

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO COUNCIL

27 FEBRUARY 2013

REPORT OF THE SECTION 151 OFFICER

MEDIUM TERM FINANCIAL STRATEGY 2013-14 TO 2016-17

1. Purpose of this report

The purpose of this report is to present Council with the Medium Term Financial Strategy 2013-14 to 2016-17, which includes a financial forecast for 2013-17, a detailed revenue budget for 2013-14, a revised Capital Programme for 2013-14 to 2022-23 and Capital Financing Strategy.

2. Connections to the Corporate Plan

- 2.1 The development of the Corporate Plan and Medium Term Financial Strategy (MTFS) identifies the Council's service and resource priorities for the next four financial years, with particular focus on 2013-14.

3. Background

Corporate Plan - Policy Context

- 3.1 The Council reviews its Corporate Plan each year to ensure it continues to reflect the Council's priorities and key risks. In considering the plan this year the period has been extended to cover the current administrative term (i.e. to 2016-17). The links between the Corporate Plan and the MTFS have been strengthened to enable Members, citizens and officers to understand more clearly the relationship between the resources and service priorities. To achieve this, an integrated business and budget planning process has been introduced.
- 3.2 The Council's MTFS includes all elements of the Council's financial strategy for the next four years, with emphasis on planned efficiency savings and development of a change management programme. It also encompasses the Capital Strategy which is designed to ensure that capital investment proposals are prioritised and evaluated in accordance with asset management principles and contribute towards the Council achieving its strategic and service priorities.
- 3.3 The MTFS includes:-
- The principles which will govern the strategy and a four year financial forecast , comprising detailed proposals for 2013-14 and outline proposals for 2014-15 to 2016-17; and.
 - The capital programme for 2013-14 to 2022-23, linked to priority areas for capital investment and Capital Financing Strategy.

- Treasury Management Strategy 2013-14

The Financial Context

- 3.4 The Council's MTFs is set within the context of UK economic and public expenditure plans, Welsh Government priorities influencing settlements and legislation which defines the scope the Council has to raise income from council tax and to borrow for capital expenditure.

National economic outlook and public expenditure plans

- 3.5 In 2010 the UK Government published its Comprehensive Spending Review (CSR) which imposed significant reductions in spending across the entire public sector. As a result councils across Wales received difficult settlements for 2011-12 to 2013-14 which for BCBC has involved a real terms cut in the revenue and capital funding received from Welsh Government over that period of 9.2% and 44.6% respectively. At the same time there has been a fall in income from fees and charges, investments and asset disposals as a result of a weak economy and poor financial market performance.
- 3.6 It has recently been announced that the next CSR will be published in summer 2013 and while the period it will cover has not been announced it is clear that cuts in public expenditure are set to continue for several years as the Government continues to try and get the UK budget back into balance. These cuts will take the form of further reductions to public spending by councils (and other public sector organisations) as well as radical welfare and pension reforms.

Welsh Government Revenue Settlement

- 3.7 2013-14 is the third year of the current CSR period. Following formal consultation on a provisional settlement (in which BCBC raised concerns regarding ability to maintain current service levels, the proposed Regional Collaboration Fund and the Council Tax reduction proposals), the final settlement for 2013-14 was published in December 2012. The average revenue settlement increase (excluding Council Tax Reduction (CTR) funding) across all Councils is 1.2%, ranging across councils from 0.3% to 1.9%. The cash increase for BCBC is 1.3%. However, in real terms, based on the December Consumer Price Index (CPI) of 2.7%, this equates to a real terms cut of 1.4%.
- 3.8 The 2013-14 settlement has been top sliced by £10 million across Wales to create a Regional Collaboration Fund against which councils can bid to support regional collaboration projects. Had this funding remained within the settlement BCBC would have received an additional £450,000 in 2013-14. The Council has submitted a bid to the Fund with its partners in the Western Bay region and a decision is awaited.
- 3.9 The final settlement provides indicative revenue allocations for 2014-15, with an increase of 0.6% for Bridgend, but no indicative estimates for 2015-16 and 2016-17. The allocations include assumed protection for delegated school budgets for 2013-14 and 2014-15 at 1% above the change in the WG's overall revenue budget, which equates to protection for these budgets for 2013-14 and 2014-15 of 2.08% and 1.27% respectively.

3.10 The following table summarises the funding changes.

Table 1 – Funding Changes

	WG Budget	Average Revenue Support Grant	BCBC Revenue Funding	Protected Services
	%	%	%	%
2013-14	1.08	1.2	1.3	2.08
2014-15	0.27	0.8	0.6	1.27

Grant Transfers into the Revenue Settlement

3.11 A number of specific grants have transferred into the 2013-14 final settlement. These amount to £4.6 million for BCBC and include:

- Blue Badge Scheme
- Appetite For Life
- School Counselling
- School Breakfasts
- Post 16 SEN in Mainstream
- Post 16 SEN Special Schools and Out of County
- Learning Disabilities Resettlement Grant
- Local Government Borrowing Initiative (LGBI) for highways infrastructure

New Responsibilities – Council Tax Reduction Scheme

3.12 Council Tax Benefit will be abolished from 1 April 2013 and replaced with a Council Tax Reduction (CTR) scheme. In Wales a national scheme has been developed by Welsh Government, but councils will have discretion over some elements and there is a legal requirement that the scheme, following appropriate consultation, is approved by Council by 31 January 2013. As part of national government policy, linked to Welfare Reform, the scheme will be operated by councils and the transfer of responsibility from the Department of Work and Pensions is accompanied by a funding transfer albeit with a cut of around 10%. Until 16 January 2013 the Welsh Government had made it clear that the funding cut would be passed directly to councils. Therefore, councils consulted on a scheme which would see the maximum council tax benefit that can be paid to citizens being 90% or less. However, Welsh Government has subsequently announced that it will provide additional funding for 2013-14 and changed the scheme to provide a maximum 100% entitlement. No commitment has been made in respect of future years and there may be a funding gap in 2013-14, depending on claimant numbers.

Council Tax

3.13 The Local Government Minister has the power to cap Council Tax increases, but has not stipulated the level of council tax increase which councils should set. That said, it is implicit within the settlement announcement that although this is subject to local

discretion any increase needs to strike an appropriate balance between the needs of the council and its citizens.

Welsh Government Capital Settlement

- 3.14 In February 2012 Council approved a capital programme for 2011-12 to 2021-22, based on the assumption that annual Welsh Government capital funding (known as General Capital Funding) would be reduced by 11.66% to £6.3 million in 2013-14 and then flat lined from 2014-15 onwards. Council subsequently approved a revised capital programme in September 2012, reflecting funding changes to some schemes, slippage from 2011-12, additional external funding approvals and changes to expenditure profiles. The final Welsh Government capital settlement for 2013-14 provides BCBC with £6.354 million capital funding per annum from 2013-14 flat lined for 2014-15. However, as with the revenue settlement for 2014-15 this cannot be guaranteed due to the unknown impact of the 2013 CSR, so must be treated with extreme caution at this stage.

Current Year (2012-13) Financial Performance

- 3.15 The in-year financial position as at the 31 December 2012 is shown below.

Table 2- Comparison of budget against projected outturn at 31 December 2012

Directorate/Divisions	Revised Budget 2012/13 £,000	Projected Outturn 2012/13 £,000	Projected Over / Under) Spend Qtr 3 2012/13 £,000	Projected Over / Under) Spend Qtr 2 £,000
Directorate				
Children	119,166	120,145	979	721
Wellbeing	43,171	44,087	916	813
Communities	23,903	24,260	357	331
Performance	16,956	16,691	(265)	(156)
Legal & Regulatory Services	5,765	5,728	(37)	(18)
Total Directorate Budgets	208,961	210,911	1,950	1,691
Council Wide Budgets	25,214	25,214	0	0
Total	234,175	236,125	1,950	1,691
Less Transfers from Earmarked Reserves	0	(1,011)	(1,011)	0
Net Total	234,175	235,114	939	1,691

- 3.16 While the projected net over spend has decreased since Quarter 2 (because of the application of earmarked reserves), over spends in Looked after Children, Special Needs Education and Adult Social Care budgets have increased. There are underlying demand led pressures within these budgets and current and projected future demand in respect of these services has therefore been taken into account in the proposed 2013-

14 revenue budget and beyond. Corporate Directors are taking appropriate action to bring expenditure as close as possible in line with the 2012-13 approved budget.

- 3.17 In accordance with the council's financial procedure rules any planned over spends or under spends by directorates will be carried forward into next year. Fortuitous under spends in budgets will be applied to offset over spends on other budgets.

4. Current Situation

Medium Term Financial Strategy 2013-14 to 2016-17

- 4.1 This section of the report sets out the proposed Medium Term Financial Strategy (MTFS) for the Council for the next four financial years. The purpose of the MTFS is to articulate how the Council plans to use its resources to support the achievement of its corporate priorities and statutory duties, including the management of financial pressures and risks over the next four years. It will help the Council work more effectively with partners in other sectors and provide a strategy for the use of balances to meet changes in resources or demands from year to year without impacting unduly on services or council tax payers. It will not include fixed funding, expenditure or activity projections, but set best, worst and most likely scenarios for the resources that will be available. The MTFS will be reviewed regularly and amended as additional information becomes available, with the detail for future years being developed over the period of the strategy.
- 4.2 The development of the MTFS has been led by Cabinet and the Corporate Management Board taking account of previous Medium Term Financial Plans and auditors' views together with a desire to embed a culture of medium term financial planning aligned more closely with corporate planning than previously.
- 4.3 Implementation of the strategy will be led by Cabinet and Corporate Management Board and underpinned by financial and performance data. The Council will seek to ensure that it is widely understood by internal stakeholders (Members and employees) and external stakeholders (citizens, businesses and partners). As well as linking explicitly to the Council's corporate priorities explicit links will be made to other internal resource strategies such as the Workforce Development Plan, the ICT Strategy, the Asset Management Plan and a Strategic Change Management programme.
- 4.4 The MTFS set out in paragraphs 4.5 to 4.10 below:
- Outlines the key principles which will be used;
 - Considers the resource envelope within which the Council will operate over the next four years; and
 - Proposes how the Council will need to manage its finances within the forecast resource envelope

MTFS Principles

- 4.5 As well as consideration of future income and expenditure scenarios the MTFS provides a set of clear principles which will drive the budget and spending decisions over the next four years and which Members and others will be able to examine and judge the Council's financial performance against. The fourteen key principles will be

to ensure that:

1. The Council continues to meet its statutory obligations and demonstrates how it redirects resources to meet the Council's corporate priorities.
2. Adequate provision is made to meet outstanding and reasonably foreseen liabilities.
3. The financial control system is sufficiently robust to support the delivery of financial plans and mitigate corporate risks.
4. Budgets will be reviewed annually to ensure existing and forecast spend is still required and to identify further efficiency savings as required to meet inescapable budget pressures.
5. Financial plans provide an optimum balance between income and expenditure for both capital and revenue.
6. All services seek to provide value for money and contribute to public value.
7. Balances are not used to fund recurrent budget pressures or to keep down council tax rises unless an equivalent saving or increase in council tax is made in the following year in recognition that balances are a one-off resource.
8. The Council Fund balance will be maintained at a minimum of £7 million over the MTFS period.
9. Capital investment decisions support the Council's corporate priorities and mitigate any statutory risks taking account of return on investment and sound option appraisals.
10. Prudential borrowing is only used to support the capital programme where it is affordable and sustainable within the Council's overall borrowing limits and the revenue budget over the long term.
11. Decisions on the treatment of surplus assets are based on an assessment of the potential contribution to the revenue budget and the capital programme.
12. Sufficient resources are made available to deliver the Council's Strategic Change Management Programme which supports the MTFS
13. Other resource strategies (including the Workforce Development Plan, Treasury Management Strategy, ICT Strategy and Asset Management Plan) are reviewed and amended to support the MTFS and the Corporate Plan.
14. Budgets will be managed by Corporate Directors in accordance with the Council's Financial Procedure Rules.

MTFS Resource Envelope

- 4.6 Future settlement figures for 2014-15 and beyond are not known at this stage as explained in paragraph 3.9 above. Therefore, assumptions have to be made based on an understanding of what may happen. This means that council tax levels going forward cannot be planned with certainty. Recognising this uncertainty, the MTFS has been developed taking into account possible resource envelope scenarios (worst, best and most likely) based on a relatively wide range for possible settlements and council tax levels in future years.
- 4.7 The impact of the % change in Aggregate External Finance (AEF) on the Net Budget Requirement over the period 2013-14 to 2016-17, after building in assumptions to meet service pressures and inflationary pressures is shown in the table below. This shows the budget gap which will need to be funded from an increase in council tax, budget savings or reserves. The worst case scenario is that an estimated £30 million will be required to fund the budget gap, while the best requires £18 million over this period.

Table 3 - Impact of % change in AEF on Net Budget Requirement

	2013/14	2014/15	2015/16	2016/17	Budget Gap
	% Change	% Change	% Change	% Change	£m
Best Scenario	+1.3%	+0.5%	-0.5%	-1%	(18)
Most Likely Scenario	+1.3%	-0.5%	-1.5%	-2%	(24)
Worst Scenario	+1.3%	-1%	-1.5%	-2%	(30)

- 4.8 The MTFS is predicated on a budget gap of £24m which includes a recommended council tax increase of 3.5% for 2013-14. The table below shows the savings required to fund the budget gap for the period 2014-15 to 2016-17 after applying varying increases in council tax, which range from 0% to 5%.

Table 4 –Savings Requirement based on Council Tax Increase Scenarios

Council Tax Increase Impact	2013/14 Savings Requirement	2014/15 Savings Requirement	2015/16 Savings Requirement	2016/17 Savings Requirement	Total Savings Requirement
% Range	£000	£000	£000	£000	£000
0%	5,500	8,600	8,400	7,400	29,900
3.5% to 4.5%	3,706	6,650	7,910	5,550	23,816
5%	2,500	5,700	5,400	4,400	18,000

Managing within the MTFS Resource Envelope

- 4.9 The Cabinet report of 18 September 2012 set out at that stage the budget implications of the most likely scenario, with an estimated saving requirement of £27 million over the period 2013-14 to 2016-17. This was subsequently revised to £24m in the Cabinet report of 11 December 2012, with £20m being required over the period 2014-15 to 2016-17. Appendix A shows the indicative budgets for the Council based on the most likely scenario. It is built up using the four year budgets for Directorates including projections over the period of currently identified pressures and corporate items together with an expected net savings requirement over the four year period of £24 million.
- 4.10 The financial forecast is predicated on a number of spending assumptions, including:

Budget Pressures and Income:

- Projections for demographic changes, including an ageing population and an increasing number of young people with complex disabilities living into adulthood and adding progressively to the demand for care.
- Increased number of vulnerable children required to be looked after by the Council.
- Inflationary uplifts to support specific contractual commitments and possible pay awards.
- Inflation for energy costs of 9%, based on average increases over the last three years.
- The potential impact of national policies and new legislation not accompanied by commensurate funding e.g. Welfare Reform Bill, Social Services Bill, Housing Bill and auto enrolment related to the provision of employee pension schemes.
- A projected increase of 1% per annum in Employers' pension contributions.
- Provision of an additional £0.9m to meet Job Evaluation costs resulting from the implementation of the Council's new Pay and Grading structure for NJC officers.
- Fees and Charges will increase by the statutory minimum or CPI (2.7% average) plus 1%.
- Services will absorb inflationary pressures of up to the current average CPI rate of 2.7% within budgets.
- The 2013-14 Council Tax base and collection rate is applied throughout the MTFS period.

- 4.11 The financial forecast is also predicated on savings being met from Directorate and Corporate budgets. For 2013-14 these are set out in the section on the 2013-14 revenue budget. Potential proposals for future years (discussed further in paragraphs 4.12 to 4.15 below) are in development and include:

Potential Budget Savings

- A programme of lean system reviews on internal Council processes.
 - CCTV collaboration.
 - Rationalisation of IT software contracts.
 - Development of Extra Care Housing.
 - Review of eligibility criteria for accessing social services.
 - Review of capital financing costs.
 - Further collaboration in Education services.
 - NHS and Social Care Integration.
 - Review of commissioning and procurement.
 - Reconfiguration of Youth Service provision.
 - Review of waste services, including contractual arrangements.
 - Office Accommodation Review.
 - An integrated transport review, including Home to School and Home to College Transport arrangements.
 - Review of Residential and Enabling Care at Home services.
 - Review of Early Years Education provision.
 - Review of Voluntary Sector Funding.
- 4.12 It is important to note that there is significant uncertainty in the resource and spending projections, not least due to continuing economic uncertainty as well as legislative and policy developments such as the Welsh Government's current Education Review. The MTFs will be managed and monitored by the Corporate Management Board and the assumptions will be kept under regular review which will include triggers, such as performance data and external information, to ensure that early action is taken to keep the MTFs on track.
- 4.13 Notwithstanding the uncertainty, the financial forecast provides a framework within which the Council can manage its budget over the medium term. Within this framework the Council will need to:
- identify as a matter of urgency proposals to meet the unidentified target reductions shown in Table 5 in paragraph 4.15 below
 - regularly scan the horizon for future cost pressures to understand the environmental factors influencing the council over the medium term
 - keep under review and minimise provisions for corporate items as well as budget pressures resulting from increased demand, cost increases and loss of income
 - identify further savings or council tax increases to meet any additional budget growth, not already identified

Net savings requirement

4.14 Outline savings proposals are being developed by officers to meet the £24 million requirement and these are being worked up to form the basis of a Strategic Change Management Programme aligned to corporate priorities and focused on:

- I. Making best use of resources;
- II. Service transformation; and
- III. Managed service reductions

4.15 The value of budget reductions identified so far for each of these areas is shown in the table below. Work on identifying the remaining target reductions is on-going.

Table 5 – Budget Reductions 2013-14 to 2016-17

	2013-14 £,000	2014-15 £,000	2015-16 £,000	2016-17 £,000	Total £,000	% of Total savings
Making best use of resources	1,414	3,400	3,172	3,381	11,367	53%
Service Transformation	1,997	130	1,993	1,529	5,649	26%
Managed service reductions	295	981	2,290	960	4,526	21%
Total Identified as at 1.1.2013	3,706	4,511	7,455	5,870	21,542	
Target Reductions	3,706	6,650	7,910	5,550	23,816	
Target Reductions to be Identified	0	-2,139	-455	+320	-2,274	

4.16 The table shows that over 50% of the possible savings identified so far could come from a Making Best Use of Resources programme, through:

- A programme of lean systems reviews
- A review of fees and charges (including recharges)
- Procurement and contract savings
- Better use of assets (including schools' modernisation)
- Collaboration
- Staffing restructures

4.17 Managed service reduction proposals amount to 21% of the savings proposed so far and include reducing services to the statutory minimum as well as cutting some discretionary services. The service transformation programme focuses primarily on social care projects.

4.18 All of the proposals have implications for the Council workforce given that 68% of the Council's net revenue budget relates to pay costs. It follows that annual real terms' reductions in Council budgets over the next four years will lead to a reduced workforce over the MTFs period. The intention is to manage such a reduction through the appropriate use of different employment models, the establishment of a redeployment pool and application of the VER policy where possible, but some compulsory redundancies may be necessary.

Strategic Change Management Programme

- 4.19 To meet the significant savings requirement over the term of the MTFS the Council will need to establish a coherent and properly governed and managed Strategic Change Management Programme. This will need to be supported by appropriate corporate change management staff resource and investment capacity.
- 4.20 Delivering a strategic change programme will require strong political leadership, ownership and oversight and it is therefore also proposed that it is incorporated into the current Corporate Performance Assessment (CPA) and scrutiny processes. It will also demand careful engagement with citizens and staff and communications and citizen engagement strategies will need to reflect this.
- 4.21 The change programme will require investment in corporate change management capacity. This is likely to involve a mix of external service specific expertise combined with developing internal project management, financial, legal and HR capacity to support specific projects. It is proposed that the Council's pump priming budget of £200,000 per annum is used to establish the core staff capability to deliver the programme. The programme will also require investment (both invest to save and change management funding) and it is therefore proposed that an earmarked reserve of £1 million is maintained over the life of the MTFS to support delivery of the Corporate Plan and MTFS.

Scrutiny and Challenge

- 4.22 As stated in paragraph 4.2 above Cabinet and CMB recognise the benefits of embedding a culture of medium term financial planning within the Council. This will involve securing greater involvement of Members as well as officers in the financial planning process. It is suggested that there is a role for the existing Budget Research and Evaluation Panel to work on an on-going basis with Cabinet members and officers to develop the Strategic Change Management Programme and savings proposals. This would provide useful scrutiny and challenge to test the feasibility of proposals and the MTFS as they both develop. The response to the Corporate Resources and Improvement Overview and Scrutiny Committee observations on the budget consultation for 2013-14 is attached at Appendix K.

2013-14 Final Revenue Budget

- 4.23 This section of the report sets out the Council's proposed final revenue budget for 2013-14 which forms part of the MTFS. It has been developed using the MTFS principles stated in paragraph 4.5 above. On 11 December 2012 Cabinet received an update on the Draft Revenue Budget 2013-14. This included proposals for increases in budget allocations in specific service areas to meet budget pressures and also budget reduction proposals.
- 4.24 The proposals have been considered by the Budget Research and Evaluation Panel and each of the Scrutiny Committees. The Corporate Resources and Improvement Overview and Scrutiny Committee has summarised and collated the resultant observations and recommendations. Cabinet was asked to respond to these

recommendations for inclusion in the report to Council on the final budget on 27 February 2013.

4.25 Progress has been made on Job Evaluation, with the Council making an improved offer which resulted in a positive response to the ballot held in February 2013 and a collective agreement being reached.

4.26 The following table shows the revenue budget for 2013-14. This includes grants transferring in to the revenue support grant settlement as outlined in paragraph 3.11.

Table 6 – Revenue Budget 2013-14

	2012/13 Budget	Trans. in and New Resp.	Revised Budget 2012/13	Inflation	Pressures /WG Protect	Budget Savings	Other	2013/14 Budget	% Change Before delegation & transfer
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Children excl. schools	38,478	993	39,471	136	2,232	-655	-1,088	40,096	4.34
Schools	80,688	1,460	82,148	0	1,678	0	1,088	84,914	2.08
Adult Social Care	36,446	1,805	38,251	523	1,293	-685	0	39,382	2.96
Healthy Living	6,725	0	6,725	99	0	-315	0	6,509	-3.21
Communities	23,903	316	24,219	225	125	-1,191	0	23,378	-3.47
Performance	16,956	19	16,975	237	113	-410	0	16,915	-0.35
Legal and Regulatory	5,765	0	5,765	2	60	-150	0	5,677	-1.53
Council Tax Scheme.	0	0	0	0	0	0	12,625	12,625	
Repairs/Maintenance	1,200	0	1,200	0	0	0	0	1,200	
Levies	7,010	0	7,010	40	0	0	0	7,050	
Capital Financing	10,715	0	10,715	0	0	0	0	10,715	
Corporate Budgets	6,289	0	6,289	1,113	400	-300	395	7,897	
Total	234,175	4,593	238,768	2,375	5,901	-3,706	13,020	256,358	
Use of Reserves	0	0	0	0	0	0	-490	-490	
Net Budget	234,175	4,593	238,768	2,375	5,901	-3,706	12,530	255,868	

4.27 The net budget will be funded by:

	£
Revenue Support Grant/ Non Domestic Rates	197,875,858
Council Tax Income	56,854,242
Additional Grant - Council Tax Reduction Scheme	1,138,395
Total	255,868,495

Council Tax Implications

4.28 The implications in terms of the Council Tax increase (excluding South Wales Police and Community Council precepts) are shown in the table below:

Table 7 – Council Tax Increase 2013-14

2012-13 Average Band D	£1096.95
2013-14 Average Band D	£1135.36
% Increase	3.5%
Weekly Increase	£0.74

Inflation

- 4.29 Price inflation has been allocated to service budgets and includes provision for increases in energy costs based on forward contract prices, business rates, food costs and other major contractual commitments. Services will need to plan to absorb any other inflationary pressures within the budgets allocated.
- 4.30 Any pay and price inflation relating to delegated school budgets will have to be absorbed within the allocated delegated school budgets for 2013-14. Delegated schools budgets include an overall cash increase of 2.08% which is in line with the protection required by Welsh Government.
- 4.31 The remaining inflation provision will be retained centrally within corporate budgets and reviewed pending the outcome of pay negotiations and any unforeseen demand led contract price inflation.

Budget Pressures and Budget Reductions

- 4.32 As part of the business and budget planning process the indicative 2013-14 budget pressure and reduction proposals have been reviewed and revised proposals formulated.
- 4.33 Budget pressures of £6 million (including Welsh Government protection for schools) have been identified for 2013-14. These comprise budget pressures in the current budget along with forecasts of demographic growth, additional demand on services and the impact of new legislation.
- 4.34 Planned budget reductions of £3.7 million have also been identified.
- 4.35 Details of the budget pressures and WG protection for schools are included in Appendix B and budget reductions are shown in Appendix C.

Corporate Budgets

- 4.36 Corporate budgets include the unallocated inflation budget, Job Evaluation budget, a central contingency provision, discretionary rate relief, welfare reform, carbon commitment and future increase in employer pension costs.
- 4.37 The income budget for the Outcome Agreement Grant (OAG), which underpins base budgets by £1.4 million is also included in corporate budgets. This is dependent on the achievement of specific outcomes linked to targets set by the authority and agreed with Welsh Government.

Other

- 4.38 This includes the funding for the Council Tax Reduction (CTR) scheme which will be held centrally for the transition year and the allocation of additional budget of £395k to meet the additional costs of the Council's revised Pay and Grading structure in 2013-14.
- 4.39 The final settlement includes an allocation to this Council of £11.4 million in recognition of the transfer of the responsibility from the Department of Work and Pensions (DWP)

to local Councils to administer a CTR scheme .Following significant debate and lobbying Welsh Government announced on 17 January 2013 that additional funding of £22m would be allocated to all Councils to fund the shortfall. This amounts to £1.138m for this Council, which means that the funding available for the CTR scheme in 2013-14 will be £12.6m. The additional funding is not guaranteed for 2014-15 and beyond. It is also difficult to estimate the precise financial impact of the replacement CTR scheme at this stage. An earmarked reserve will be established to mitigate pressures on this budget.

- 4.40 Alongside the Welsh Government’s protection of schools in the final settlement, the Education Minister has sought commitment from all local authorities in Wales to increase the level of delegation to schools to 85% by April 2014. The current delegation rate for Bridgend is 80.4% for 2012-2013. To enable progression towards the 85% delegation target, Governing Bodies were consulted during the autumn term on proposals to delegate funding for the school music service and secondary additional learning needs from April 2013. The outcome of the consultation was accepted by delegated power in January 2013 and it was determined that funding for these responsibilities would be delegated from April 2013. The additional delegation is £1.088 million per annum.
- 4.41 Generally, income from fees and charges will be increased by a CPI of 2.7% plus 1%, subject to rounding, or in line with statutory or service requirements. Schedules of fees and charges will be reported separately, as usual, under Delegated Powers. Charges that have been included above the general increase are shown in Appendix D.
- 4.42 It is also recommended that £490k of the projected 2012-13 accrued council tax income is used to provide transition funding to meet the budget pressure proposals CHP5, CHP7, CHP8, COM6 and ICTP3 shown in Appendix B.
- 4.43 Allocations of the 2013-14 budgets at area of service level are shown in Appendix E. Table 8 shows how the budget allocations contribute to corporate improvement priorities and support core business. A system is being developed which will enable the Council to provide more specific detail on these in future years.

Table 8 – Allocation by Corporate Improvement Priorities.

Budget 2013/14 Corporate Improvement Priorities			
Directorate	Corporate Improvement Priorities £000	Core Business £000	Total £000
Children excl. schools	7,076	33,020	40,096
Schools	84,914	0	84,914
Adult Social Care	36,695	2,687	39,382
Healthy Living	6,454	55	6,509
Communities	6,267	17,111	23,378
Performance	-196	17,112	16,916
Legal & Regulatory	3,593	2,084	5,677
Corporate Budgets	12,625	26,371	38,996
Net Budget Requirement	157,428	98,440	255,868

Council Reserves

- 4.44 It is proposed that Council's unallocated balances are maintained at the current level of around £7m throughout the MTFS period.
- 4.45 The projection in respect of the unallocated Council Fund Balance is shown in the table below.

Table 9 - Council Fund Balance

	£,000
Balance at 31 March 2012	7,140
Projected Accrued Council Tax Income 2012-13	1,300
Funding of non- recurring expenditure 2013-14	(490)
Allocated to mitigate service pressures 2012-13	(310)
Allocated to Strategic Change Management	(500)
Estimated Balance at 31 March 2013	7,140

- 4.46 The projections for the council fund balance include an allocation of the projected accrued council tax income for 2012-13 to mitigate unforeseen service pressures in 2012-13 and planned non- recurring expenditure in 2013-14. Further details on the estimated balances on other reserves at 31 March 2013 can be found in Appendix F.

Capital Programme and Capital Financing Strategy

- 4.47 This section of the report deals with the proposed Capital Programme for 2013-14 to 2022-23, which forms part of, but extends beyond the MTFS. It also covers the Council's capital financing strategy (including prudential borrowing and capital receipts forecast). Both have been developed in line with the MTFS principles and reflect the Welsh Government capital settlement for 2013-14, which provides general capital funding for the Council for 2013-14 of £6.354 million of which £3.946m is un-hypothecated supported borrowing and the remainder £2.408m as general capital grant. A provisional allocation of £6.354 million has also been indicated for 2014-15. For now it is assumed that this level of funding will remain constant for years after 2014-15 but this will be indicative only until the outcome and impact of the CSR 2013 is known.

Capital Programme

- 4.48 Development of the proposed Capital Programme has followed the MTFS principles set out in paragraph 4.5 above and has involved a review of the current programme in light of the Settlement as well as historical annual allocations to certain service areas e.g. Disabled Facility Grants (DFGs) and Special Regeneration Funding (SRF). Appendix G sets out the revised capital programme by Directorate and Appendix H sets out the programme by corporate priority for the period 2013-14 to 2022-23, shown in summary in Table 10 below. Appendix G has been updated since the report to Cabinet to reflect a re-alignment of funding.

Table 10 – Capital Programme by Corporate Priority

Corporate Priority	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 to 2022/23 £000	Total £000
1. Developing the Local Economy	13,755	12,966	8,894	5,551	41,166
2. Raising Aspirations and Educational Achievement	20,499	20,671	11,558	31,505	84,233
3. Supporting Children and Families	13	0	0	0	13
4. Helping Vulnerable and Older People to stay independent	4,391	2,450	2,450	19,600	28,891
5. Encouraging Healthy Lifestyles to reduce Health Inequalities	1,692	1,738	0	0	3,430
Addressing Statutory Risks	805	1,358	3,040	20,442	25,645
TOTAL	41,155	39,183	25,942	77,098	183,378

- 4.49 The programme proposed contains a number of significant strategic investment projects that will support a number of corporate priorities as described below.

Raising aspirations and improving educational achievement

- 4.50 The Schools' Modernisation and Investment programme forms a cornerstone of the corporate priority to raise aspirations and improve educational achievement, by improving the learning environment. School modernisation and school improvement complement each other, and well established collaborative arrangements are taking forward strategies to enhance teaching and learning and school leadership, supported by state of the art buildings and the innovative use of new technology. In December 2011, Welsh Government confirmed 50% grant funding (£22.475 million) for Band A priority projects. To receive this funding the Council needs to submit detailed business cases for each project including details of how the 50% match funding (£22.475 million) required from the Council will be provided. Council has agreed that this will be met from core funding allocations of £7 million, anticipated S106 funding of £4 million and projected receipts from the sale of school sites of £11.135 million. The remaining £340,000 will be met from the balance of Prudential Borrowing previously allocated to the Schools Modernisation Programme. In addition the Welsh Government has recently announced its plan to extend the Local Government Borrowing Initiative to inject around £200 million of investment into the 21st Century Schools Programme between 2014-15 and 2016-17. This is designed to enable delivery of the Programme in full by 2018-19, two years ahead of schedule. Once further details are known there are likely to be changes required to the timing and funding profile of the 21st Century schools projects within the capital programme, although no change to the overall amount of funding required from within the Council's resources is anticipated.
- 4.51 In the meantime, the following projects have been included in the Council's approved programme, but funding for each project will not be confirmed until Welsh Government approves the final business case and sufficient capital receipts have been generated:

- Coety / Parc Derwen Primary School
- Special Education Needs Provision
- Garw Valley South Primary Provision
- Pencoed Primary School
- Gateway Primary Provision
- Mynydd Cynffig Primary School
- Heronsbridge Special School

Coleg Cymunedol Y Dderwen

- 4.52 Work on the new £39 million secondary school to replace the former Ynysawdre and Ogmores Comprehensive schools, started during 2012-13 with the opening of the school on a single site planned for September 2013. Funding for this project, which is a combination of WG grant, Prudential Borrowing and core capital funding, was identified in the Capital Programme agreed by Council on 23 February 2011 and is confirmed within the revised programme attached to this report.

Penyfai Primary School

- 4.53 Funding for this project agreed in the approved capital programme is confirmed in the revised programme. Work on the new school started in 2012 and is due to end in autumn 2013. Due to delays in commencement of this project, the overall cost is higher than originally anticipated and an additional allocation of £400,000 has therefore been included within the programme.

Betws Primary School

- 4.54 Following the fire at Betws Primary School in June 2012 there was a need to procure temporary accommodation until such time as a new school would be built under the 21st Century Schools Programme. The Council's insurance policy allows for the cost of renting temporary accommodation for a specific period. However, due to the length of time this temporary accommodation would be required it was decided that a more cost effective option would be to purchase the units. This requires a contribution from the Council in addition to that covered by the insurance policy, but in the long run will be more cost effective because the demountable classrooms can be used in future schemes at other school sites.

Supporting the Local Economy

- 4.55 The proposed capital programme includes a number of projects which will help to support the local economy through infrastructure investment, regeneration and town centre developments.

Local Government Borrowing Initiative - Highways Infrastructure

- 4.56 In 2012-13 Welsh Government agreed to provide revenue funding to support additional Council Prudential Borrowing in the region of £6.8 million over twenty years to enable the Council to improve its highways infrastructure. This funding is available over three years and is subject to Welsh Government approval of a business case. The annual funding required to support the additional borrowing was provided by Welsh

Government in the form of a specific grant in 2012-13 and £316,000 has been transferred into the Revenue Support Grant for 2013-14 and subsequent years. This will fund the on-going cost of existing improvements plus £2.388 million of further improvements.

Highways Street Infrastructure

- 4.57 Within the Council's revenue budget for 2013-14, £100,000 growth has been allowed to improve the condition of highways street infrastructure and support investment in street lighting columns and replacement road signs. This funding will be used to meet the cost of Prudential Borrowing which will allow for more immediate investment in these assets, thereby reducing risks of health and safety issues from dangerous structures.

Relocation of Depots

- 4.58 The proposal is to relocate from the Waterton Depot to the Bryncethin depot to include collaboration with South Wales Police in a Joint Vehicle Maintenance service. This could also potentially result in the generation of a capital receipt from the sale of the Waterton depot.

Bryngarw House

- 4.59 Cabinet agreed on 26 July 2012 to sell the lodge in Bryngarw Park and to use the capital receipt to support investment required at the house. Part of the receipt has already been used to install Wi-Fi and further reports on how the remaining receipts will be invested will be presented once an option appraisal has been completed.

Porthcawl Harbour

- 4.60 The Harbour project is a £3m investment which forms part of the Porthcawl Regeneration Programme. It is funded from the European Regional Development Fund (ERDF) and the Council's capital funding allocations. Additional remedial works required in the longer term have been brought forward and included in the proposed capital programme.

Porthcawl Town Beach Coastal Defence

- 4.61 The need to provide continuing flood and coastal erosion defence to the sea front is recognised in the Shoreline Management Plan, and the Council carries out regular inspections of the structure, carrying out minor repairs. The revetment protects millions of pounds worth of assets and investments along the Esplanade. This project is eligible for funding from Welsh Government of up to 85% of the total cost.

Non-Operational Assets – Bridgend Market

- 4.62 The Council has a contractual obligation to maintain Bridgend Market roof for the duration of the lease, on which there are seventy years remaining. Investment will help to maintain an attractive environment within the market which will increase the likelihood of attracting traders.

Proposed Allocation of Funding

4.63 Table 11 below lists the proposed allocation of funding to new schemes or additional funding for existing schemes for inclusion in the capital programme over the period 2013-14 to 2015-16

Table 11: Proposed allocation of funding to support Schemes in the Capital Programme

	2012-2013 £000	2013-2014 £000	2014-2015 £000	2015-2016 £000	Total £000
Betws Primary School	777				777
Penyfai Primary School		400			400
Porthcawl Harbour		200			200
Parks and Pavilions		500	500		1,000
Rhiw Car Park retaining wall		100			100
Highways Street Infrastructure		600	600	800	2,000
Town Beach Coast Defence Revetment Porthcawl		88	1,127	35	1,250
Depot facilities		150	1,540		1,690
Protecting and preserving the Council's non-operational assets		600			600
Bryngarw House		15	156		171
TOTAL	777	2,653	3,923	835	8,188

4.64 Outline proposals have been developed for a number of other projects linked to Council priorities including further town centre regeneration and office accommodation schemes. These will be considered for inclusion in the capital programme following the preparation of detailed business plans and once further capital funding becomes available.

Capital Programme Fixed Allocations

4.65 The Capital Programme contains a number of fixed annual allocations which are shown in Table 12 below.

Table 12 – Current annual allocations of capital funding

	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2013/14 as %age of GCF
Highways Capitalised Repairs	200	200	200	200	3.1%
Transportation Capitalised Repairs	250	250	250	250	3.9%
Disabled Facilities Grant	2,670	2,350	2,350	2,350	37.0%
Housing Renewal Schemes	100	100	100	100	1.6%
Special Regeneration Funding	600	540	540	540	8.5%
Minor Works	880	840	1,100	1,100	17.3%
Community Projects	55	50	50	50	0.8%
Total	4,755	4,330	4,590	4,590	72.2%

4.66 Against the background of the reductions in capital funding, these annual allocations have been reviewed and the following proposed for the 2013-14 capital programme:

- Highways and Transportation Capitalised Repairs – unchanged to demonstrate ‘additionality’ as required for the Local Government Borrowing Initiative. It also allows the highways maintenance revenue budgets to be reduced as the highways maintenance backlog is addressed;
- Minor works – Council agreed in February 2011 to reduce these budgets in line with the overall reduction in capital funding, to £880,000 in 2012-13 and £840,000 in 2013-14. It is proposed that after 2014-15, as and when funds become available, the budget for minor works be increased to £1.1 million per annum to help address the backlog maintenance requirements in existing property assets;
- Housing Renewal and DFGs – Council agreed in February 2012 to reduce this budget due to a reduction in referrals and the average value of grants awarded following the implementation of a new policy in 2010/11;
- SRF allocations are committed to projects up to 2016-17. From 2017-18 it is proposed that, in line with the MTFs principles, bids for match funding for regeneration projects are considered against the Councils corporate priorities.
- Since 2008-09 Town and Community Councils have been able to apply for match funding from the Council for local projects and as a result a number of worthwhile community projects have been developed. Cabinet agreed in June 2012 to bring forward the allocation of £50,000 for 2013-14 into 2012-13 to enable more projects to be progressed. Consequently there is no allocation available for 2013-14.

Capital Financing Strategy

4.67 The Capital Financing Strategy is underpinned by the Council’s Treasury Management Strategy. The two key principles used in the Capital Financing Strategy are:

1. Decisions on the treatment of surplus assets are based on an assessment of the potential contribution to the revenue budget and the capital programme.
2. Prudential borrowing is only used to support the capital programme where it is affordable and sustainable within the Council’s overall borrowing limits and the revenue budget over the long term.

Capital Receipts

4.68 The proposed capital programme assumes that £8.9 million of new capital receipts will be generated over the next two years, including receipts anticipated from Ogmore Residential Centre and Bridgend Day Centre along with the sale of other surplus sites within the County Borough. Some of these receipts are subject to the exchange of contracts, so it is prudent not to commit these receipts without firm agreement. The Council cannot consider progressing additional capital projects until there is more certainty regarding future capital receipts.

- 4.69 As indicated earlier, a further £11.135 million of capital receipts from the sale of school sites is required as part of the match funding for the 21st Century Schools Programme. Confirmation of these receipts will be required before contracts can be awarded for these projects.
- 4.70 Whilst the Council has a number of potential sites for disposal there is considerable risk that the estimated value may not be realised due to planning constraints and market conditions. For this reason, only the receipts essential to meet current commitments have been incorporated in this programme.
- 4.71 Fully developed Business cases will be required to support potential new schemes, which will be the subject of future reports to Council.

Prudential Borrowing

- 4.72 Prudential Borrowing totalling £29.4 million was approved by Council on 22 February 2012. It is proposed that this borrowing be increased by a further £3 million to allow for the investment requirements of the parks, pavilions and highways street infrastructure projects. This additional funding will be met from service revenue budgets, which will be earmarked to fund the financing costs of this provision. In addition over the next two years Welsh Government will be making funding available to meet the cost of the Council borrowing an additional £4.52 million to carry out works on the Highways Infrastructure. This will take the overall level of approved Prudential Borrowing to £34.1 million by 2014-15.

Treasury Management Strategy 2013-14

- 4.73 The Prudential Code for Capital Finance in Local Authorities (fully revised 2011) requires the Council to set a number of Treasury Management Indicators and report them within the Treasury Management Strategy. The Council is required, prior to the start of the financial year, to approve the Treasury Management and Investment Strategies for 2013-14, and the Treasury Management and Prudential Indicators for the period 2013-14 to 2016-17. These are included in the Treasury Management Strategy 2013-14, attached as Appendix I. The indicators either summarise the expected activity or introduce limits upon the activity, reflect the underlying capital programme and provide assurance that capital investment decisions are affordable, prudent and sustainable.

5. Effect on Policy Framework and Procedure Rules

- 5.1 The budget setting process is outlined within the Council's Constitution and Financial Procedure Rules.

6. Equality Impact Assessment

- 6.1 The proposals contained within this report cover a wide range of services and it is inevitable that the necessary budget reductions will impact on the local population in different ways. In developing these proposals, consideration has been given to their potential impact on protected groups within the community and on how to avoid a disproportionate impact on people within these groups.

- 6.2 All the budget reduction proposals for 2013-14 have been reviewed and details of the equality impact assessment of the proposals can be found in Appendix J.

7. Financial Implications

- 7.1 This report outlines the financial issues that Council is requested to consider as part of the 2013-14 to 2016-17 MTFs. The Council's Chief Financial Officer is required to report annually on the robustness of the level of reserves. The level of Council reserves is sufficient to protect the Council in light of unknown demands or emergencies and current funding levels. It must be emphasised that the biggest financial risks the Council is exposed to at the present time relate to the impact of Welfare Reform and realising planned budget reductions in the years 2014-15 to 2016-17. Therefore, it is imperative that the council fund balance is kept at the current level over the term of the MTFs and essential that revenue service expenditure and capital expenditure is contained within the identified budgets.
- 7.2 The Chief Financial Officer is also required to report to Council if he/she does not believe that he/she has sufficient resource to discharge his/her role as required by s114 of the Local Government Act 1988. Members should note that there is sufficient resource to discharge this role.
- 7.3 The budget includes estimates which take into account circumstances and events which exist or are reasonably foreseeable at the time of preparing the budget. The budget has been prepared following consultation with Members, the School Budget Forum and service managers. Subject to the risks identified in the body of the report the MTFs provides a firm basis for managing the Council's resources for the year 2013-14 and beyond.

8. RECOMMENDATIONS

- 8.1 Council is asked to approve the MTFs 2013-14 to 2016-17 including the 2013-14 revenue budget, the Capital Programme 2013-14 to 2022-23 and the Treasury Management Strategy 2013-14. In particular it is asked to approve the following specific elements:
- The MTFs 2013-14 to 2016-17
 - The Net Budget Requirement of £255,868,495 in 2013-14.
 - A Band D Council Tax for Bridgend County Borough Council of £1135.36 for 2013-14.
 - The 2013-14 budgets as allocated in accordance with table 6 in paragraph 4.26.
 - The Capital Programme 2013-14 to 2022-23 (Appendix G).
 - The Treasury Management Strategy 2013-14 and Treasury Management and Prudential Indicators 2013-14 to 2016-17 (Appendix I).

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6 February 2013

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Background Papers:
Final Local Government Revenue and Capital Settlements 2013/14
Cabinet Report - Medium Term Financial Strategy 2013/14 to 2015/16 - 5 February 2013
Cabinet Report – Draft Revenue Budget 2013/14 to 2015/16 – 11 December 2012
Cabinet Report – Draft Revenue Budget 2013/14 to 2015/16 – 18 September 2012