

**BRIDGEND COUNTY BOROUGH COUNCIL**

**REPORT TO COUNCIL**

**18 SEPTEMBER 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 update Council on the latest indication from Welsh Government on funding levels for 2014-15 and 2015-16, the implications for the Medium Term Financial Strategy (MTFS) and actions required to deliver £13.3 million recurrent savings by 31 March 2014.

**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 2014-15.

**3. Background**

**Corporate Plan - Policy Context**

- 3.1 The Council is currently reviewing its Corporate Plan and improvement priorities in line with the integrated business and budget planning process introduced last year. The Corporate Plan will be rolled forward one year to cover the period 2014 -2018. It is important that actions identified in business plans to deliver outcomes are commensurate with the resources identified in the MTFS.

**The Financial Context**

- 3.2 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.
- 3.3 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 the Strategic 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.

- 3.4 The MTFS funding projections for 2013-14 to 2016-17, reported to Council in February 2013, were based on information available at that time, including potential percentage changes in Aggregate External Finance (AEF) as shown in the table below. The worst case scenario was that an estimated £30 million would be required to fund the budget gap, while the best required £18 million over this period. The MTFS was predicated on the Most Likely Scenario.

**Table 1 - 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)
<b>Most Likely Scenario</b>	<b>+1.3</b>	<b>-0.5</b>	<b>-1.5</b>	<b>-2</b>	<b>(24)</b>
Worst Scenario	+1.3	-1	-1.5	-2	(30)

### **National economic outlook and public expenditure plans**

- 3.5 The Comprehensive Spending Review (CSR) announcement in June 2013 made it clear that the cuts in public expenditure are set to be more stringent than originally forecast and to continue for longer as the Government continues to try and get the UK budget back into balance. In the CSR the Welsh Government revenue budget was reduced by - 0.1% in 2014-15 and -0.4% in 2015-16.
- 3.6 Following the CSR, Welsh Ministers announced their intention to protect funding for the National Health Service (NHS), schools and universal benefits (i.e. free prescriptions). One of the consequences of this is that Welsh councils have been told to expect English-style reductions to their settlements in 2014-15 and 2015-16 (ie c.-4% per annum). The Local Government Minister reaffirmed this position at a meeting of the Partnership Council Finance Sub Group on 8 July.
- 3.7 Although Welsh Ministers have not yet finalised the Welsh Government budget and the provisional settlement is unlikely to be announced until the middle of October this Council needs to plan its budget for 2014-15 to mitigate the impact of a -4% settlement from 1 April 2014. Taking account of protection for schools' funding a -4% settlement will require the Council to find around 7.5% savings from remaining directorate budgets in 2014-15 and 10% in 2015-16. As a result this Council is currently anticipating a budget shortfall of

£13.3million in 2014-15. This excludes the impact of as yet unknown, but likely cuts to specific grants.

- 3.9 Cabinet and CMB have held regular budget meetings between April and June 2013 to review budget reduction plans developed by directors to deliver a balanced budget for 2014-15 based on a funding reduction of -0.5%. However, following the UK CSR announcement the position has changed significantly with further budget reduction plans required to deliver a balanced budget for 2014-15, and longer term plans to address savings required in future years.

#### 4. Current Situation

##### Current Year (2013-14) Financial Performance

- 4.1 The in-year financial position as at the 31 July 2013 is shown below.

**Table 2- Comparison of budget against projected outturn at 31 July 2013**

Directorate/Divisions	Budget 2013-14 £,000	Projected Outturn 2013-14 £,000	Projected Over / Under) Spend 2013-14 £,000	Over / (Under) Spend 30 June 2013 £,000
<b>Directorate</b>				
Children	125,034	125,405	371	754
Wellbeing	45,903	46,148	245	418
Communities	23,458	23,700	242	336
Resources	16,813	16,736	(77)	(176)
Legal & Regulatory Services	5,696	5,778	82	82
<b>Total Directorate Budgets</b>	<b>216,904</b>	<b>217,767</b>	<b>863</b>	<b>1414</b>
Council Wide Budgets	38,964	38,964	0	0
<b>Total</b>	<b>255,868</b>	<b>256,731</b>	<b>863</b>	<b>1414</b>

- 4.2 At the end of July 2013 the projected overspend is £863,000. This is an improvement on the position at the end of the first quarter of 2013-14 and Directors are aware of their responsibilities in respect of managing expenditure within allocated budgets. Regular meetings are being held between the S151 Officer and Corporate Directors to monitor recovery plans and actions required to bring directorate budgets to a balanced year end position.

##### MTFS Resource Envelope

- 4.3 The table below shows the funding assumptions and budget savings required in the MTFS approved by Council in February 2013 compared

to the revised settlement and education protection assumptions which Welsh Ministers have subsequently indicated. It also shows the revised forecast budget shortfall for the Council.

**Table 3 - Revised Assumptions**

	<b>2014/15 £000</b>	<b>2015/16 £000</b>	<b>2016/17 £000</b>
<b><u>Original Assumptions as per Report to Council 27th Feb 2013</u></b>			
Reduction in AEF	-0.5%	-1.5%	-2%
<b>Original MTFS total forecast budget shortfall</b>	<b>-6,650</b>	<b>-7,910</b>	<b>-5,550</b>
<b><u>Revised Assumptions</u></b>			
Reduction in AEF	-4.0%	-4.0%	-4.0%
Revised School Protection	0.9%	0.4%	0.0%
<b>Revised MTFS total forecast budget shortfall</b>	<b>-13,310</b>	<b>-13,173</b>	<b>-9,197</b>

4.4 The table below shows the savings identified to date and the current budget shortfall based on the revised assumptions above.

**Table 4 - Forecast Budget Shortfall**

	<b>2014/15 £000</b>	<b>2015/16 £000</b>	<b>2016/17 £000</b>
- Savings Requirement	13,310	13,173	9,197
Savings Identified to date	5,823	7,980	5,345
<b>Current forecast budget shortfall</b>	<b>7,487</b>	<b>5,193</b>	<b>3,852</b>

4.5 The Councils' net budget is currently forecast to reduce by £35 million over the next three years. For planning purposes, it has been assumed at this stage that the 2017-18 budget will be a standstill budget.

4.6 Given the time scales the immediate focus must be on 2014-15 budget. Once budget reductions for 2014-15 have been identified attention will return to developing further budget reduction proposals to meet the budget shortfalls for 2015-16 and 2016-17. For 2014-15 the Council needs to identify recurrent budget reductions of £13.3m, of which £10.4m (approximately 8%) is expected to come from directorate budgets as shown in the table below. Notwithstanding budgetary constraints, resources also need to be focused on the Council corporate priorities and statutory obligations. Therefore, £0.5m of additional budget reductions are being identified to allow for some flexibility to meet corporate priorities.

4.6 Cabinet and CMB have agreed that every directorate must bring forward saving proposals that total -7.88% of 2013-14 controllable Directorate budgets as shown in the table below. Only if and when this has been achieved can growth and service pressures be reviewed, including the indicative growth of £1.6 million for 2014-15, which was included in the MTFS approved by Council earlier this year.

**Table 5 – Directorate Budget Reduction Requirement**

Directorate	2013-14 Controllable Budget	2014-15 Savings Identified	Additional Savings to be found 2014-15	Total Savings Requirement 2014-15	Savings as % 2013-14 budget
	£000	£000	£000	£000	%
Children's	40210	-1929	-1238	-3167	-7.88%
Wellbeing	45903	-1090	-2525	-3615	-7.88%
Communities	23458	-1239	-609	-1848	-7.88%
Resources	16813	-846	-478	-1324	-7.88%
Legal/Regulatory	5696	-299	-150	-449	-7.88%
<b>Net Directorate Budgets</b>	<b>132080</b>	<b>-5403</b>	<b>-5000</b>	<b>-10403</b>	
Corporate		-420	-3000	-3420	
<b>Total</b>	<b>132080</b>	<b>-5823</b>	<b>-8000</b>	<b>-13823</b>	

4.7 The types of budget savings already identified over the MTFS period include:

- Learner Transport policy
- Early Years Education policy
- Remodelling Home Care Service
- Review Social Care Eligibility Criteria
- Review contracts – e.g. waste disposal
- Administrative Restructures
- Review Fairer Charging Policy
- Rationalise IT systems
- Review Additional Learning Needs
- Review Foster Care Allowances
- Review arts facilities
- Review and develop partner arrangements with the Third Sector and other providers.
- Maximise income from fees and charges
- Apply minimum statutory standards where they exist
- Collaboration ( subject to meeting MTFS principles)

4.8 In addition, the Section 151 Officer is working with senior officers to identify £3 million from corporate budgets including consulting the three recognised Trade Unions on measures which could reduce the pay bill. In the meantime a freeze on recruitment has been implemented.

4.9 Representations have also been made to the Local Government Minister requesting that local authorities are allowed as much flexibility and time to plan as possible and specific consideration is given to:

- Un-hypothecating specific grants
- Giving a commitment to deliver community services to support Social Services budget if the Health Service is protected
- Reviewing education protection
- Fully funding any new WG initiatives/legislative changes.

## **Conclusion**

4.10 The financial position the Council is faced with is extremely challenging and at this stage should be the Council's number one priority. The immediate concern is the very tight time scale for delivering budget reduction proposals for 2014-15, which will require Members and officers to work together over the coming months to shape and deliver the MTFs. In reality, there is no alternative but to deliver the budget reductions as setting a balanced budget is a legal requirement and the use of reserves to fund recurring expenditure is unsustainable.

## **Next Steps**

4.11 These are outlined below:

**30 September** – Directorate draft budget savings proposals 2014-15 returned

**Mid October** - Provisional Local Government Settlement

**October** – Member Workshops – Budget 2014-15

**13 November** – MTFs Update - Member Briefing Session

**October – December** – Officers further develop budget reduction proposals 2015-16 to 2016-17

**Early December** – Final Local Government Settlement

**10 December** - Cabinet – Draft MTFs & 2014-15 budget

**December 2013 – January 2014** – Scrutiny period

**19 February 2014** – Final MTFs & 2014-15 budget

## **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 final budget proposals will cover a wide range of services and it is inevitable that the necessary budget reductions in developing these proposals will impact on the local population in different ways. The Equality Impact Assessment will be carried out and included with the final budget and reported to Council in February 2014.

## **7. Financial Implications**

- 7.1 This report outlines that the Council will be required to identify £13.3million of budget reductions to achieve a balanced budget for 2014-15 and £35million in the medium term. It is imperative that a balanced budget is achieved and essential that revenue service expenditure and capital expenditure is contained within the identified budgets for the current year.
- 7.2 The alternative would have serious implications for the Council. In addition to the statutory requirement to set a balanced budget, under the 2003 Local Government Act the Council's Chief Financial Officer (i.e. S151 Officer) must report on the robustness of the budget and the adequacy of proposed financial reserves and this must form part of the Council's budget consideration and decision making. This will include identifying the risks associated with identified savings, the implications and contingency plans if savings are not delivered as planned. As such it is essential that the savings put forward are deliverable or where they are at risk contingency plans are produced.

## **8. RECOMMENDATIONS**

- 8.1 Council is asked to consider the content of this report and to note the actions being taken to ensure £13.3 million of recurrent savings are delivered by 1 April 2014 and the need for services to develop longer term plans to deliver future years' savings.

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Background Documents :  
27 February 2013 Council Report – Medium Term Financial Strategy 2013-14 to 2016-17