

SCRUTINY COMMITTEE REPORT

Date Written	28 th December 2018
Report Author	Steve Jones
Service Area	Finance
Committee Date	8 th January 2019

To: Chair, Ladies and Gentlemen

Medium Term Financial Plan 2019/20 to 2022/23 – Additional Demands

1.0 SUMMARY OF THE REPORT

- 1.1 Council of 21st November 2018 approved corporate additional demands to the Medium Term Financial Plan subject to Scrutiny Committees' deliberation.
- 1.2 This report considers £926,000 additional demands for 2019/20 relating to services falling under the remit of the Governance, Performance, Business Change and Corporate Services Scrutiny Committee.
- 1.3 The additional demands are considered unavoidable and whose inclusion is paramount to the Council setting a balanced Budget for 2019/20. Corporate Management Team has been instrumental in robustly challenging the necessity for these financial pressures to be included within the Budget.

2.0 RECOMMENDATION(S)

- 2.1 The content of this report be discussed and noted.

3.0 INTRODUCTION AND BACKGROUND

- 3.1 In considering an update to the Council's Medium Term Financial Plan (MTFP), Council of 21st November 2018 approved gross 'Corporate Additional Demands' of £5.914 million for 2019/20 subject to Scrutiny Committee deliberation.

- 3.2 It was suggested at the Council of 21st November 2018 that further detail in respect of the additional demands pertaining to specific areas be reported to the respective scrutiny committee for consideration.
- 3.3 This report details additional explanations in respect of £926,000 of requested additional demands for 2019/20 specific to services under the remit of the Governance, Performance, Business Change and Corporate Services Scrutiny Committee

4.0 WHERE WE WERE

- 4.1 The Medium Term Financial Plan 2018/19 to 2021/22 approved by Council on 7th March 2018 is summarised in Table 1.

Table 1 – MTFP Projected Budget Deficits 2018/19 to 2021/22

Description	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Required Net Budget	117,461	123,790	127,571	130,710
Available Finance	117,461	117,233	117,073	116,981
Projected Budget Deficit	0	6,557	10,498	13,729

- 4.2 It is evident from Table 1 that the projected budget deficit was £6.557 million for 2019/20 and a projected cumulative £13.729 million for the 3 year period 2019/20 to 2021/22.

5.0 WHERE WE ARE NOW

- 5.1 The updated MTFP reported to Council on 21st November 2018 is outlined in Table 2 and reflects revisions for the implications of the provisional settlement, corporate additional demands, corporate budget reductions and schools' budget reductions.

Table 2 –Revised Projected Budget Deficits 2019/20 to 2021/22

Description	2019/20 £'000	2020/21 £'000	2021/22 £'000
Budget Deficit – Council 7th March 2018	6,557	10,498	13,729
Implications of Provisional Settlement	-1,901	-2,327	-2,742
Corporate Additional Demands	4,914	8,023	8,600
Corporate Budget Reductions	-3,236	-1,650	-1,616
Schools' Budget Reductions	-694	-694	-694
Revised Budget Deficit	5,640	13,850	17,277

- 5.2 It is evident from Table 2 that the revised budget deficit is £5.640 million for 2019/20 and a projected cumulative £17.277 million for the 3 year period 2019/20 to 2021/22. Indicative additional demands of £2 million are included for 2020/21 with a further £1 million for 2021/22 to reflect probable further requirements in addressing demographic growth and service financial pressures.

- 5.3 Managers have identified a number of additional financial demands, considered unavoidable, for inclusion in the MTFP, resulting from demographic growth and service financial pressures, as summarised in Table 3.

Table 3 – Additional Budget Demands

Description	2019/20 £'000	2020/21 £'000	2021/22 £'000
Education	1,845	3,128	3,390
Social Services	2,599	3,126	3,305
Neighbourhood Services	427	723	815
Community Regeneration	117	135	141
Support Services	146	146	146
Corporate Costs	780	765	803
Less: Indicative Demands Contingency	-1,000	0	0
Total Additional Demands	4,914	8,023	8,600

- 5.4 It is evident from Table 3 that net £4.914 million of corporate additional demands are proposed for the 2019/20 financial year. It should be noted that the magnitude of this additional demand is unprecedented and is indicative of the financial pressures faced by all Local Authorities within the United Kingdom particularly within education and social services.
- 5.5 The additional demands considered within this report are in respect of 'Support Services' and 'Corporate Costs' and total £926,000 for 2019/20. These are detailed in Appendix 1 and summarised in Table 4.

Table 4 – 'Governance' Additional Budget Demands

Description	2019/20 £'000	2020/21 £'000	2021/22 £'000
Service Support and Development	22	22	22
Benefits	69	69	69
Revenues	48	48	48
Members Expenses	7	7	7
Bank Charges	22	23	23
Capital Financing Costs	200	200	287
Residual Strategic Partnership Savings	109	105	61
Additional Pay Award Costs	207	195	190
Purchase to Pay System	42	42	42
IT Replacement Programme	200	200	200
Total Additional Demands	926	911	949

6.0 WHERE WE WANT TO BE

- 6.1 The Council is required to set its Budget for 2019/20, including the Council Tax increase, by 11th March 2019.

- 6.2 Under the Local Government Act 2003, the Chief Finance Officer is required to report upon the robustness of the estimates made for the purposes of the budget and council tax setting calculations and the adequacy of the proposed financial reserves. It is therefore critical that the Council sets a balanced budget taking into account all known and projected financial pressures.
- 6.3 All additional demands detailed in Appendix 1 have been subjected to robust challenge by Corporate Management Team in determining the criticality of each demand for inclusion within the MTFP. It is recognised that without reflecting these unavoidable additional expenditure requirements the Council will not be setting a balanced budget for 2019/20.

7.0 WHAT WE NEED TO DO NEXT

- 7.1 The Joint Scrutiny / Audit Committee of 23rd January 2019 will consider all Scrutiny Committees' comments in respect of the respective additional demand proposals.
- 7.2 A Special Cabinet, provisionally scheduled for 6th February 2019, will recommend the Budget and Council Tax increase for 2019/20 to Council.
- 7.3 Council of 20th February 2019 will be requested to set a balanced Budget for 2019/20.

8.0 CONTRIBUTION TO WELLBEING OBJECTIVES

- 8.1 The Council's wellbeing objectives are supported since the proposal is a major contributing factor in ensuring the financial sustainability of the Council thus enabling the continued delivery of essential Council services for the community.

GARETH CHAPMAN
CHIEF EXECUTIVE

COUNCILLOR ANDREW BARRY
CABINET MEMBER FOR GOVERNANCE
AND CORPORATE SERVICES

BACKGROUND PAPERS		
Title of Document(s)	Document(s) Date	Document Location
Medium Term Financial Plan 2018/19 to 2021/22	Council 7 th March 2018	Council agenda and minutes / Finance Department
Medium Term Financial Plan 2019/20 to 2022/23 – Update 1	Council 21 st November 2018	Council agenda and minutes / Finance Department
Does the report contain any issue that may impact the Council's Constitution?		No

Medium Term Financial Plan 2019/20 to 2022/23
Corporate Additional Demands

Additional Demand	2019/20 £'000	2020/21 £'000	2021/22 £'000
Corporate Services – Service Support and Development	22	22	22
Currently Budgeted for within the MTFP for 2019/20 (£'000)			1,167
Current Year's (2018/19) Projected Budget Overspend (£'000)			21
<p>Description Reflects reduction in Service Level Agreement with Merthyr Tydfil Leisure Trust in respect of switchboard services.</p>			
<p>Service and/or Budget Risk if not Approved</p> <p>If the growth is not approved a further redundancy would be required to balance the budget. The service has already suffered a number of post reductions as a part of the Customer programme and can only function adequately if the all the posts in the structure are filled. We are already receiving complaints from the public and councillors with regards to the time taken to answer calls. Further reductions at this time would severely damage the service to the customer.</p>			
Risk Score (5x5 matrix)	Likelihood	Impact	Total
	5	4	20

Medium Term Financial Plan 2019/20 to 2022/23
Corporate Additional Demands

Additional Demand	2019/20 £'000	2020/21 £'000	2021/22 £'000
Corporate Services – Benefits	69	69	69
Currently Budgeted for within the MTFP for 2019/20 (£'000)			364
Current Year's (2018/19) Projected Budget Overspend (£'000)			n/a
<p>Description Reflects the reinstatement of the budget in respect of contributions to the Citizen's Advice Bureau (CAB).</p> <p>The budget allocation to fund the CAB originally contained within Benefits was vired to Supporting People as from 2018/19. It was then decided that Benefits would still be required to carry the costs of supporting the CAB but without the reinstatement of the budget allocation. It was envisaged that the cost would be off-set against income received from the Department for Work and Pensions (DWP) for specific purposes but not applied, thus avoiding an over spend against the service area.</p>			
<p>Service and/or Budget Risk if not Approved The administration grant received is likely to reduce year on year and funding for Universal Support (circa £18,000 p.a.) will be lost as from April 2019. The ability to cover the above cost is therefore reduced increasing the likelihood of a budget overspend.</p>			
Risk Score (5x5 matrix)	Likelihood	Impact	Total
	5	4	20

Medium Term Financial Plan 2019/20 to 2022/23
Corporate Additional Demands

Additional Demand	2019/20 £'000	2020/21 £'000	2021/22 £'000
Corporate Services – Revenues	48	48	48
Currently Budgeted for within the MTFP for 2019/20 (£'000)			11
Current Year's (2018/19) Projected Budget Overspend (£'000)			22
<p>Description Reflects re-alignment of bailiff income budget.</p> <p>Historically additional charges made by the Local Authority Enforcement Officers in pursuant of outstanding Parking Fixed Penalty Notices, such as Compliance and Enforcement Fees, were recovered through a charge made to the Parking department. This was a component in the overall income receipt within the Revenues budget. As from 2017/18, this procedure was revised, reducing the potential income by an estimated £48,000. A reduction in the revenue income is therefore required to reflect this change in procedure..</p>			
<p>Service and/or Budget Risk if not Approved A budget overspend is likely as there are no opportunities to make up the shortfall from other income sources. This outcome can be avoided through a reduction in service capacity but with a likely adverse impact on collection rates and enforcement fee income.</p>			
Risk Score (5x5 matrix)	Likelihood	Impact	Total
	5	4	20

Medium Term Financial Plan 2019/20 to 2022/23
Corporate Additional Demands

Additional Demand	2019/20 £'000	2020/21 £'000	2021/22 £'000
Legal and Democratic Services – Members Expenses	7	7	7
Currently Budgeted for within the MTFP for 2019/20 (£'000)			783
Current Year's (2018/19) Projected Budget Overspend (£'000)			6
<p>Description Reflects increase in members' salaries.</p> <p>The proposed increase to Member's salaries results from the Independent Remuneration Panel's recommendation.</p>			
<p>Service and/or Budget Risk if not Approved</p> <p>Individual councillors may choose to forego all of part of their individual entitlement, but authorities cannot vary or delay implementation of the determinations of the Independent Remuneration Panel for Wales. As per Part 8 (sections 141 to 160) and Schedules 2 and 3 of the Local Government (Wales) Measure 2011.</p>			
Risk Score (5x5 matrix)	Likelihood	Impact	Total
	5	4	20

Medium Term Financial Plan 2019/20 to 2022/23
Corporate Additional Demands

Additional Demand	2019/20 £'000	2020/21 £'000	2021/22 £'000
Corporate Costs – Bank Charges	22	23	23
Currently Budgeted for within the MTFP for 2019/20 (£'000)			71
Current Year's (2018/19) Projected Budget Overspend (£'000)			23
<p>Description Reflects increase in merchant banking contract fees and loss of credit card surcharge income.</p> <p>Merchant banking costs have increased by approximately 38% over the last two years (£18,000 pa), due to increased transaction fees for debit and credit cards.</p> <p>As a result of changes to UK law, the Council is now unable to pass on the cost of credit card transactions to customers. This has resulted in a loss of approximately £4,000 income per year.</p>			
<p>Service and/or Budget Risk if not Approved</p> <p>We are unable to directly control the volume of customers who transact with us using credit and debit cards. Based on current volumes this budget will overspend in 2019/20 if the growth request is not approved.</p>			
Risk Score (5x5 matrix)	Likelihood	Impact	Total
	5	4	20

Medium Term Financial Plan 2019/20 to 2022/23
Corporate Additional Demands

Additional Demand	2019/20 £'000	2020/21 £'000	2021/22 £'000
Corporate Costs – Capital Financing Costs	200	200	287
Currently Budgeted for within the MTFP for 2019/20 (£'000)			7,294
Current Year's (2018/19) Projected Budget Overspend (£'000)			0
<p>Description Reflects additional interest payments associated with the deferment of the initiative to repay £12 million Lender Option Borrower Option (LOBO) long-term loans. Owing to changing economic and interest rate forecasts the proposal is no longer considered affordable at this time. The Council currently incurs interest costs of £540,000 per year against these loans at an interest rate of 4.5%.</p> <p>The original proposal was considered in the exempt report to Cabinet of 7th February 2018 with the deferment considered in the exempt report to Cabinet of 25th July 2018. The exemption was required owing to the commercial sensitivity of the proposed premium charge for early redemption.</p>			
<p>Service and/or Budget Risk if not Approved This budget will overspend if the growth request is not approved. The Lender Option Borrower Option Loan has not been repaid and the growth request reflects interest that is payable on the Authority's existing loan structure.</p>			
Risk Score (5x5 matrix)	Likelihood	Impact	Total
	5	5	25

Medium Term Financial Plan 2019/20 to 2022/23
Corporate Additional Demands

Additional Demand	2019/20 £'000	2020/21 £'000	2021/22 £'000
Corporate Costs – Residual Strategic Partnership Savings	109	105	61
Currently Budgeted for within the MTFP for 2019/20 (£'000)			-109
Current Year's (2018/19) Projected Budget Overspend (£'000)			n/a
<p>Description Reflects the savings deficit in respect of the budgeted £902,000 procurement savings included within the Medium Term Financial Plan. The budgeted savings were achieved for 2017/18 and 2018/19 but further contract increases have resulted in a reduction in savings from 2019/20 onwards. It is anticipated that further savings will be achieved through the contract management gateway process governed by the Procurement Board.</p> <p>It is considered more beneficial to focus on the achievement of sustainable long-term savings than to commit resources to a historical initiative where all potential gain has been maximised and exhausted.</p>			
<p>Service and/or Budget Risk if not Approved</p> <p>Will result in a budget overspend resulting in the Council not setting a balanced budget for 2019/20 and over the medium term</p>			
Risk Score (5x5 matrix)	Likelihood	Impact	Total
	5	4	20

Medium Term Financial Plan 2019/20 to 2022/23
Corporate Additional Demands

Additional Demand	2019/20 £'000	2020/21 £'000	2021/22 £'000
Corporate Costs – Additional Pay Award Costs	207	195	190
Currently Budgeted for within the MTFP for 2019/20 (£'000)			n/a
Current Year's (2018/19) Projected Budget Overspend (£'000)			n/a
<p>Description Reflects the additional costs arising from the National Employers for Local Government Services pay award for the period 1st April 2018 to 31st March 2020. In essence although the pay award equates to a 2% increase per annum this increase is greater for employees at the lower spinal points of the pay structure.</p>			
<p>Service and/or Budget Risk if not Approved</p> <p>Will result in a budget overspend resulting in the Council not setting a balanced budget for 2019/20 and over the medium term</p>			
Risk Score (5x5 matrix)	Likelihood	Impact	Total
	5	5	25

Medium Term Financial Plan 2019/20 to 2022/23
Corporate Additional Demands

Additional Demand	2019/20 £'000	2020/21 £'000	2021/22 £'000
Corporate Costs – Purchase to Pay System	42	42	42
Currently Budgeted for within the MTFP for 2019/20 (£'000)			0
Current Year's (2018/19) Projected Budget Overspend (£'000)			0
<p>Description Reflects additional costs of supporting and maintaining the Council's purchase to pay system following replacement of the existing system – Cabinet approval 4th July 2018.</p>			
<p>Service and/or Budget Risk if not Approved From a service perspective it means we do not comply with elements of the Welsh Procurement Policy Statement in terms of commitment 6 – simplified standard processes. This is concerned with adopting common procurement approaches (Welsh collaborative marketplace) and making the best use of tools available (electronic ordering) to streamline our commerce activities with the supply base. It means that if we did not have P2P, the Council would be unable to monitor and manage over £5 million of spend on goods and services which ultimately could lead to budget overspends due to lack of oversight at the front end of the process (which P2P provides).</p> <p>In addition the Council has a contract with the P2P provider and if the contract is cancelled a cancellation cost to the Council will apply.</p>			
Risk Score (5x5 matrix)	Likelihood	Impact	Total
	5	4	20

Medium Term Financial Plan 2019/20 to 2022/23
Corporate Additional Demands

Additional Demand	2019/20 £'000	2020/21 £'000	2021/22 £'000
Corporate Costs – IT Replacement Programme	200	200	200
Currently Budgeted for within the MTFP for 2019/20 (£'000)			n/a
Current Year's (2018/19) Projected Budget Overspend (£'000)			n/a
<p>Description Relates to both hardware and software costs and is time critical owing to the necessity to remove Windows 7 (end of life) from the network by January 2020 to avoid public sector network non-compliance, loss of connection and the risk of cyber-attack.</p>			
<p>Service and/or Budget Risk if not Approved</p> <p>Approximately 790 Windows 7 devices must be replaced or upgraded to prevent a breach of the Public Sector Network code of connection and face disconnection. If we do not remove these devices we will fail our penetration test audit and face disconnection which will result in business critical system failures. For example Benefits unable to process information with Her Majesty's Revenue and Customs (HMRC), Registrars unable to register births/deaths, secure e-mail, Welsh Community Care Information System (WCCIS) implications etc.</p> <p>No security updates will be released by Microsoft after January 2020 to fix any new security vulnerabilities in Windows 7. This introduces a major risk of cyber or virus attack, potential loss of critical and/or personal data, financial penalty from the Information Commissioner's Office (ICO) and loss of public confidence/poor publicity.</p>			
Risk Score (5x5 matrix)	Likelihood	Impact	Total
	5	5	25