

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO COUNCIL

19 FEBRUARY 2014

REPORT OF THE SECTION 151 OFFICER

MEDIUM TERM FINANCIAL STRATEGY 2014-15 to 2017-18

1. Purpose

- 1.1 The purpose of this report is to present Council with the Medium Term Financial Strategy 2014-15 to 2017-18, which includes a financial forecast for 2014-18, a detailed revenue budget for 2014-15 and a Capital Programme for 2014-15 to 2023-24.

2. Connections to the Corporate Plan

- 2.1 The Corporate Plan and Medium Term Financial Strategy (MTFS) identify 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 reviews its Corporate Plan each year to ensure it reflects the Council's corporate improvement priorities and to update its commitments and performance indicators. The plan has been subject to public consultation, confirms the Council's six corporate improvement priorities and provides specific commitments for 2014-15. The final plan will be presented to Council for approval alongside the MTFS 2014-18 on 19 February 2014 which means that the final Corporate Plan and MTFS will be fully aligned and include explicit links between resources and corporate priorities.
- 3.2 The Council's MTFS articulates 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 helps the Council work more effectively with partners in other sectors and provides 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.
- 3.3 The MTFS includes:-
- The principles that will govern the strategy and a four year financial forecast , comprising detailed proposals for 2014-15 and outline proposals for 2015-16 to 2017-18.
 - The capital programme for 2014-15 to 2023-24, linked to priority areas for capital investment and Capital Financing Strategy.
 - The Treasury Management Strategy.

The Financial Context

- 3.4 The Council's MTFs is set within the context of UK economic and public expenditure plans and Welsh Government priorities and resource allocation.

National economic outlook and public expenditure plans

- 3.5 In the Comprehensive Spending Review (CSR) 2013 the Welsh Government revenue budget was reduced by -0.1% in 2014-15 and -0.4% in 2015-16. Following the CSR, Welsh Ministers announced their intention to protect funding for the National Health Service (NHS), schools and universal benefits (e.g. free prescriptions and concessionary fares). As a consequence Welsh councils were told to expect English-style reductions to their settlements in 2014-15 and 2015-16.

Welsh Government Final Local Government Settlement

- 3.6 The Final Local Government Settlement was published on 11 December 2013 and agreed by WG on 14 January 2014. The published figures show the average reduction in Aggregate External Finance (AEF) for Councils across Wales for 2014-15 (after allowing for transfers into the Settlement) is -3.4%. It shows Bridgend's reduction as being -2.7%. However, the published figures do not show the true reduction to councils because of the way Welsh Government (WG) has treated the new Local Government Borrowing Initiative (LGBI) funding and Council Tax Reduction Scheme (CTRS) in the calculation. The true average reduction across Wales is -3.9% and -3.3% for Bridgend. This is a slight improvement on the Provisional Settlement because of minor changes to data sets, the use of the updated council tax base for 2014-15 and the decision to dehypothecate funding previously paid as specific grant for the Council Tax Reduction Scheme Pensioner Grant.
- 3.7 The settlement includes a £382,000 contribution towards protection for schools (equivalent to 0.45% of 2013-14 schools budget). Further protection is provided through the ring-fenced Pupil Deprivation Grant.

Implications – 2015 to 2018

- 3.8 Indicative AEF allocations have been provided for 2015-16 which show an all Wales average decrease of -1.57% on 2014-15 funding, which means -1.35% for Bridgend County Borough Council or -2% when adjusted for LGBI and CTRS. However, in her statement the Minister warns that these figures are indicative and subject to change as a result of further UK budget revisions. Against this background the Council's current AEF planning assumption for 2015-16 is -3%. The Minister has given no figures for 2016-17 or 2017-18, but in view of current macro-economic and fiscal projections and in the absence of other information, the MTFs assumes that AEF for 2016-17 will reduce by -4% and -2% in 2017-18.
- 3.9 Based on the revised AEF and other key assumptions the most likely scenario for the Council is a total budget shortfall of £36 million over the period 2014-15 to 2017-18.

Grant Transfers into the Revenue Settlement

3.10 Three specific grants have transferred into the 2014-15 final settlement, amounting to £2.4 million:

- First Steps Improvement Package (£135,000)
- Council Tax Reduction Administration Subsidy (£248,000)
- Private Finance Initiative (Maesteg Comprehensive School) (£2.024 million)

3.11 In addition £158,000 has been ring fenced in the Settlement to meet the third year funding for the Local Government Borrowing Initiative (LGBI) for highways improvements. There will also be a transfer into the settlement from 2015-16 to fund a 21st Century Schools' LGBI Initiative, but for 2014-15 this will be paid as specific grant.

Council Tax Reduction Scheme

3.12 The Council Tax Reduction (CTR) scheme regulations have been renewed by Welsh Government. The scheme will remain a national scheme, based on 100% liability. Councils will have to meet any additional costs above funding already transferred to councils by Welsh Government for the scheme in 2013-14. For Bridgend the additional cost to be met in 2014-15 will be approximately £1 million, which includes funding local discretionary elements of the scheme (approved by Council on 8 January 2014).

3.13 Council Tax Reduction Scheme Pensioner Grant

The Final Settlement includes funding equivalent to that previously paid as specific grant for the Council Tax Reduction Scheme Pensioner Grant. This funding has been de-hypothecated giving Councils discretion on whether or not to continue with the scheme. The budget for 2014-15 includes funding of £200,000 to deliver the scheme on the same basis as it operated in 2013-14.

Regional Collaboration Fund (RCF) /Intermediate Care Fund (ICF)

3.14 All projects currently funded through the RCF initiative will continue and the indicative allocation for 2014-15 is £5 million (£1.6 million for the Western Bay region). The ICF will be used to encourage collaborative working between social services, health and housing, to support people to maintain their independence and remain in their own home. Both revenue and capital streams of funding will be managed as a single coordinated fund to maximise the support for people requiring intermediate care, through a coherent package of measures. Whilst proposals will be submitted at the regional collaborative footprint level, notional allocations will be determined for each Local Authority area, subject to set criteria. The notional allocation for 2014-15 is £6.8 million on a regional basis (£1.9 million for Bridgend).

Council Tax

3.15 The Local Government Minister is prepared to use capping powers in the event of excessive increases in council tax. It is implicit within the settlement announcement that although council tax setting is locally determined any increase needs to strike an appropriate balance between the needs of the council and its citizens.

Welsh Government Capital Settlement

- 3.16 In February 2013 Council approved a capital programme for 2013-14 to 2022-23, based on the assumption that annual Welsh Government capital funding would be flat lined from 2014-15 onwards. Council subsequently approved a revised capital programme in July 2013, reflecting funding changes to some schemes, slippage from 2012-13, additional external funding approvals and changes to expenditure profiles. The local government capital settlement for 2014-15 provides this Council with £6.324 million, £30,000 less than 2013-14; flat lined for 2015-16. However, as with the indicative revenue settlement, figures for 2015-16 cannot be guaranteed at this point, so must be treated with caution.

Current Year (2013-14) Financial Performance

- 3.17 The Council's net revenue budget and projected outturn for 2013-14 is shown in the table below:

Table 1- Comparison of budget against projected outturn at 31st December 2013

Directorate/Divisions	Revised Budget 2013-14 £,000	Projected Outturn 2013-14 £,000	Projected Over / Under) Spend @31.12.13 £,000	Projected Over / Under) Spend @ 30.9.13 £,000
Directorate				
Children	126,843	126,973	130	161
Wellbeing	47,976	47,979	3	102
Communities	23,749	23,826	77	58
Resources	17,010	16,798	(212)	(112)
Legal & Regulatory Services	5,860	5,629	(231)	(190)
Total Directorate Budgets	221,438	221,205	(233)	19
Council Wide Budgets	34,430	34,230	(200)	0
Total	255,868	255,435	(433)	19

- 3.18 At the 31 December 2013 the Council is projecting an overall under spend of £433,000 by the end of the financial year. This is an improvement on the position at the 30 September 2013 and compares to a projected overspend of nearly £1 million at the same point last year. This significantly improved in-year financial position has been the consequence of focused action by Directorates to implement recovery plans and to prepare for the saving requirements in 2014-15.
- 3.19 However, the projected net under spend continues to mask over spends in Looked after Children and Adult Social Care budgets and reduced income from development control fees and car parking charges. Underlying demand led pressures and re-alignment of income budgets in respect of these services has therefore been taken into account in the proposed 2014-15 revenue budget and beyond. Corporate Directors will continue to take appropriate action to contain expenditure in line with their 2013-14 approved budgets.

- 3.20 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 2014-15 to 2017-18

- 4.1 This section of the report sets out the MTFs for the Council for the next four financial years. It does not include fixed funding, expenditure or activity projections, but sets best, worst and most likely scenarios for the resources that will be available. The MTFs is 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 implementation of the MTFs 2013-14 to 2016-17 has been led by Cabinet and CMB. The MTFs has now been rolled forward a year to cover the period 2014-15 to 2017-18, taking account of auditors' views and any issues which need to be addressed from 2013-14, together with a continued desire to embed a culture of medium term financial planning closely aligned with corporate planning.
- 4.3 Implementation of the MTFs will continue to be led by Cabinet and CMB, underpinned by financial and performance data. The Council will seek to ensure that it is widely understood by internal stakeholders (Members, employees and Unions) and external stakeholders (citizens, businesses and partners). As well as linking explicitly to the Council's corporate priorities the MTFs also links to other internal resource strategies such as the Workforce Development Plan, the ICT Strategy, the Asset Management Plan and Bridgend Change Programme (BCP).

Scrutiny and Consultation

- 4.4 During 2013-14 efforts have been made to secure greater involvement of Members, officers, partners and citizens in the financial and corporate planning process. For example:
- Members have participated in the planning process through the Budget Research and Evaluation Panel, Council briefings and a specific Members' budget workshop.
 - The BCP has been launched to raise staff awareness and participation in developing and delivering the Council's priorities and financial plans.
 - Public consultation on the corporate plan and MTFs was carried out between 10 December 2013 and 12 January 2014.
 - The Town and Community Councils (TCC) and the third sector have been engaged through the TCC Forum and the Third Sector Review project.
 - Consideration of the draft Corporate Plan by the Community Safety and Governance Overview and Scrutiny Committee.
- 4.5 The draft MTFs and 2014-15 budget 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 observations and recommendations. Cabinet has provided a response to these recommendations which is attached at Appendix 3.

- 4.6 The public consultation indicated a strong perception from citizens that the Council should make savings by reducing the number of councillors, employees and the benefits they receive, with one in three respondents (32%) making reference to this. Additionally one in four (21%) felt the Council should ensure first time success and the correct use of resources, with particular reference to construction works within the area and the continuous investment in Bridgend town centre. Respondents made a number of suggestions for areas where savings could be made. Approximately 60% of the savings included in the 2014-15 budget relate to a number of these suggestions, for example, reducing the council's workforce, collaborative work with neighbouring councils, reducing bureaucracy, reducing energy costs and increasing or introducing new charges for services. All suggestions have been considered but some have not been taken forward because they do not fit with council or national priorities e.g. fewer recycling collections could result in the Council failing to meet its recycling targets which would attract financial penalties.
- 4.7 Citizens were also asked for suggestions on how they could help to reduce demand on Council services. Only three areas received over one in ten (10%) responses; 14% of people believe that citizens could take more personal responsibility, 13% believe that an improved commitment to cleanliness would reduce the demands made on the Council, and finally, 11% noted increasing pride within the community and encouraging volunteering to help reduce demand.

MTFS Principles

- 4.8 As well as consideration of future income and expenditure scenarios the MTFS provides a set of clear principles which will drive budget and spending decisions over 2014-2018 and which Members and others can use to examine and judge the Council's financial performance against. The fourteen key principles are 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 Bridgend Change Programme.
13. Other resource strategies (including the Workforce Development Plan, Treasury Management Strategy, ICT Strategy and Asset Management Plan) are kept under review to maintain alignment with 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

- 4.9 The MTFS planning assumptions for 2015-16, 2016-17 and 2017-18 are based on a reduction in AEF of -3%, -4% and -2% respectively and an assumed increase in council tax of 4.5% to 5% each year. However, these assumptions, together with forecast pressures and risks are all subject to change. Recognising this, the MTFS has been developed taking into account possible resource envelope scenarios, based on percentage changes in AEF as shown in Table 2.

Table 2 – MTFS Scenarios: % Change in AEF

	2014-15	2015-16	2016-17	2017-18
	% Change	% Change	% Change	% Change
Best Scenario		-1.3%	-2.0%	0%
Most Likely Scenario	-2.7%	-3.0%	-4.0%	-2.0%
Worst Scenario		-4.0%	-4.0%	-4.0%

Managing within the MTFS Resource Envelope

- 4.10 Taking 2013-14 as the base budget there are a number of inescapable service and inflation pressures that need to be met from the resource envelope. At this stage these can only be estimated and include:

- 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.
- Inflation for energy costs of 12%, based on notification of known increases and projected forward pricing.
- The potential impact of national policies and new legislation not accompanied by commensurate funding e.g. Welfare Reform Bill, Social Services Bill, Housing Bill, auto enrolment related to the provision of employee pension schemes and changes in regulations for employers' pension contributions from April 2014.
- A projected increase of 0.5% in Employers' pension contributions resulting from the triennial Actuarial Valuation.
- Provision of an additional £0.5 million to meet Job Evaluation costs resulting from the implementation of the Council's new Pay and Grading structure for NJC officers (as agreed by Council in February 2013).
- Services will absorb non contractual inflationary pressures of up to the current average CPI rate of 2.2% within budgets.

MTFS Net Budget Savings Requirement

4.11 Table 3 shows the Council's potential net savings requirement based on the forecast resource envelope (paragraph 4.9), inescapable spending assumptions (paragraph 4.10) and an assumed increase in council tax of 4.5-5% each year.

Table 3: MTFS Potential Net Savings Requirement

	2014-15	2015-16	2016-17	2017-18	Total
	£000	£000	£000	£000	£000
Best Scenario	11,274	8,740	2,840	0	22,854
Most Likely Scenario	11,274	10,456	10,040	4,000	35,770
Worst Scenario	11,274	12,220	11,730	9,100	44,324

MTFS Net Budget Requirement

4.12 The MTFS net budget requirement for 2014-5 is based on the most likely scenario, taking account of the net percentage change in AEF in paragraph 4.9, inescapable budget pressures in paragraph 4.10 and the savings requirements in paragraph 4.11 is shown in Table 4.

Table 4: Net Budget Requirement 2014-15

	2014-15
	£000
Net Budget Previous Year (2013-14)	255,868
Adjustment - Funding from Reserves 2013-14	490
Net Change in AEF	5,489
Pressures (Para 4.10)	7,972
Savings Requirement (Para 4.11)	(11,274)
Increase in Council Tax Income	(3,414)
Net Budget Requirement	255,131

- 4.13 Appendix A shows the indicative budgets for the next four years based on the most likely scenario. It is built up based on the assumptions in paragraph 4.10 and predicated on the savings requirement being met from Directorate and Corporate budgets identified in Table 3.

Net savings requirement

- 4.14 Savings proposals are being developed by officers to meet the full £36 million requirement, and the risk status of these for each year is shown in the table below:

Table 5 - Risk Status of Savings Proposals 2014-15 to 2017-18

Year	GREEN	AMBER	RED	Total Savings
	£000	£000	£000	£000
2014-15	10,344	150	780	11,274
2015-16	6,457	2,877	1,020	10,354
2016-17	4,384	2,873	1,183	8,440
Total Identified	21,185	5,900	2,983	30,068
<i>To be Identified:</i>				
2015-16	0	0	102	102
2016-17	0	0	1,600	1,600
2017-18	0	0	4,000	4,000
Total Savings Required	21,185	5,900	2,983	35,770
% of Savings Identified	70.5%	19.6%	9.9%	

Risk Status Key:

RED Proposals in Development
 AMBER Implementation Plans in Development
 GREEN Implementation Plans in Place

- 4.15 The savings proposals identified can be categorised as:

- I. Making Best Use of Resources
- II. Managed Service Reductions
- III. Collaboration and Service Transformation; and

IV. Policy Changes

4.16 The value of savings proposals identified to date included in the four categories in paragraph 4.15 is shown in the table below and referred to in Appendix C:

Table 6 – Savings Proposals 2014-15 to 2017-18

	2014-15 £,000	2015-16 £,000	2016-17 £,000	Total £,000	%
Making Best Use of Resources	7,491	4,041	4,718	16,250	54.2
Managed Service Reductions	1,503	1,211	830	3,544	11.8
Collaboration & Service Transformation	1,597	1,978	1,472	5,047	16.7
Policy Changes	683	3,124	1,420	5,227	17.3
Total Identified as at 31.01.2014	11,274	10,354	8,440	30,068	

4.17 The table shows that over fifty percent of the planned savings identified so far are planned to come from Making Best Use of Resources, for example through:

- Maximising the use of space and technology
- Improving procurement and commissioning
- Streamlining systems and processes
- Modernising the school estate
- Integrating health and social care
- Integrating council transport services

4.18 Savings proposals relating to Collaboration and Service Transformation amount to 16.7 percent of the total savings. These include remodelling services in Adult Social Care, provision of leisure services and youth services. Policy changes amount to 17.3 percent which include reducing services to the statutory minimum as well as cutting some discretionary services. The policy change proposals are subject to consultation.

4.19 All of the proposals have implications for the Council workforce given that 68 percent 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 continuation of a recruitment freeze, redeployment, early retirements and voluntary redundancies, but some compulsory redundancies may be necessary.

Corporate Risk Assessment

4.20 The Council's Risk Assessment which identifies the key corporate risks and mitigating actions is attached as Appendix 2. The main risks which have been taken into account in the preparation of the MTFs are failure to use resources effectively and achieve the planned savings targets; the impact of Welfare Reform measures; the wider impact of

UK government macro-economic policies on the local economy and increased support required for vulnerable and elderly and young people.

2014-15 Revenue Budget

- 4.21 This section of the report sets out the Council's revenue budget for 2014-15 which forms part of the MTFs. It has been developed using the MTFs principles stated in paragraph 4.8 above.
- 4.22 On 10 December 2013 Cabinet received a report on the Draft Revenue Budget 2014-15. This included proposals for increases in budget allocations in specific service areas to meet budget pressures and also budget reduction proposals.
- 4.23 WG agreed its budget and the final settlement on 14 January 2014. The change in Revenue Support Grant in cash terms for Bridgend between the provisional and final settlement is an increase in funding of £184,000. This is due to:
- The inclusion of funding previously paid as a specific grant for the Council Tax Reduction Pensioner Scheme
 - Minor changes to some data sets
 - Application of the 2014-15 council tax base in the distribution formula
- 4.24 As usual, the council tax income assumed in the Draft Revenue Budget 2014-15 was based on the 2013-14 council tax base. Now that the final settlement has been agreed the council tax base for 2014-15 has been applied, resulting in additional income of £276,000.
- 4.25 In view of the observations from Scrutiny committees the budget savings proposal CH13 relating to play schemes for children with complex needs has been removed. In addition, the budget proposal ASC21, relating to the reassessment of charges for Meals at Home will now be considered as part of a wider review relating to the development of a new Assessment Framework for all aspects of adult social care.
- 4.26 The inflation provision for the South Wales Fire Authority (SWFA) provided for in the draft budget will no longer be required as the SWFA's draft budget for 2014-15 indicates that its budget requirement will be reduced and as a result this Council's contribution will reduce by £70,000.
- 4.27 The Final Settlement included funding equivalent to that paid as a specific grant for the Council Tax Reduction Pensioner Discount Scheme in 2013-14. This equates to £200,000 for Bridgend and although Councils have complete discretion on how this can be allocated within their budgets i.e. the funding has been dehypothecated, Cabinet is minded to continue with this scheme for 2014-15 on the same basis as 2013-14 and the final budget includes £200,000 to support this.
- 4.28 The following table shows the revenue budget for 2014-15. This includes specific grants transferring into the settlement as outlined in paragraphs 3.10 and 3.11.

Table 7 – Revenue Budget 2014-15

	Revised Budget 2013-14	Specific Grant Transfers	Funded Reserves 2013/14	Net Adjustments for new pay and grading structure	Pension/ Price Inflation/ Mitigation/ Delegation increase to schools	Inescapable Budget Pressures	Savings Proposals	Revenue Budget 2014/15
	£000	£000	£000	£000	£000	£000	£000	£000
Service Budgets								
Childrens	41,274	1,681	-352	15	93	950	-2,932	40,729
Schools	85,567	0		-735	112		-116	84,828
Adult Social Care	41,108	135		470	707	1,039	-3,099	40,360
Healthy Living	6,870			19	142		-516	6,515
Communities	23,751	158	-25	-58	641	130	-1,728	22,869
Resources	17,007	248	-113	17	368		-1,399	16,128
Legal & Regulatory Services	5,859			9	50	220	-449	5,689
Capital Financing	10,715						-200	10,515
Levies	7,050				-20			7,030
Repairs and Maintenance	1,200						-50	1,150
CTR Scheme	12,625					1,000		13,625
Pension Related Costs	0				792			792
CTR Pensioner Discount	0					200		200
Corporate Budgets	2,842	343	490	763	1,048	0	-785	4,701
Net Budget Requirement	255,868	2,565	0	500	3,933	3,539	-11,274	255,131

4.29 The net budget will be funded by:

	£
Revenue Support Grant/ Non Domestic Rates	194,862,657
Council Tax Income	60,268,343
Total	255,131,000

Council Tax Implications

4.30 The implications in terms of the Council Tax increase (excluding Police & Crime Commissioner for South Wales and Community Council precepts) are shown in the table below:

Table 8 – Council Tax Increase 2014-15

2013-14 Average Band D	£1135.36
2014-15 Average Band D	£1191.87
% Increase	4.98%
Weekly Increase	£1.09

Job Evaluation

4.31 The budget includes the allocation of £3.6 million to service budgets to meet the cost of implementing the new Pay and Grading structure. Council agreed in January 2013, based on estimates at that time, that the MTFs planning assumptions for 2014-15 to 2015-16 would need to include an additional budget provision of £0.9 million by 2015-16, as the budget of £3.6 million would only be sufficient to meet the cost of Year 1 (i.e. from 1 September 2013) of the new Pay and Grading structure. Updated figures suggest that an additional budget of £0.5 million should be sufficient to meet the

additional costs in 2014-15 with a further £0.4 million necessary in 2015-16. However, as the precise budgetary impact of changes to Part 3 Terms and Conditions is still being assessed, the £0.5 million currently remains unallocated. This does not include the potential impact of any successful appeals, which cannot be quantified at this stage. Council is advised that further savings proposals in 2015-16 may therefore be required to compensate for this potential additional cost.

Pensions/Price Inflation/Mitigation

- 4.32 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. In addition, provision has been made, which will be retained centrally, for an estimated increase in employer pension contributions and changes in pension regulations from 1 April 2014.
- 4.33 The remaining inflation provision will be retained centrally within corporate budgets and reviewed pending the outcome of any unforeseen demand led contract price inflation in relation to, for example, Out of County Education placement agreements or adjustments which may be required to meet increases in utility prices above those already allocated to service budgets.
- 4.34 Given the scale of change required, some of the savings proposals still remain AMBER. One savings proposal (COM 1), which relates to the MREC is now RED. Discussions are on-going with Neath Port Talbot Council, but until such time as the position is clarified £780,000 will be held centrally within the inflation provision to mitigate the risk of an agreement not being reached. In that instance the Directorate will put forward alternative achievable savings proposals in 2014-15.

Pay Award 2014-15

- 4.35 In November 2013 formal consultation commenced with recognised trade unions on measures to help to contain the 2014-15 pay bill, to limit as far as possible the need for job losses. The Trade Unions were advised that Cabinet was seeking to find measures worth around £1 million per annum, Unison refused to participate in the consultation making a collective agreement impossible, but GMB and Unite agreed to ballot their memberships on a pay freeze or an increment freeze, both of which would deliver the required saving. The consultation has now ended and the ballot results received. The majority of those who voted were not in favour of either of the measures, albeit the pay freeze received more votes in both ballots than the increment freeze.
- 4.36 Following the outcome of the consultation with GMB and Unite, the result of the ballot and the need to find savings of around £1 million, Cabinet has concluded that the budget for 2014-15 should only include a pay award of 1% for those employees on Grade 1 and Grade 2 (SCP5 to SCP9), of the Pay and Grading structure. The cost of this is approximately £70,000 per annum and it will be funded from the unallocated price inflation budget held within corporate budgets. In the absence of a collective agreement, subject to Council approval of this report, the HR processes to enact this measure will commence.

Delegated Schools Budgets

- 4.37 The delegated schools' budget has been completely protected from the average 8% savings that other directorates have had to find. The 2014-15 allocation incorporates the £382,000 contribution provided by the Welsh Government and takes account of a slight fall in pupil numbers.
- 4.38 The commitment to increase the amount of budget delegated to schools has been increased by £112,000, in an effort to meet Welsh Government's requirement to increase delegation rates to 85%. This Council's delegation rate is now 81.5%.

Inescapable Budget Pressures and Savings Proposals

- 4.39 As part of the business and budget planning process the indicative 2014-15 inescapable budget pressures and savings proposals that were included in the MTFs agreed by Council in February 2013 have been reviewed and revised proposals formulated.
- 4.40 £3.59 million of inescapable service budget pressures have been included in the 2014-15 as detailed in Appendix B. They comprise recurrent pressures in the 2013-14 budget along with forecasts of demographic growth, additional demand on services, the expected impact of new legislation and the Council Tax Reduction Pensioner Discount Scheme.
- 4.41 Savings proposals of £11.3 million have been identified from service and corporate budgets to achieve a balanced budget, detailed in Appendix C.

Corporate Budgets

- 4.42 Corporate budgets include the unallocated inflation budget, remaining Job Evaluation budget, a central contingency provision, discretionary rate relief, provision for redundancy related costs, the carbon reduction commitment and the central budget to mitigate the budget risks referred to in paragraph 4.20.
- 4.43 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.

Fees and Charges

- 4.44 Generally, income from fees and charges will be increased by a CPI of 2.2% 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.

5. Links to Corporate Priorities

- 5.1 Allocations of the 2014-15 budgets at area of service level are shown in Appendix E. Table 9 summarises how the budget allocations contribute to corporate improvement priorities and support core business and further details can be found in Appendix F.

Table 9 – 2014-15 Budget by Corporate Improvement Priorities

Budget 2014-15 Corporate Improvement Priorities			
Directorate	Corporate Improvement Priorities	Core Business	Total
	£'000	£'000	£'000
Children excl. schools	8,634	32,095	40,729
Schools	84,828	0	84,828
Adult Social Care	39,640	720	40,360
Healthy Living	6,218	297	6,515
Communities	8,373	14,496	22,869
Resources	271	15,857	16,128
Legal & Regulatory	4,213	1,476	5,689
Corporate Budgets	1,035	36,978	38,013
NET BUDGET REQUIREMENT	153,213	101,918	255,131

Council Reserves

- 5.2 It is proposed that Council's unallocated balances are maintained at the current level of around £7m throughout the MTFS period. Any accrued council tax income for 2013-14 will be used to mitigate unforeseen service pressures in 2014-15. Further details on the estimated balances on other reserves at 31 March 2014 can be found in Appendix G.

Capital Programme and Capital Financing Strategy

- 5.3 This section of the report deals with the proposed Capital Programme for 2014-15 to 2023-24, 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 final capital settlement for 2014-15, which provides general capital funding for the Council for 2014-15 of £6.324 million of which £3.932m is un-hypothecated supported borrowing and the remainder £2.392million as general capital grant. A provisional allocation of £6.324 million has also been indicated for 2015-16. For now it is assumed that this level of indicative funding will remain constant for years 2015-16 to 2023-24.

Capital Programme

- 5.4 Development of the Capital Programme has followed the MTFS principles set out in paragraph 4.8 above and has involved a review of the current programme in light of the Final Settlement as well as historical annual allocations to certain service areas e.g. Disabled Facility Grants (DFGs) and Special Regeneration Funding (SRF). Appendix H sets out the revised capital programme on a Directorate basis.
- 5.5 The programme proposed contains a number of significant strategic investment projects that will support a number of corporate improvement priorities. Appendix I sets

out the programme by improvement priority and a summary is shown in Table 10 below.

Table 10 – Capital Programme by Improvement Priority

Improvement Priority	Revised 2013/14	2014/15	2015/16	2016/17 to 2023/24	Total
	£000	£000	£000	£000	£000
1. Developing the Local Economy	13,682	11,910	1,931	4,940	32,463
2. Raising Aspirations and Educational Achievement	21,397	12,470	9,675	24,680	68,222
3. Supporting Children and Families	0	0	0	0	0
4. Helping Vulnerable and Older People to stay independent	3,060	2,350	2,350	18,800	26,560
5. Encouraging Healthy Lifestyles to reduce Health Inequalities	1,440	950	0	0	2,390
Addressing Statutory Risks	1,644	4,380	1,696	20,894	28,614
TOTAL	41,223	32,060	15,652	69,314	158,249

Raising aspirations and improving educational achievement

- 5.6 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 percent 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 agreed that this would 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 would be met from the balance of Prudential Borrowing previously allocated to the Schools Modernisation Programme.
- 5.7 Since then, Welsh Government has announced its plan to extend the Local Government Borrowing Initiative to inject around £300 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. It has since indicated that Bridgend will receive £117,255 revenue support in year 1 (2014-15), £268,011 in year 2 (2015-16) and £335,013 for years 3 to 30, to fund prudential borrowing. Welsh Government has indicated that this will be funded by a specific grant in 2014-15 and transfer into the settlement in 2015-16. The balance of Welsh Government's 50 percent match funding will be supported through capital grant. These figures have yet to be confirmed. Due to the shorter timescale of the programme, the Council will be unable to utilise £2 million of Council core funding

earmarked in 2019-20 and 2020-21, and will have to call on further capital receipts, bringing the total to £5 million of core funding and £13.135 million of capital receipts. The programme is based on the current estimated expenditure profile over the funding period. However, Welsh Government is receiving half-yearly updates on changes to the timing and funding profile of the 21st Century schools projects within the capital programme, and these will be reflected in on-going reports. This is an ambitious programme and it is essential that the planned capital receipts already committed and ring fenced from the sale of school sites to finance the programme are retained for this purpose. Any change to this commitment would require Council approval.

5.8 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
- Additional Learning Needs Provision
- Garw Valley South Primary Provision
- Pencoed Primary School
- Gateway Primary Provision
- Mynydd Cynffig Primary School
- Heronsbridge Special School

Coleg Cymunedol Y Dderwen

5.9 The new single site school opened in September 2013, replacing the former Ynysawdre and Ogmores Comprehensive Schools. The funding in the capital programme for 2014-15 will be required to complete the playing fields for the new school.

Penyfai Primary School

5.10 The replacement school opened in October 2013. The funding in the capital programme for 2014-15 will be required to complete the car park and playing fields for the new school.

Supporting the Local Economy

5.11 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

5.12 In 2012-13 Welsh Government agreed to provide revenue funding to support additional Council Prudential Borrowing 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 an annual business case. This is the final year of funding by the Welsh Government, and an additional £158,000 has been transferred into the Revenue Support Grant for 2014-15 and subsequent years. This will fund £2.160 million of further improvements.

Maximising Space and Technology

- 5.13 The former 'Improving your space' project resulted in a rationalisation of office accommodation and supported more flexible ways of working. This project has now been widened and linked to Making the Best Use of Resources programme which includes projects to maximise the use of office accommodation and technology to deliver savings in the MTFs and facilitate an increase in agile working and the creation of a digital office environment. Funding has been allocated within the capital programme to progress this project.
- 5.14 An allocation of £200k has also been included in the capital programme to facilitate the implementation of the Bridgend Change Programme which links to the MTFs Principles in paragraph 4.8.

Capital Minor Works

- 5.15 The capital programme includes an annual allocation to fund the backlog of capital minor repairs and maintenance works in the Council's existing buildings. A similar budget is also available in the revenue budget to fund revenue related works. The original allocation for 2014-15 for capital minor works was £1.1million. However, the revenue budget has now been top sliced by £50,000 in both 2014-15 and 2015-16 to fund prudential borrowing of £500,000 in each year to enable the Council to progress more comprehensive major repair programmes.
- 5.16 Outline proposals have been developed for a number of 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

- 5.17 The Capital Programme contains a number of fixed annual allocations which are shown in Table 11 below.

Table 11 – Annual allocations of capital funding

	2013/14 £000	2014/15 £000	2015/16 £000	2014/15 as %age of GCF
Highways Capitalised Repairs	200	200	200	3.2%
Transportation Capitalised Repairs	250	250	250	3.95%
Disabled Facilities Grant	2,350	2,350	2,350	37.1%
Housing Renewal Schemes	100	100	100	1.6%
Special Regeneration Funding	540	540	540	8.5%
Minor Works	840	1,100	1,100	17.4%
Community Projects	50	50	50	0.8%
Total	4,330	4,590	4,590	72.55%

- 5.18 Against the background of the reductions in capital funding, these annual allocations have been reviewed and the following changes made to the 2014-15 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 – proposed increase to £1.6 million for 2014-15 and 2015-16, funded from prudential borrowing, to help address the backlog maintenance requirements in existing property assets;
- Housing Renewal and DFGs – Cabinet agreed in November 2013 to allow this funding to be used for two additional grants - the Healthy Home Assistance and Homes in Town grants. It is proposed to keep these allocations at existing levels;
- Strategic Regeneration Fund (SRF) allocations are committed to projects up to 2016-17. From 2017-18, in line with the MTFS principles, bids for match funding for regeneration projects should be 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. Funding of £50k has been allocated for 2014-15.

Capital Financing Strategy

5.19 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

5.20 The Council estimates that around £17 million of capital receipts could be generated over the next two years, of which £7 million relates to school buildings vacated through the 21st Century Schools Programme, to be used as match funding for the programme. It includes receipts anticipated from Ogmore Residential Centre and Bridgend Day Centre along with the sale of other surplus sites within the County Borough. Other usable receipts may be generated from the rationalisation of depots within the authority and regeneration in Porthcawl, generating an additional £5 million to £6 million. 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; only the receipts essential to meet current commitments have been incorporated in this programme.

5.21 As indicated earlier, £13.135 million of capital receipts from the sale of school sites is required as part of the match funding requirement for the 21st Century Schools Programme. Confirmation of these receipts will be required before contracts can be awarded for these projects.

Prudential Borrowing

- 5.22 Prudential Borrowing totalling £34.1 million was approved by Council on 27 February 2013. It is proposed that this borrowing be increased by a further £0.5 million to allow for additional capital minor works.
- 5.23 In addition, over the next financial year Welsh Government will be making funding available to meet the cost of the Council borrowing an additional £2.1 million to carry out works on the Highways Infrastructure and approximately £6.6 million (to be confirmed by WG) in 2014-15 and 2015-16 towards the costs of the 21st Century Schools Programme under the Local Government Borrowing Initiative. This will take the overall level of approved Prudential / Unsupported Borrowing to a minimum of £42 million by the end of 2015-16.

Treasury Management Strategy 2014-15

- 5.24 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 2014-15, and the Treasury Management and Prudential Indicators for the period 2014-15 to 2017-18. These are included in the Treasury Management Strategy 2014-15, attached as Appendix 1. 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.

6. Effect on Policy Framework and Procedure Rules

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

7. Equality Impact Assessment

- 7.1 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.
- 7.2 All the budget reduction proposals for 2014-15 have been reviewed and details of the equality impact assessment on the proposals can be found in Appendix J.

8. Financial Implications

- 8.1 This report outlines the financial issues that Council is requested to consider as part of the 2014-15 to 2017-18 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 realising unplanned savings proposals in future years and the unknown impact of national legislative changes,

further collaborations and local government re-organisation. 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.

- 8.2 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.
- 8.3 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 2014-15 and beyond.

9. **RECOMMENDATIONS**

- 9.1 Council is asked to approve the MTFS 2014-15 to 2017-18 including the 2014-15 revenue budget, the Capital Programme 2014-15 to 2023-24 and the Treasury Management Strategy 2014-15. In particular it is asked to approve the following specific elements:
- The MTFS 2014-15 to 2017-18
 - The Net Budget Requirement of £255,131,000 in 2014-15.
 - A Band D Council Tax for Bridgend County Borough Council of £1191.87 for 2014-15.
 - The 2014-15 budgets as allocated in accordance with table 7 in paragraph 4.28.
 - The Capital Programme 2014-15 to 2023-24 (Appendix H).
 - The Treasury Management Strategy 2014-15 and Treasury Management and Prudential Indicators 2014-15 to 2017-18 (Appendix One).

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19 February 2014

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Background Papers:

Final Local Government Revenue and Capital Settlements 2014-15
Cabinet Report – MTFS 2014-15 to 2017-18
Provisional Local Government Revenue and Capital Settlements 2014-15
Cabinet Report – MTFS 2013-14 to 2016-17 - 17 September 2013
Cabinet Report – MTFS 2013-14 to 2016-17 – 11 February 2014