

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO CABINET

25 JULY 2017

REPORT OF THE SECTION 151 OFFICER

MEDIUM TERM FINANCIAL STRATEGY 2018-19 TO 2021-22

1. Purpose of this report

- 1.1 The purpose of this report is to update Cabinet on the development of the Medium Term Financial Strategy (MTFS) 2018-19 to 2021-22.

2. Connections to the Corporate Plan

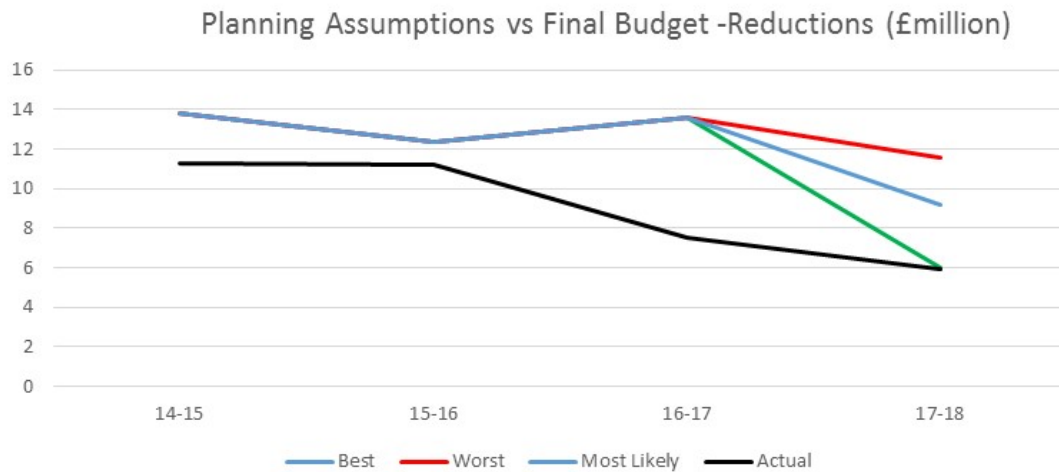
- 2.1 The development of the Corporate Plan and Medium Term Financial Strategy identifies the Council's service and resource priorities for the next four financial years, with particular focus on 2018-19.

3. Background

- 3.1 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.
- 3.2 The Council's MTFS includes all elements of the Council's financial strategy for the next four years, with particular emphasis on planned budget reductions necessary to achieve a balanced budget. 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.

Historic Forecasts

- 3.3 For reference, the chart below provides an illustration of the forecast budget reductions against those actually included with the final approved budget:



UK Context

- 3.4 Following the May 2017 General Election in which no party achieved an overall majority, the Conservative minority government has signalled a possible relaxation of the austerity agenda with the Chancellor of the Exchequer having already retargeted deficit elimination “into effectively the middle of the next decade”. While the details of any changes will not be clear until the autumn statement, there is clearly the possibility of favourable implications for public sector funding overall. However, set against this there is also a rising tide of opinion reflected in the media over the abandonment of the public sector pay cap. While it is far too early to speculate on national pay bargaining, Members should note that the council’s annual pay bill is c. £170 million and therefore every 1% is worth c. £1.7 million, consequently any pay award which is not supported by additional funding will certainly create the need for an increase in budget reductions and/or a greater increase in council tax. On 7 July, the Welsh Government Finance Secretary Mark Drakeford cautioned that using Welsh Government (WG) money was “not a sensible course of action”, saying the UK Government should fund any increase.

Welsh Context

- 3.5 Funding for the Welsh Government will inevitably be affected by the Barnett Consequential and therefore will depend upon the spending decisions made by Westminster Government. While there is cause to be cautiously optimistic over a possible future rise in WG budgets if devolved budgets are increased by Westminster, there have been recent media reports of very significant budget deficits in a number of Welsh health boards. It was reported in March 2017 that four of the ten were forecast to overspend by a total of £146 million this year (source: BBC). Whilst at that time WG Ministers had “refused to bail out Welsh NHS boards”, given this position it remains to be seen the extent to which any increase in WG budgets might be directed towards Local Authorities.

Inflation

- 3.6 Against a backdrop of a historic low in interest rates and inflation indices which have also been stable and low in recent years, there has been a significant rise in recent months, with a consensus view that the rise will persist over the medium term as illustrated in the table below produced by HM Treasury:

Table M3: Medium-term forecasts for CPI and RPI inflation

CPI inflation (annual average, per cent)						RPI inflation (annual average, per cent)						
2017	2018	2019	2020	2021		2017	2018	2019	2020	2021		
City forecasters												
2.7	2.6	2.0	-	-	Jun *	Capital Economics	* Jun	3.4	3.3	3.2	-	-
2.5	2.9	2.3	2.0	1.8	Jun *	Citigroup	* Jun	3.3	3.8	3.2	3.1	3.0
2.8	2.8	2.3	1.9	1.9	Jun *	Commerzbank	* Jun	3.6	2.9	2.5	2.8	2.9
2.8	2.6	2.3	2.1	2.0	Jun *	Daiwa CM	* Jun	-	-	-	-	-
1.5	1.6	1.6	-	-	Aug	Goldman Sachs	Aug	-	-	-	-	-
2.6	2.7	2.4	2.0	2.0	Jun *	ING	* Jun	-	-	-	-	-
0.6	2.5	1.8	1.8	2.0	Aug	RBS Global Banking & Markets	Aug	1.4	2.9	2.1	-	-
-	-	-	-	-	Jul	Schroders Investment Management	Jul	-	-	-	-	-
2.4	2.7	1.9	1.5	1.4	Feb	Societe Generale	Feb	3.2	3.3	-	-	-
Non-City forecasters												
3.0	2.9	2.7	2.6	2.4	Jun *	Beacon Economic Forecasting	* Jun	3.8	3.3	3.2	3.0	2.7
2.4	2.2	2.2	2.2	2.2	Aug	CEBR	Aug	3.1	3.0	3.1	3.1	3.1
2.6	2.5	2.1	2.0	2.0	Jun *	Experian	* Jun	3.3	3.2	3.4	3.2	3.3
2.7	2.9	2.5	2.1	1.9	Jun *	IHS Global Insight	* Jun	-	-	-	-	-
1.9	2.6	3.0	3.0	2.5	Jun *	Liverpool Macro Research	* Jun	-	-	-	-	-
3.0	2.8	2.1	1.9	1.9	Jun *	NIESR	* Jun	4.2	3.9	3.1	3.6	4.2
2.8	2.0	1.6	1.9	1.9	Jun *	Oxford Economics	* Jun	3.6	2.8	2.7	3.5	3.7
-	-	-	-	-	Jul	PwC	Jul	-	-	-	-	-
1.4	2.6	1.6	1.7	2.0	Aug	ITEM Club	Aug	2.2	2.6	2.4	2.7	3.3
2.5	2.6	2.2	2.1	2.0	Jun *	IMF	* Jun	-	-	-	-	-
2.4	2.6	2.2	2.1	2.0		Independent average		3.2	3.2	2.9	3.1	3.3
2.7	2.7	2.3	2.1	2.0		New forecasts		3.6	3.3	3.0	3.2	3.3
3.0	2.9	3.0	3.0	2.5		Highest		4.2	3.9	3.4	3.6	4.2
0.6	1.6	1.6	1.5	1.4		Lowest		1.4	2.6	2.1	2.7	2.7

Source: Forecasts for the UK economy: a comparison of independent forecasts, HM Treasury, June 2017

Budget Pressures

3.7 Over recent years, reductions in external finance have been exacerbated by additional budget pressures over and above inflation. These have included demographic changes leading to increased social care costs as well as unfunded legislative changes such as the apprenticeship levy. Looking forward over the MTFs period, there is likely to be a continued requirement to provide for new and increased responsibilities which include:

- continued pressure on social care budgets driven by an ageing population with increasingly complex needs;
- increased responsibilities resulting from the Additional Learning Needs bill, for which it is uncertain whether funding will be provided;
- increases in the National Living Wage towards a target of £9/hour;

The Welsh Local Government Association in July 2017 estimated that Welsh Councils faced pressures of up to £762 million over the next four years.

Budget Reductions

3.8 Against this background, and without any further indication from Welsh Government regarding likely future settlements, the council will continue to work towards a “most likely scenario” in the MTFs of a reduction of -3.2% in Aggregate External Financing (AEF), with alternative scenarios of a “best case” of -1.5% and a “worst case” of -4.5%. These in effect take account of the budgetary impact of contractual inflationary pressures and the risk presented by a nationally agreed pay award, if not fully funded through AEF. Furthermore this represents a prudent approach given that Local Authority settlements have been financially worse than headline

figures suggest once additional responsibilities from WG have been taken into account.

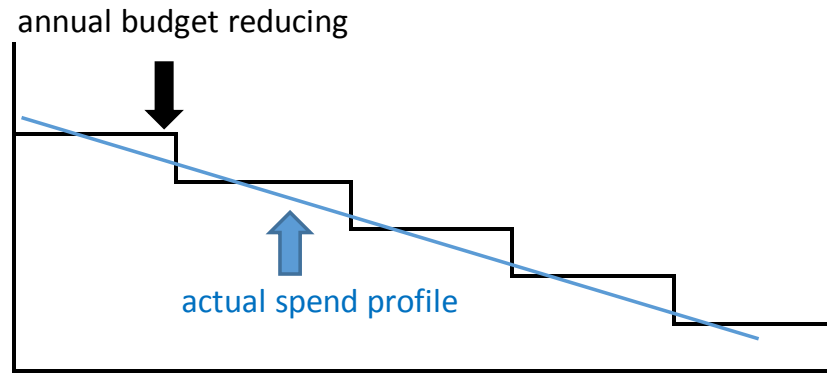
The forecast necessary reductions to achieve a balanced budget are:

Year	Best Case £000s	Most Likely £000s	Worst Case £000s
2018-19	6,406	9,595	12,035
2019-20	5,868	8,908	11,160
2020-21	5,679	8,574	10,649
2021-22	5,482	8,238	10,146
Total Reductions	23,435	35,315	43,990

- 3.9 Cabinet should note that even in the best case scenario, the council would still be required to make budget reductions totalling over £23 million. Added to the £40 million by which the council has reduced budgets over the last five years, this totals a quarter of the council's net budget. Under the worst case scenario, this rises to a third.

4. Current Situation

- 4.1 As reported to Cabinet in the 2016-17 financial outturn report in June 2017 and the 2017-18 Quarter 1 monitoring report, there are a significant and growing number of budget reduction proposals which are proving challenging to implement either in part or in full, and as such are **AMBER** or **RED** rated. This position reflects the harsh reality of delivering increasingly challenging and in many cases transformational budget reductions year on year. Given the requirement for directorates to identify alternatives where an original reduction proposal is no longer achievable, this provides a further rationale for scenario planning, as this approach develops additional options for consideration which can be utilised if required, and is judged positively by the Wales Audit Office in the recent national and local Savings Planning reports.
- 4.2 As with many councils, Bridgend has been able to achieve an underspend position in recent years, and this is the current forecast position in 2017-18. Whilst this achievement is further evidence of the strong financial resilience of the council, it should not be seen as budget capacity but is moreover a function of delivering Year on Year budget reductions and a positive consequence of Medium Term Financial planning, as illustrated by the diagram below:



MTFS development

- 4.3 The Corporate Plan, will direct the allocation of resources over the four year MTFS period. All areas of the council will be set a 1% annual efficiency target, with further reductions over and above this targeted more heavily towards budget areas which contribute less towards the council's objectives. This approach aligns the MTFS directly with the corporate plan and supports the council in the delivery of its goals.

Next Steps

- 4.4 Directors are leading reviews of proposals to identify options that will allow the council to meet the budget shortfall identified. This work is being carried out in consultation with the relevant cabinet portfolio holders.
- 4.5 Building upon the positive work done by the Budget Research and Evaluation Panel in previous years, it is planned to repeat this with the intention of once again creating strong links between the panel and Cabinet in order to deliver a robust and successful MTFS, and as such the panel will be involved in budget development at an early stage. The panel have also been asked by Council to proactively review the 1% schools efficiency target and officers will look to support this in the overall context of planning for budget reductions and alternative proposals.

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 2018.

7. Financial Implications

- 7.1 The Council will be required to identify budget savings to achieve a balanced budget for 2018-19 and a total £35.3 million over the next four years under the most likely scenario. 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 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.

8.0 Recommendation

8.1 Cabinet is asked to:

- Note the work being undertaken in MTFS development strategy
- Note the significant requirement for further budget reduction proposals over the term of the MTFS which are under development and will be brought to Cabinet/CMB for consideration during September,

Randal Hemingway
Head of Finance & Section 151 Officer
25 July 2017

Contact Officer: Deborah Exton
Group Manager Financial Planning and Budget Management
Ext.3604.
Email: deborah.exton@bridgend.gov.uk.

Background Documents:
1 March 2017 Council Report – Medium Term Financial Strategy 2017-18 to 2020-21