,499)	(1,499)	(1,499)
Southern Distributor Road PFI	(44,515)	(44,303)	(43,963)	(43,485)	(42,935)
SUB TOTAL - SMOOTHING RESERVES	(47,213)	(46,804)	(46,293)	(45,572)	(44,852)

Works of art	(21)	(21)	(21)	(21)	(21)
School Works	(545)	(545)	(545)	(545)	(545)
Theatre & Arts Centre	(232)	(232)	(232)	(232)	(232)
Cymorth Income	(33)	-	-	-	-
Pupil Referral Unit	(60)	(60)	(60)	(60)	(60)
Gypsy and Traveller Site	(7)	-	-	-	-
Homelessness Prevention	(38)	-	-	-	-
Environmental Health - Improve Air Quality	(49)	-	-	-	-
Refurbishment of a Children / Older People Homes	(102)	-	-	-	-
Apprenticeship Scheme	(80)	(40)	(40)	(40)	(40)
City Economic Development	(90)	(45)	-	-	-
Welsh Language Standards	(240)	(160)	(100)	(40)	-
YS Dilapidation Costs Information Shop	(51)	-	-	-	-
NEW - School Reserve Other	(1,100)	-	-	-	-
NEW - Port Health	(3)	-	-	-	-
NEW - CRM	(21)	-	-	-	-
NEW - WCCIS	(54)	-	-	-	-
NEW - Investment Reserve	(1,500)	-	-	-	-
SUB TOTAL - OTHER RESERVES	(4,226)	(1,103)	(998)	(938)	(898)
RESERVES TOTAL	(107,190)	(87,769)	(81,734)	(78,813)	(75,116)

Appendix 3 Medium Term Financial Plan (MTFP)

	2018/19	2019/20	2020/21	2021/22	TOTAL
Pressures					
Inflation	3,426	3,507	3,599	3,695	14,227
Other	8,117	5,344	5,446	3,736	22,643
Total Pressures	11,543	8,851	9,046	7,431	36,870
Technical Adjustments	-	-	-	-	-
(INCREASE)/DECREASE IN REVENUE SUPPORT GRANT(assumed 1.0% 18/19 and thereafter)	2,083	2,062	2,041	2,021	8,206
Consequential to deal with social care pressures	- 160	-	-	-	- 160
Net (INCREASE)/DECREASE IN REVENUE SUPPORT GRANT after consequentials (assumed 1.0% 18/19 and thereafter)	1,923	2,062	2,041	2,021	8,046
Increase in tax base - C.Tax @ 17/18 rate	- 116	-	-	-	- 116
C. Tax @ 4% until 2021/22	- 2,330	- 2,350	- 2,370	- 2,390	- 9,438
Less consequential increase in benefits	489	470	474	478	1,911
GAP	11,508	9,033	9,191	7,540	37,273
Savings	2,080	1,611	20	-	3,711
Balance - @ -1.0% WG reduction 2018/19 onwards	9,428	7,422	9,171	7,540	33,562
Balance - @ -0.5% WG reduction	8,387	6,396	8,161	6,545	29,490
Balance - @ -1.5% WG reduction	10,470	8,437	10,161	8,505	37,572
Balance - @ -2% WG reduction	11,511	9,442	11,130	9,440	41,522

Appendix 4 Reconciliation of 2017/18 Budget Report to MTFP

MTFP	2018/19	2019/20	2020/21	2021/22	Total
Gap as per 2017/18 Budget Report	11,567	9,057	10,151	N/A	30,775
Revised inflation	-75	-79	-82	3,695	3,459
Revised/ New Pressures:	632	-238	396	3,736	4,527
Revisions:					
Adults – Older people demographic growth	-158	-169	-	-	-327
Adults – Transitions & demographic growth	-297	-180	-	-	-477
Adults – Capital limit	350	-	-	-	350
Adults – national minimum wage	40	-4	24	-	60
Children’s – Leaving care	-95	4	-1	205	114
Children’s – Kinship	90	190	180	190	650
Education demographics - primary	-133	-388	130	29	-362
Education demographics - secondary	-77	198	-16	778	883
Education – teaching staff increments	108	129	126	484	847
Education – Llanwern primary school	-	-	-	519	519
Education – West Glan Lyn school	-	-	-	120	120
Education – Whiteheads school	-	-	-	411	411
Non-Service-Additional pension deficit - SRS	28	-	-	-	28
Revised Newport live pension deficit	-100	-	-	-	-100
Streetscene – waste strategy	8	-273	-391	-	-656
Removal of contingency pressure	-1,000	-	-	1,000	-
New:					
Children’s – out of authority placements	800	-	-	-	800
Children’s – YOS team	45	-	-	-	45
Children’s – independent fostering agencies	-	-	46	-	46
Children’s – in house fostering	-	-	48	-	48
RIH – Homelessness	139	-	-	-	139
RIH – Norse pension deficit	347	5	-	-	352
RIH – Temporary accommodation	103	-	-	-	103
Streetscene – 17/18 MTFP double count	69	-	-	-	69
Streetscene – previous year overstatement	60	-	-	-	60
P&BC – Pinacl Wifi	195	-	-	-	195
P&BC – Ransomware software	30	-	-	-	30
P&BC – HR Resources	80	-	-	-	80
Capital Programme costs	-	250	250	-	500
New / Increased Savings:	-1,100	-	-	-	-1,100
Non – Service – Revision of MRP policy	-1,100	-	-	-	-1,100
Changes to assumptions on funding:	-1,596	-1,318	-1,294	109	-4,099
Reduced WG grant reduction assumption to 1%	-1,041	-1,015	-990	2,021	-1,025
Council Tax inc Base increase	-395	-303	-304	-1,912	-2,914
Additional social care funding	-160	-	-	-	-160
Gap as per Budget Strategy	9,428	7,422	9,171	7,540	33,562

Appendix 5 Budget Sensitivity

PAY SENSITIVITY	Inc. Schools	Exc. Schools
Pay inflation @1% - included in current MTFP	£1,531k	£598k
Impact of +/- 0.5%	+/- £766k	+/- £299k

RSG GRANT SENSITIVITY	
RSG reduction of 1.00% – included in current MTFP	£2,083k
Impact of +/- 0.25%	+/- £521k
Impact of +/- 0.5%	+/- £1,041k
Impact of +/- 1.5%	+/- £3,124k

COUNCIL TAX SENSITIVITY	
Impact of +/- 0.5% Change in Council Tax	+/-£233k
Impact of +/- 1% Change in Council Tax	+/-£466k

PENSION EMPLOYER CONTRIBUTION SENSITIVITY	
Impact of +/- 1% Change in Pension contribution	+/-£660k

SOCIAL SERVICES BUDGET SENSITIVITY	
Impact of +/- 10 No. of Adults in residential Community Care (annual cost)	Average of +/-£452k
Impact of +/- 10 No. of Adults in non-residential homes (annual cost)	Average of +/-£96k
Impact of +/- 10 No. of Children in Out of Area Placements (annual cost)	Average of +/-£1,752k

Appendix 6 2018/19 Budget Timetable

Month	Task	Timescale	Output/ outcomes	Status
April	Lessons learned log for 17/18 completed and circulated to Change & Efficiency board	3rd April	Incorporated into detailed budget setting process	Completed
	Development of business cases to support existing (and new) budgetary pressures	End April	Review of existing pressures to be undertaken and outcome to be presented to SLT	Completed
	Business case proforma format agreed and circulated	End April	Produce document template with pre-set entry fields	Completed
May	Initial MTRP update for SLT review and agree framework for taking forward 2018/19 and medium term budget	9th May	Initial discussion, view of budget challenge and agree areas of further work. Understand how the anticipated budget gap could be dealt with	Completed
June	Extended FIP meeting to discuss existing budget pressures/ savings and potential impact of non delivered projects	8th June	Quantify the impact of non delivered projects and ensure that these are discussed with HoS and permanent mitigation identified	Completed
	Special CMT sessions to review revisions to existing pressures and assess new pressures within the current MTFP	6th & 20th June	Detailed review of individual pressures completed. Revised gap to be reported to SLT for further consideration	Completed
	Update MTRP for CMT review - following detailed review of existing savings and pressures	27th June	Detailed review completed highlighting budget challenge. This is to be reported to Cabinet in July including framework for identifying quantum of change programmes across service areas	
	<i>Cabinet papers to Democratic Services</i>	<i>28th June</i>	<i>MTRP position paper - 19th July Cabinet meeting</i>	
	CMT to assemble strategic priorities to support the development of a budget strategy for 2018/19 onwards	End June	CMT to share outcomes/ conclusions with officers with the aim to incorporate into MTRP proposals whilst embedding Wellbeing of Future Generations (Wales) Act 2015	
July	Cabinet Meeting - MTRP position paper	19th July	Agree budget challenge and plan for taking forward	
August/ September	Initial draft business cases developed for SLT review	End September	Position on current status and progress, agree consultation requirement and agree if full or outline business case required. Cabinet Member involvement	
	Finalise business cases	End September	Following feedback from peer review	
October	CMT budget sessions/ Business Case Quality Assurance – WG/RC/MR/Finance/BIP and HoS	1st week October		
	Draft settlement received	Mid October	Update MTRP and budget challenge	
	Assurance panels	3rd week October		
	Members briefing on MTRP position	End October	General overview of MTRP position and key points to all Members	
	Informal Cabinet – Consider Draft budget/settlement	End October	Business case pack prepared for informal cabinet - new/additional proposals only (including changes to existing proposals)	

November	Assurance panels to review additional proposals	1st week November	Over and above those agreed in October	
	Tax base confirmed by Head of Finance	Mid November	Update MTRP as needed	
	<i>MTRP Cabinet report to be finalised and sent to Democratic Services</i>	<i>30th November</i>	<i>Cabinet meeting of 20th December</i>	
	Cabinet meeting - MTFP update	End November		
December	Final settlement from WG	TBC	Update MTRP and budget challenge	
	Informal Cabinet finalise position on draft budget	TBC	After settlement confirmed	
	Cabinet agree draft budget for consultation	20th December		
	Consultation on draft budget commences	21st December		
January	Public consultation ends	TBC		
	Scrutiny meetings - budget consultation	11th, 17th & 24th January	Provide comments to Cabinet on the proposed business cases	
February	<i>February Cabinet budget papers to Democratic Services</i>	<i>1st February</i>		
	Cabinet agrees final 17/18 and medium term budget and recommends council tax requirement to Council	14th February		
	Council agrees Council tax and the 2018/19 budget approved	27th February		

Appendix 7 Corporate Risk Register

Risk	Financial planning mitigation
1. Impact of the political/ democratic process on the delivery of the Change Programme and the MTFP.	<ul style="list-style-type: none"> -Ensure contingency in the MTFP. -Reprioritise programme where appropriate. -Accelerate development of future years Change Programme initiatives to ensure proposals are in place for timely approval by the new administration.
2. Delay in the implementation of proposals which impacts on the overall MTFP for 2017/18 and beyond.	<ul style="list-style-type: none"> -Escalate key issues and risks via the existing governance arrangements for timely decision making. -Ensure financial contingency in the MTFP and determine other financial mitigation options. -Review options for alternative proposals. -Reprioritise programme where appropriate. -Review business cases assumptions before sign off and revise where appropriate.
3. Insufficient project manager resource to deliver programme for 2017/18 and subsequent years and to develop the business cases for the future programme.	<ul style="list-style-type: none"> -Ensure appropriate level of resource are included and signed off as part of the budget setting process. -Review options for resourcing the accelerating and widening Change programme in response to the on-going financial challenge.
4. Lack of organisational capacity to manage, drive and embed change and develop the forward programme	<ul style="list-style-type: none"> -Secure funding to ensure enabling resource capacity during change process. -Monitor benefits via existing governance arrangements and escalate where required.
5. Resistance to change across the Council which impacts on progress and the MTFP targets.	No current specific financial issue. Ensure communications and engagement with key stakeholders across the organisation to influence culture and educate using a variety of channels including the existing programme governance arrangements.
6. Robust communications are not in place causing a detrimental impact on the programme from a range of stakeholder groups.	No current specific financial issue. Ensure robust communication plan for the overall Change and Efficiency/MTFP is developed and implemented.
7. Interdependencies between initiatives not properly understood and may impact on overall progress.	No current specific financial issue. Identify interdependencies and assess impact on the overall programme. Manage interdependencies to minimise any detrimental impact.
8. External factors which could impact on the existing programme (legislative, political etc.)	-Assess potential external/market factors and where appropriate develop and implement mitigation.

9. Impact of Legislation including Social and Wellbeing act, Future Generations Bill etc.	-Maintain watching brief on the issue to detect any signs of movement. -Ensure future strategic and change programmes incorporate key legislative issues
10. Lack of financial resources to cover the costs of programme implementation (e.g. invest to save monies, redundancy costs)	-Identify required resources to delivery programme. -Bid for resources as part of the budget setting process. -Ensure there are sufficient resources in reserves.
11. The impact of the implementation of the living wage across the Council and third party contractors.	-Identify financial impact and communicate to key stakeholders.
12. Increasing pressure on corporate support functions required to deliver the Change Programme.	-Ensure appropriate level of resource are included and signed off as part of the budget setting process.
13. Impact of total reward on the ability to deliver the Change Programme and business as usual council services.	Determine impact on programme and Services when details of the rank order and salary levels are released.
14. Late identification of financial pressures which increases requirement for additional cost savings proposals	-Early identification of financial pressures via budget monitoring process. -Identification of additional cost savings proposals to cover gap. -Identification of resources to implement required changes.
15. Impact of Brexit	-Impact still to be determined due to the high level of uncertainty. -Specific mitigation measures will be developed when the specific impacts have been determined.
16. Inability of service areas to sustain transformational changes	-Previous lessons learnt indicate that sustaining transformational change is difficult. -Ensure appropriate handover and training arrangements are incorporated into the project planning and monitoring process.

Risk	Financial planning mitigation
The need to deliver significant levels of savings during a period of prolonged financial austerity particularly given the impact that delays to delivery of the proposal has on the budget monitoring position.	-Robust financial monitoring and on-going review on the delivery of savings. -Robust business cases to support saving proposals. -Appropriate budget strategy to deal with the on-going challenges. -Base budget contingency to protect the core budget in short term.
The cumulative impact of achieving the savings, within this current year's budget	-Robust financial monitoring and on-going review on the delivery of savings.

<p>in addition to the unachieved 2016/17 savings which remain to be realised in 2017/18.</p>	<p>-Base budget contingency to protect the core budget in short term.</p>
<p>The Council's ability to meet the costs of change e.g. voluntary severance,</p>	<p>-Established Invest to Save reserve in place and processes to access funds to support delivery of MTFP savings.</p>
<p>The level of additional borrowing undertaken in previous years and that potentially required for the new capital programme will require more revenue resources to be used for capital financing in future years if the programme is high.</p>	<p>-Unavoidable risk based on historical spending</p> <p>-Low interest rates provides some mitigation in that cost of borrowing is relatively cheap</p> <p>-Review of capital programme and funding sources, including maximising capital receipts</p>
<p>The impact on Newport Transport, which is wholly owned by the Council, from challenging trading conditions and issues such as reductions to the reimbursement rate in respect of concessionary fares.</p>	<p>-Good governance arrangements – Board of Directors includes officer representation and Members.</p> <p>-No budget expectation for financial dividend included in base budget.</p>
<p>The impact on Newport Norse, which is a joint venture arrangement, from challenging trading conditions which could affect the profit share payable to the Council.</p>	<p>-Good governance arrangements – Board of Directors includes officer representation.</p> <p>- -Set out clear expectations from the Joint Venture and monitor carefully.</p>
<p>The risk of WG levying fines if the Council fails to realise recycling or land fill diversion rates</p>	<p>Specific reserve provides mitigation and given no fines levied for previous performance, it is used to fund specific staff to work with residents on a face to face basis to improve their recycling habits/ practices. Base budget contingency protects core budget in short term.</p>

Appendix 8 – Summary Position of Budget Gap

Estimated Budget Reduction Requirement	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	Total £000
Pay Inflation & Increment	1,530	1,538	1,553	1,569	6,191
Price/Contract Inflation	2,027	2,106	2,187	2,271	8,591
Income Inflation	-133	-137	-140	-144	-554
Schools Demography	518	539	826	807	2,690
New Schools Pressure	1,428	907	1,006	1,050	4,391
Teaching Staff Increments	867	736	612	484	2,699
National Minimum Wage	512	494	549	0	1,555
Non-Teaching Staff Increments	777	0	0	0	777
Children's Out of Area Placements	800	0	0	0	800
Other Social Services Pressures	827	633	423	394	2,277
Other Pressures – to be identified	0	1,000	1,000	1,000	3,000
Capital Financing Pressures	200	0	0	0	200
Pension Deficit	788	660	660	0	2,108
Other Identified Pressures	1,400	375	370	0	2,145
Gap Before funding assumptions	11,543	8,851	9,046	7,430	36,870

Funding and Savings Assumptions	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	Total £000
Estimated 1.00% reduction in RSG	2,083	2,062	2,041	2,021	8,207
Council Tax at 4%	(1,957)	(1,880)	(1,896)	(1,912)	(7,645)
Consequential funding to deal with Social Care pressures	(160)	0	0	0	(160)
Total Assumptions	(34)	182	145	109	402

New Savings	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	Total £000
Savings identified	(1,100)	0	0	0	(1,100)

Savings	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	Total £000
Agreed savings from 2017/18 budget report	(980)	(1,611)	(20)	0	(2,611)
Current Gap to be found	9,428	7,422	9,171	7,540	33,562