

# BRIDGEND COUNTY BOROUGH COUNCIL

## REPORT TO SUBJECT OVERVIEW AND SCRUTINY COMMITTEE 2

7 DECEMBER 2017

### REPORT OF THE SECTION 151 OFFICER

#### MEDIUM TERM FINANCIAL STRATEGY 2018-19 to 2021-22

#### 1. Purpose

- 1.1 The purpose of this report is to present the Committee with the draft Medium Term Financial Strategy 2018-19 to 2021-22, which sets out the spending priorities of the Council, key investment objectives and budget areas targeted for necessary savings. The strategy includes a financial forecast for 2018-22 and a detailed draft revenue budget for 2018-19.

#### 2. Connections to Corporate Improvement Objectives / Other Corporate Priorities

- 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 2018-19.

#### 3. Background

##### Corporate Plan - Policy Context

- 3.1 In March 2016, the Council approved a revised set of three priorities:

- Supporting a successful economy
- Helping people to be more self-reliant
- Making smarter use of resources

- 3.2 This draft MTFS has been significantly guided by these priorities. Although year-on-year reductions in Aggregate External Finance (AEF) have necessitated significant budget reductions across different service areas, the Council still plays a very significant role in the local economy of Bridgend County Borough and is responsible for annual gross expenditure approaching £400 million and is the largest employer in the county borough. The corporate plan will be presented to Council for approval alongside the MTFS 2018-22 in February 2018 and will be fully aligned with the MTFS including explicit links between resources and corporate priorities.

#### 3.3 Budget Narrative

- 3.3.1 The Council aspires to improve understanding of its financial strategy, link more closely to corporate priorities and explain the Council's goal of delivering sustainable services in line with the overarching ambition of the Well-being of Future Generations (Wales) Act 2015. The 2017-2021 MTFS introduced a budget narrative, which aims to articulate the continued and significant investment in public services that the Council will make. It sets out how the Council aims to change particular areas of service delivery and the financial consequences of this.

### 3.3.2 Corporate Financial Overview

While the Council's net revenue budget is planned at £264.132 million for 2018-19, its overall expenditure far exceeds this. Taking into account expenditure and services which are funded by specific grants or fees and charges, the Council's gross budget will be nearly £400 million in 2018-19. Around £170 million of this amount is spent on the Council's own staff including teachers and school support staff. Much of the cost of the services provided by external organisations is also wage related – these include for example waste collection operatives, domiciliary care workers and foster carers.

As well as having reduced income to fund services, there are other pressures that squeeze resources. One of these is legislative changes. This includes regulations and legislation from Welsh Government either directly or indirectly – for example new requirements to register domiciliary care staff, new requirements arising from the Environment (Wales) Act 2016 to promote biodiversity, requirements arising from the Planning (Wales) Act 2015 such as increased obligations around pre-planning advice, consultation requirements associated with making changes to schools, schools transport and indeed most services that the Council operates.

Another significant pressure arises through demographic changes. People are living longer which is good news but that also can bring increased dependency through people living with more complex or multiple conditions. Additionally, we are seeing an increase in the number of pupils at our schools, which places increased pressure on school budgets.

The Council has adopted a corporate plan that sets out the approaches that it will take to manage these pressures whilst continuing to ensure that, as far as possible, services can be provided that meet the needs of the Bridgend community. These approaches are:

- Though a large and complex organisation, the Council will make every effort to work as one single organisation. That means avoiding duplication and double handling of data through sharing of systems and processes. This isn't always as easy as it sounds because often different rules or opportunities apply to different services. Nevertheless acting as 'One Council working together to improve lives' is enshrined in the Council's vision.
- Wherever possible the Council will support communities and people to create their own solutions and reduce dependency on the Council. This is because it is not sustainable for the Council to continue to aspire to meet all and every need that arises and because there is capacity, talent and ideas in other parts of the community that can be encouraged to play an active and effective role. The Council has a role in encouraging and leading this approach and has adopted this as one of its underlying principles.
- The Council has agreed a principle of focusing diminishing resources on communities and individuals with the greatest need. Parts of our community have long standing problems of poverty. The solutions to this are not all in the direct control of the Council (for example the effects of changes to the welfare system) but where possible the Council has agreed that it wants to both alleviate problems in these areas and develop longer term sustainable solutions.
- The Council has three priorities that reflect these and other principles. One of these priorities is to make "Smarter Use of Resources". This means we will ensure that all its resources (financial, physical, human and technological) are used as effectively and

efficiently as possible and support the development of resources throughout the community that can help deliver the Council's priorities.

### **3.3.3 Education and Family Support**

The Council is proposing to spend £108 million on services delivered by the Education & Family Support Directorate in 2018-19. The majority of this money will be spent by the 59 schools across the county – Schools are the biggest single area of spend of the Council. In addition to the £88 million budget annually delegated to schools in 2018-19, which mostly pays for the salaries of teaching and other school staff and the running costs of the facilities (ongoing revenue expenditure), the Council has committed £21.5 million in building and refurbishing schools as part of our 21<sup>st</sup> century school modernisation programme (Band A). This comprises one-off capital expenditure across several years, match funded with £21.5 million of Welsh Government funding. As progress continues on our existing programme, we have been looking ahead to future requirements. The Council has submitted an expression of interest to Welsh Government in respect of our aspirations for Band B funding. Whilst it is too early to say how this will progress, the concepts proposed are based around forecast demand for places, primarily in the primary sector. Whilst this is inevitably dependent to some extent on new housing, it is likely that this will represent the most significant area of capital expenditure for the Council in future years.

The Council has a longer term goal to make the overall schools system more efficient – for example through making sure we have the right number of school places available in the right parts of the county (including ensuring enough capacity for anticipated future increases in school age population). For the 2017-18 budget, the Council introduced an annual efficiency saving of 1% for each year of the MTFS. This recognised the need for a “One Council” approach, but was relatively lower than other reductions imposed, recognising that schools have less discretion than some other areas of Council expenditure. The Council did however provide additional funding to meet nationally agreed pay awards and price inflation. The net impact of these changes was an overall cash increase. For 2018-19, the level of budget reductions required is not as great as had been feared. As a result, it has been possible to protect schools from the 1% saving for one year. However, the forecast pressure on Council budgets for future years is such that it is almost unavoidable for 2019-20 onwards, and so it will be necessary for head teachers and governing bodies to use the next year to plan ahead.

The Council has identified “Helping People to be more Self-Reliant” as a corporate priority and early intervention is an important part of this – taking steps wherever possible to prevent people becoming reliant on Council services. As well as being of great social value to individuals and communities, this approach is more cost effective: successful intervention at an early age and at an early stage can prevent needs from escalating and requiring more costly and complex help later on.

The Council is therefore continuing to invest in a range of services that give early support to children and families. 80% of these services are funded separately, typically by annual grants from Welsh Government. However the short term nature of these grants and uncertainty from one year to the next means that a lot of these interventions have some fragility – for example it can be difficult to retain or recruit staff if we can't give them certainty that their role will still exist the following year.

These grants include Flying Start, Families First and Communities First, European Social Fund grants and the Education Improvement Grant.

In seeking to protect our investment in education and early intervention the Council is making minimal changes to the services delivered at this time. We are proposing the following changes in 2018-19 that are reflected in the budget:

- We have already implemented increased efficiency and commerciality and a small increase in the price of a school meal during the 2017-18 financial year –further income should be generated in 2018-19 from a full year effect (school year vs financial year) totalling £71,000.
- We would like to reduce our contribution to the Central South Consortium over coming years – this is however subject to agreement with our partners. For 2018-19 partners have agreed a small reduction of £12,000 (2%). We will continue discussions around savings that can be made in future years.
- We will review home to school transport arrangements for pupils attending special schools – we believe we can make efficiency savings of £75,000.
- We will continue our phased implementation of the changed learner transport policy, where we have established it is safe to do so. We expect to achieve at least £67,000 for each year of the MTFS.
- We will develop collaborative arrangements for our Additional Learning Needs Service, saving £50,000.
- Between 2013 and 2019 we are investing in six 21<sup>st</sup> century school schemes. These schemes will see significant investment to replace Betws Primary, YGG Cwm Garw, Pencoed Primary and Brynmenyn Primary schools, along with the creation of special educational needs provision at Bryncethin. We are continuing to invest in improving our school estate and that includes creating more capacity at Heronsbridge Special School and ongoing road safety works in a number of schools.

### **3.3.4 Social Care and Wellbeing**

After Education, the largest area of Council spend is on social care. This includes social care for children and for adults who are vulnerable or at risk. Within the directorate there is a strong focus on social care as a professional discipline and by the two areas working more closely together it helps to identify efficiency savings. The directorate also has a team, formally the Sport, Play and Active Wellbeing team, who focus on the development of new approaches to better support prevention, early intervention and wellbeing approaches.

There is a strong link between children's social care and early help and intervention services. Although these 2 services are located within different directorates there are mechanisms in place to ensure close working and appropriate and proportionate responses to families and children in need. There are also clear pathways for step up

and step down and close cross directorate monitoring in place. This also supports the corporate priority of 'helping people to be more self-reliant'.

Over the past four years the Council has identified savings of over £11 million in social care and its strategy for the next few years is to manage demand and introduce new ways of working in order to lessen dependency and enable people to maximise their independence. This needs to be achieved within available budgets.

In total, the Council is proposing to spend £67 million on social care and wellbeing services. In addition to this the Council provides a range of housing services plus targeted grant funding. Welsh Government has determined that Communities First as a programme will cease in March 2018. In its place are two replacement grants – Communities for Work Plus and Legacy Grant Funding. The Welsh Government published draft grants information on 24 October. Against previous total Communities First funding of £19.647 million in 2017-18, the draft 2018-19 allocation includes £6 million for Legacy Fund projects and a further £10.050 million for Communities Work plus across Wales. At an all Wales level, this is a reduction of £3.597 million (18.3%).

The Council's priority of "Helping people to be more self-reliant" is integral to our approach to Social Care and Wellbeing. Our vision is to actively promote independence, wellbeing and choice that will support individuals in achieving their full potential. The Council is responsible for the planning, commissioning, assessment and, where appropriate, the direct provision of social services. It is still early days in the development of preventative approaches. The directorate has gathered much evidence to support the positive impacts of such initiatives and the longer term cost avoidance however there is still work taking place in relation to the social capital aspects and potential financial savings.

Social services is largely a demand led service and whilst the long term strategy is to enable people to be more self-reliant, the demographics show that people are living longer, often with more complex conditions than ever before. This means that there are more people living in the community who would previously have remained in hospital or entered a care home. Children's social care is also demand led and the financial pressure to meet need can fluctuate very rapidly.

Though some pressures are allowed for in planning the 2018-19 budget, we are not simply increasing the budget to meet demand. This would be unsustainable and if we increased budgets year on year to meet new demand, it would increasingly mean the Council would have to restrict other services. Therefore the Council's strategy is to transform how services are delivered. Introducing new ways of working which will be sustainable in the long term alongside a demand led service is inevitably taking time and as a result our MTFS reflects a greater proportion of savings in the outer years.

In order to be sustainable going forward, the Council is ensuring that any changes are introduced in a planned and timely way in order to take existing and future customers with us as well as the general workforce. This work has already commenced and the budget saving proposals for 2018-19 builds on the implementation plans that are already underway, such as the two new Extra Care facilities currently under construction, which are planned to open in October 2018. The re-modelling programmes focus on changing the culture and reviewing what has become 'custom and practice'. Extra Care will enable people to live more independently and will offer a real alternative to residential care.

The Council has already made changes. In adult social care we have changed the assessment framework in order to improve the outcomes for people who need care and support whilst also reducing the numbers of people who require long term support. The Council focuses on helping people to achieve the outcomes they want for themselves, targeting our interventions on what is missing, rather than going straight to what package of care we can give them.

A new 52 week a year provision opened in October 2017 which will be able to locally accommodate three children with very complex needs; without this provision these children would have been sent to high cost out of county placements. Plans are advancing to meet budget reductions in 2018-19 by re-modelling two Council-run residential homes for children, as well as developing the in-house foster care provision.

Importantly these transformations are designed to both better support people and cost less. The Council has identified a number of further transformations that continue this approach and which are reflected in changes to the budget:

- Learning Disability services have benefitted from the introduction of a progression model of service delivery which is aimed at people progressing through the services to reduce their dependency with the opportunity of receiving their support from a range of different options in the community rather than from just the Council. This model has led to less dependence on day services and greater self-reliance. The success of the last three years will continue to be built upon.
- In learning disability and mental health services, there will be a reduced dependence on residential placements by targeting greater use of Shared Lives (family based care and support). This will reduce expenditure as the average weekly cost of a Shared Lives placement is only around a quarter of a week in residential placement for a person with a learning disability.
- As part of the residential care home strategy, the Council has committed up to £3 million in two new Extra Care Schemes. Extra Care housing means that people can be supported to live more independent lives than would be the case in traditional residential care. The standard charge for an extra care tenancy is again around a quarter of a residential care placement.
- Income generation has been hard to achieve as Welsh Government legislation limits the charges for services due to the application of a cap of £70 per week. In addition we are currently unable to charge in Children's Services.

### **3.3.5 Public Realm**

Most of the Council's net budget is spent on education and social care – these are very valued services, but are naturally aimed at certain groups within our community. However, the Council's work on the public realm has a more direct and visible impact on everybody. This includes our work to maintain highways, parks and open spaces, clean our streets, collect and dispose of our waste.

In 2018-19 the Council is likely to spend around £4.5 million of direct Welsh Government grant on public realm services. This includes waste services, public

transport, rights of way and road safety.

In addition to delivering these grant funded services the Council proposes to spend a further £19 million net budget on these services. The fact that schools have had a high degree of financial protection in previous years and that social care is hugely led by increasing demand has meant that the Council's other services have been under considerable pressure to make savings and in many cases we have had to reduce levels of service.

Last year, with the advent of a new seven year contract, the costs associated with waste collection increased. The new contract included a new collection service for absorbent hygiene products – this has proven more popular than expected and so we need to recognise a budget pressure to meet the increased costs. Initial indications are that there has been a significant reduction in the volume of our residual waste – we expect this to benefit the Council financially over time, subject to contractual conditions with our disposal arrangements. We expect to spend in the region of £11 million on the collection and disposal of waste in 2018-19.

A major challenge for the Council is how to continue to meet public expectations for many highly visible and tangible services when the available budget inevitably means the Council will be less able to deliver these services to the same level and frequency. These services are often the ones the public identify with their Council tax payments.

The Council's strategy is to retain and maintain the most important public services in this area whilst driving ever greater efficiency, making some service reductions where we think it will have the least impact across Council services, recognising that this still may be significant in some areas. We will encourage others to work with us or assume direct responsibility in some cases. Our proposed changes in this respect are:

- In recognition of the Council's vital role in maintaining the public realm, and in response to wider Member concerns over the cumulative impact of historic budget reductions, the 2017-18 budget included for the first time the creation of a new and recurrent fund ring-fenced for this purpose. It is proposed to use the funding for 2018-19 to offset reductions in street cleaning and also cover loss of income from an original proposal to charge for disabled blue badge parking.
- It is proposed to rationalise the number of subsidised bus services. From April 2018 approximately half of the Authority supported bus service routes will potentially no longer be subsidised. Routes targeted for subsidy reduction will be those least utilised and with the best alternative public transport links. The removal in the subsidised bus routes will result in a saving in the region of £188,000 per annum. Consultation with the public on route reduction is due to commence in Winter 2017.
- To change the way that public convenience needs are met by the transfer of more of these facilities to local Town and Community Councils to operate, and closing those of the poorest quality or where there is no appetite for transfer. We will mitigate these closures by introducing a local comfort scheme whereby shops and other public facilities are funded to make their facilities more readily available to public use.

Reductions in spend in these areas will allow us to protect our investment in the Council's priorities and in areas where we have far less ability to exercise control (such as children's social care). In addition we will continue to invest in initiatives that allow others to either share responsibility for the delivery of services where they are beneficiaries, for example the new Parks and Pavilions key holding and cleaning arrangements will mean the Council will ensure pavilions are cleaned to a good standard, usually once a week, but responsibility for any further cleaning, opening and closing will pass to those user clubs and organisations. Further to this, Community Asset Transfer (CAT) will continue to be a major element of the Council's strategy to transfer buildings to local community groups to operate for themselves.

### **3.3.6 Supporting the Economy**

Whilst this is a Council priority, the service has nevertheless made significant reductions to its budget over recent years. The Council has delivered this by employing fewer but more highly skilled staff, and focussing activity more narrowly on priority areas to maximise impact. Going forward, we will increasingly collaborate with the nine other Councils that make up the Cardiff Capital Region City Deal. The City Deal is creating a £1.2 billion fund for investment in the region over the next 20 years. This investment will be targeted to focus on raising economic prosperity, increasing job prospects and improving digital and transport connectivity. In order to play an effective part in the City Deal the Council will maintain as far as possible existing investment in its transport planning, spatial planning and regeneration teams. The Council will be spending in the region of £1.7 million net a year running these services, plus a further £700,000 as Bridgend's contribution to the Deal itself.

In addition, the Council is making good progress in pursuit of the development of each of our three main towns. These include the development of Cosy Corner and the Harbour Quarter in Porthcawl, the redevelopment of Maesteg Town Hall, and the redevelopment of the Rhiw in Bridgend. Much of this investment is not the Council's own money, but together, these schemes amount to around £20 million in total. Achieving this scale of leverage (around £10 for every £1 spent by BCBC) is dependent on being able to provide match-funding from the Council's own Strategic Regeneration Fund (SRF). This fund is used tactically and strategically, to deliver regeneration priorities and maximise external funding.

The Council will continue to operate a number of grant funded programmes of work to support our most vulnerable groups and those furthest away from employment, including training and skills and work support programmes such as Bridges into Work.

We propose to introduce changes that will mean that the Council spends less on some specific activities. These are:

- Tourism events – the Council, often in partnership with WG, has supported a series of high profile, successful events, including the Senior Open Championships and the Urdd. In future years, where the costs of supporting such events exceed the available budget, a business case will need to be made for the required funding to bridge any shortfalls, subject to any funding being available.
- Community Asset Transfer (CAT) has been identified as a potential way of safeguarding community based services such as public toilets, community centres and sports pavilions, for the future. Specialist support will continue to be available



to community groups and Town and Community Councils, to develop robust plans, but the level of funding available for this will reduce by £40,000.

- The Council believes that in this period of considerable economic uncertainty, it is important to maintain support for local businesses. It is intended that the current support for Bridgend Business Forum will be continued, with a saving of £20,000 achieved through increasing earned income from the delivery of these services.

### **3.3.7 Other Services**

The Council operates a number of other services which it recognises fulfil specific and important roles. In many cases these are statutory though the precise level of service to be provided is not defined in law. The most significant areas are as follows:

#### Regulatory Services

The Council proposes to spend £1.8 million on this group of services that includes Trading Standards, Environmental Health, Animal Health and Licensing (Alcohol, Gambling, Safety at Sports Grounds, Taxis etc.). These services all ensure in different ways that the public is protected.

In 2015 the Council combined these services with Public Protection services in the Vale of Glamorgan and Cardiff City. This collaboration has allowed all Councils to make efficiency savings through sharing things like training and management costs. As well as allowing for financial savings, the collaboration delivers greater resilience in the service and stronger public protection across all three Council areas.

#### Registrars

The Council operates a registrar's service that deals primarily with the registration of Births, Marriages and Deaths. The service also undertakes Civil Partnership and Citizenship ceremonies and supports researchers of family history. Councils are allowed to charge for these services, but by law are not allowed to make a profit. The Council operates these services so that they cover their own cost (i.e. they are not subsidised by the general tax payer). The Council will continue to ensure that the services are efficient and provide good service to our customers but beyond that, no significant changes are proposed that reflect in the Council's budget for the coming years.

#### Housing

The Council does not have any housing stock of its own but retains a number of statutory functions relating to addressing housing need and combatting homelessness. The Council's housing service also oversees the Council's work on addressing domestic abuse and on collaboration with other organisations such as the police on wider community safety. Some changes to the way that services are funded are proposed for 2018-19 which we expect to contribute towards savings.

## Council Tax and Benefits

Whilst not immediately recognisable as a “service”, taxation is in fact an important part of the Council’s business. If we were inefficient or ineffective in collecting Council tax, the burden of funding Council services would fall more heavily on those who do pay. The taxation service collects nearly £70 million in Council tax from around 65,000 households across the county borough. Our collection rates over the last two years have been the highest ever in the Council’s history. We are determined to maintain this high level, but we are seizing the opportunity to reduce the cost of operating the service, by offering online services. We will offer a range of secure Council tax functions online, allowing residents to self-serve at a time and location convenient to them. This will allow us to reduce the cost of running the service. In 2017-18, we are implementing fines for non-compliance of residents in receipt of Single Person Discounts and will continue this.

Benefits are funded by the central UK government but the administration of Housing Benefit and the Council Tax Reduction Scheme falls to the Council. We have reviewed the service and identified opportunities to improve our recovery rates by £32,000 as well as looking at Council’s bad debt provision and believe we can safely reduce this by £189,000 a year. Similar to the Council Tax service, the Council plans to make some significant savings through digitising this service. However, we are mindful that many of the people in receipt of benefits are not able to manage this online and we need to introduce this carefully.

In total we are targeting savings of £300,000 from digitising these services. Developing the necessary systems has taken longer than expected, so the second half of this is now planned for 2019-20, recognising the need to realise widespread take up to deliver this level of savings.

### **3.3.8 Behind the Scenes**

There are a number of things that the Council does that support the delivery of services but which themselves are not visible to the public. We need to maintain these services with sufficient capacity to support our services whilst making them as efficient and effective as possible. Over the course of 2018-19 we are aiming to make savings totalling £484,000 through changes to the way some back office services are organised. This is in addition to specific proposals mentioned below. Our approach in each of these areas is summarised as follows:

#### Property and building maintenance

The Council is undertaking a review of its commercial property portfolio, to identify ways of increasing income through more intensive management and investment approaches. The review involves challenging the existing make-up and management of the portfolio, identifying asset management opportunities and the mechanisms required to deliver a sustainable increase in income. It also advises on potential future growth in the investment portfolio.

Alongside this, the Council is continuing to dispose of assets it no longer requires to deliver services, in order to provide further investment in our capital programme. During 2018-19 the Council estimates that it will generate around £3-4 million in such sales.

The Council is bringing together its asset management and building maintenance functions, and centralising all premises repairs, maintenance and energy budgets into a single 'corporate landlord' service. This will better enable us to manage compliance, embed 'whole life costing' approaches into decision-making, manage the quality of work undertaken by contractors, and thereby deliver efficiencies in the management of our estate.

A priority for 2018-19 is to ensure that the division of premises responsibilities between individual schools and the Council are fully understood, properly implemented, and that appropriate support is provided to enable their responsibilities to be discharged appropriately.

### Legal services

The Council needs to maintain effective legal support for all of its services. At a time when the Council is trying to transform services it is often experiencing legal challenges – for example where people don't want to see changes to their local schools. The service also directly supports front line services such as Education and Social Services, and is provided by a mix of permanent internal staff, staff shared with other Councils and expertise purchased from the private sector. One third of our in-house legal team is specifically focussed on child protection cases.

The legal service also deals with Corporate Complaints and access to information through Data Protection and the Freedom of Information Act. The Council will make reductions in this budget through a reduction in the planned use of legal counsel, some staffing changes and minor savings to the non-staffing budgets.

### Finance

The Council has a central team that manages the Council's accounts and supports the oversight and management of the Council's finances. The service fulfils certain legal requirements that ensures transparency and accountability in the way that public money is used – for example in producing accounts which are then audited.

During 2018-19 the Council will continue its existing strategy of improving the way the finance system works, making it easier to interrogate and understand the information it contains. This will make us more efficient, as well as empower budget holders from across the Council to access information directly - improving and speeding up decision making as well as freeing up resource in the finance team. We will also continue work to streamline invoice payments. This will provide an improved service, speeding up supplier payments, reducing workload across both the finance team and client departments, and will further enable more agile working.

### Human Resources and Organisational Development

With over 6,000 employees including schools, the Council needs a dedicated human resources service. This service is relatively lean with a low ratio of HR officers to staff. The service is also responsible for equalities – including oversight of and training in the new Welsh language standards (the additional cost of these standards is spread throughout all parts of the Council).

The Council will determine a revised structure for this service however in the medium term we anticipate needing more resource to support the organisational development needed to deliver new ways of working and this will be financed from a dedicated change fund that the Council has established.

## ICT

The Council will be spending around £5 million on its ICT services to support main Council activities and schools (which is provided in house or by external companies in the case of some schools). This service will be especially important in enabling changes across a range of services that in turn allow savings or improvements through more flexible working or new ways to access services.

Because of the market in the ICT sector we have struggled sometimes to recruit in this area. Therefore our strategy has been and will continue to be one of building skills and enabling career progression in-house. This includes a number of successful apprenticeship schemes and in 2018-19 we will be developing more formal training to complement the actions already undertaken.

We plan to make a reduction in both software and hardware budgets and will make savings in some non-staff budgets for communications, supplies training and equipment (totalling £210,000).

## Digital Transformation

A significant change that the Council will be embarking on in 2017-18 is rolling out the use of digital approaches to how it engages with customers and provides some services. In 2017-18 we will be prioritising the Council Tax and Benefits services, making it easier for residents to request services and manage their accounts online. Over the next four years the Council will be investing up to £2.5 million on this digital transformation on the basis that the new approaches will be more flexible and convenient for service users but also save significant amounts of money. Some of these savings are achieved through reduced staffing levels. By taking a phased approach we aim to maximise our ability to make staff reductions through natural turnover thus minimising impact on staff as well as reducing the Council's exposure to redundancy costs.

## Procurement

The Council has a central team that provides procurement support across the range of services that we provide. Effective procurement is essential to ensuring good value for money across the Council, but we will still continue to seek corporate wide efficiencies in the operation of this service.

## Democratic Services

The Council is a democratic organisation with 54 elected members (Councillors) who make decisions, set policy direction and oversee the general performance of the Council. Like all Councils, Bridgend has a mayor whose job is to chair meetings of the Council and represent the Council in the community (this is completely different to the elected mayors in cities like London and Bristol).

These democratic processes require support to ensure accountability and transparency in decision making and elected members are paid salaries that are set independently.

The Council will target future efficiency savings in this service.

### Audit

All public bodies have audit functions. Our internal audit is provided by a joint service that we share with the Vale of Glamorgan. The service carries out investigations and routine checks to ensure that the Council maintains good governance – especially as it relates to the proper accountability of money and other resources. We have reduced spend in this area over recent years, and following a recent restructure wish to ensure stability before making any further decisions.

In addition the Council undergoes external audit work that is set by the Wales Audit Office (WAO). The Council has little control over the fee that is set, though a good internal control environment is a strong argument for a lower fee being imposed. We will continue to discuss with the WAO how we can work together to reduce its fees.

## **4. Current Situation**

### **The Financial Context**

- 4.1 The Council's MTFS is set within the context of UK economic and public expenditure plans, Welsh Government's priorities and legislative programme. The 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 to 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.
- 4.2 The MTFS includes:
- The principles that will govern the strategy and a four year financial forecast, comprising detailed proposals for 2018-19 and outline proposals for 2019-20 to 2021-22.
  - The capital programme for 2018-19 to 2027-28, linked to priority areas for capital investment and the Capital Financing Strategy, which will be updated and included in the final MTFS in February 2018.
  - The Treasury Management Strategy and Corporate Risk Register, which will both be updated and included in the final MTFS in February 2018.
- 4.3 In the Spring Budget 2017 the Chancellor of the Exchequer, Philip Hammond, announced that as the UK begins the formal process of exiting the European Union, he would put economic stability first. Following a period of robust economic growth, record levels of employment and a falling deficit, it set out further progress in restoring the public finances to health. The Office for Budget Responsibility (OBR) now forecast

that the UK economy would grow by 2% in 2017, a slightly slower rate in 2018, before returning to 2% in 2021. The OBR expects that borrowing will fall to 0.7% of GDP by 2021-22, which was forecast to be the lowest level as a share of GDP in two decades. To achieve this, and to ensure the UK lives within its means, he stated that the government would maintain discipline on public spending.

Subsequently, GDP growth figures released in October 2017 by the Office for National Statistics revealed a quarterly rise of 0.4% compared with 0.3% in each of 2017's first two quarters. The OBR's most recent announcement on government borrowing reported the smallest budget deficit for any September in the last 10 years, further indicating an improving picture in public sector finances.

Set against this are the risks to Westminster government budgets of a relaxation of public sector pay restraint, rising inflation and increased calls for additional funding, not only to support the Brexit process, but also for core spending areas such as policing and defence, neither of which are devolved functions. In recent weeks there are also cross party calls for consideration to be given to a pause in the rollout of the Universal Credit programme, which is closely aligned to bringing down the deficit. At the time of writing, there are currently no further details until the Chancellor's Autumn Budget on 22 November. A verbal update will be provided during the meeting.

- 4.4 The Welsh Government announced its draft budget for 2018-19 on 3 October. The most significant headline change was an additional £230 million in 2018-19 and £220 million in 2019-20 for the Welsh NHS, which now accounts for around half of the Welsh Government budget. The Cabinet Secretary highlighted the risk to the Welsh Government of the UK Government's £3.5 billion of unallocated cuts for 2019-20, which could mean a further cut of up to £175 million to the Welsh budget depending on where the unallocated cuts fall.

#### **Welsh Government Provisional Local Government Settlement 2018-19**

- 4.5 Councils received their provisional settlements from Welsh Government on 10 October. The headline figure is a reduction of £19 million, or 0.5%, across Wales and, for Bridgend, a reduction of 0.6% in Aggregate External Finance (AEF), or £1.16 million. However when adjustments are made for new responsibilities in respect of homelessness prevention (£236,000 for Bridgend), the true impact for Bridgend is estimated to be a like-for-like reduction of £1.396 million or -0.73%. Welsh Government has reported that the settlement also includes an additional £42 million across Wales in recognition of social services pressures and £62 million in respect of school funding, but these amounts, which are not ring-fenced or notified at individual authority level, are already included in the figures above. The settlement also includes £1.8 million floor funding to ensure that no authority has to manage with a reduction of more than 1% to its Revenue Support Grant next year.
- 4.6 The provisional settlement compares favourably to the -3.2% "most likely" assumption that is contained within the Council's original MTFs for 2018-19 and is better even than the "best" case scenario assumption of -1.5%.

#### **Settlement Implications for 2018 to 2022**

- 4.7 The Cabinet Secretary for Finance and Local Government, Mark Drakeford, stated that this is a realistic settlement that continues to protect local government from significant cuts against a backdrop of reducing budgets from the UK Government. He said that while Welsh local government continues to be protected from the impact of

austerity, he recognised that this settlement is still a real terms cut in core funding, when authorities face real pressures from such things as an ageing population, pay and other inflationary pressures.

Unlike previous years, Welsh Government has provided an indication of funding levels for 2019-20. The Cabinet Secretary stated that the indicative local government settlement in 2019-20 is a further reduction of 1.5% (albeit individual Council's settlements will vary). This is predicated on the impact on the Welsh Government budget of the £3.5 billion unallocated cuts which the Chancellor of the Exchequer has previously indicated he intends to impose in 2019-20. However, the Cabinet Secretary also stated that if the Chancellor follows Welsh Government's advice and does not proceed with the cuts in the Autumn Budget then his first priority would be to look again at the cuts they have been forced to make, including for local government.

### **Transfers into and out of the 2018-19 Revenue Settlement**

4.8 The full picture on specific grants is not yet clear, but the draft settlement includes information on a number of transfers into and out of the Revenue Support Grant (RSG), both grant funding and for new responsibilities, which impact on the Council's resources. Specifically:

- The Waste element of the Single Revenue Grant has been transferred into the RSG, with £1.503 million for Bridgend. The balance has been retained as a specific grant for Local Environment Quality and Natural Resource Management, however this amount has reduced by £6 million across Wales.
- A number of social care grants have transferred into the RSG, including £1.203 million for the Welsh Independent Living Fund, £846,000 for the Social Care Workforce Grant, £337,000 in respect of grants for Looked After Children, and £134,000 for the Carer's Respite Care Grant. As a consequence, the Council's net budget for social services will appear to rise, whereas a significant proportion of any change is accounted for by these transfers.
- Social care provision for prisoners in the secure estate has in previous years been funded through a specific grant. This was worth £217,000 to Bridgend in 2017-18. For 2018-19, the grant has also transferred into the RSG, but under the standard social services funding formula. As a consequence, Bridgend has in effect lost almost all this funding, and faces the largest impact of any Council given both the size and demographic of Parc prison population.
- The settlement also includes additional funding for new responsibilities in respect of homelessness prevention, a total of £236,000 for Bridgend.

4.9 Additionally the information provided by Welsh Government on grants included a reduction of £15 million to the Education Improvement Grant (EIG). A significant proportion of this funding is delegated to schools and helps to underpin ongoing investment in the foundation phase.

### **Council Tax**

4.10 In line with assumptions set in the July 2017 report to Cabinet, the draft 2018-19 draft Revenue Budget, shown in Table 7, assumes a Council tax increase of 4.2%. Whilst the settlement is more favourable than had been assumed, the scale of the financial challenge remains considerable once external pressures and risks have been taken

into consideration. An assumed annual increase of 4.5% has been included for 2019-2022.

## Welsh Government Capital Settlement

4.11 In March 2017 Council approved a capital programme for 2016-17 to 2026-27, based on the assumption that annual Welsh Government capital funding would be flat lined from 2017-18 onwards. Council has approved revised versions of the capital programme during the financial year to incorporate budgets carried forward from 2016-17 and any new schemes and grant approvals. The draft local government capital settlement provides this Council with £6.328 million capital funding for 2018-19, which is £40,000 more than 2017-18. No indications have been given for 2019-20 or beyond.

## Current Year (2017-18) Financial Performance

4.12 The in-year financial position as at 30 September 2017 is shown below.

**Table 1- Comparison of budget against projected outturn at 30 September 2017**

Directorate/Budget Area	Original Budget 2017-18 £'000	Revised Budget 2017-18 £'000	Projected Outturn 2017-18 £'000	Projected Over / (Under) Spend Qtr 2 2017-18 £'000	Projected Over / (Under) Spend Qtr 1 2017-18 £'000
<b>Directorate</b>					
Education and Family Support	108,448	108,363	108,089	(274)	(168)
Social Services and Wellbeing	64,683	64,809	66,746	1,937	2,006
Communities	23,858	23,789	23,670	(119)	75
Operational and Partnership Services	15,249	15,358	14,635	(723)	(1,314)
Chief Executives and Finance	3,886	3,921	3,810	(111)	(307)
<b>Total Directorate Budgets</b>	<b>216,124</b>	<b>216,240</b>	<b>216,950</b>	<b>710</b>	<b>292</b>
<b>Council Wide Budgets</b>					
Capital Financing	10,184	10,184	8,859	(1,325)	0
Levies	7,020	6,952	6,967	15	16
Apprenticeship Levy	700	700	609	(91)	(98)
Council Tax Reduction Scheme	14,254	14,254	13,805	(449)	(486)
Insurance Premiums	1,559	1,559	1,559	0	0
Building Maintenance	900	900	900	0	0
Pension Related Costs	1,258	1,203	430	(773)	(826)
Other Council Wide Budgets	6,094	6,101	5,516	(585)	(107)
<b>Total Council Wide Budgets</b>	<b>41,969</b>	<b>41,853</b>	<b>38,645</b>	<b>(3,208)</b>	<b>(1,501)</b>
<b>Appropriations to / from Earmarked to Reserves</b>			<b>3</b>	<b>3</b>	<b>0</b>
<b>Total</b>	<b>258,093</b>	<b>258,093</b>	<b>255,598</b>	<b>(2,495)</b>	<b>(1,209)</b>



- 4.13 The overall projected position at 30 September 2017 is a net under spend of £2.495 million, comprising £710,000 net over spend on directorates and £3.208 million net under spend on corporate budgets. This takes into account the draw down by directorates of £1.763 million from earmarked reserves during the year. Directorates are seeking to identify mitigating actions to meet the balance of the budget reduction shortfalls in this financial year, and the Section 151 officer will give consideration to further allocations from the MTFS Budget Reduction Contingency in quarter 3 to meet some of these shortfalls. In the longer term, these proposals must be realised or must be met through alternative budget reduction proposals in order to deliver a balanced budget position and relieve any pressure on Council funds. These will continue to be closely monitored and draw down from this contingency fund will be made as part of the overall review of earmarked reserves.
- 4.14 In accordance with the Council's Financial Procedure Rules any planned over spends or under spends by directorates may be carried forward into next year to meet known funding pressures. Fortuitous under spends in budgets may be applied to offset over spends on other budgets.

### **Medium Term Financial Strategy (MTFS) 2018-19 to 2021-22**

- 4.15 This section of the report sets out the proposed MTFS for the Council for the next four financial years, based on the latest information available from the Welsh Government. 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.
- 4.16 The development of the MTFS 2018-19 to 2021-22 is led by Cabinet and Corporate Management Board (CMB) and takes into account auditors' views, the recommendations of the Budget Research and Evaluation Panel and issues arising during 2017-18, underpinned by the ongoing aim to embed a culture of medium term financial planning closely aligned with corporate planning.
- 4.17 Implementation of the MTFS will continue to be led by Cabinet and CMB, supported by financial and performance data. Cabinet and CMB will seek to ensure that it is widely understood by internal stakeholders (Members, employees and Unions) and external stakeholders (citizens, businesses and partners).

### **MTFS Principles**

- 4.18 As well as consideration of future income and expenditure scenarios, the MTFS provides a set of clear principles which drive the budget and spending decisions over 2018-2022 and which Members and others can 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 directs 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 budget reduction 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 and reach 2.7% of Gross Revenue Expenditure by 2019-20.
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. Resources are allocated to deliver the Bridgend Change Programme based on clear strategic plans that are kept under review by Corporate Directors to maintain alignment with the MTFS and a MTFS Budget Reduction Contingency Reserve will be maintained.
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.

The MTFS Budget Reduction Contingency Reserve referenced in Principle 12 enables the Council to manage delays or unforeseen obstacles to the delivery of significant MTFS budget reduction proposals. There has only been one allocation so far during 2017-18 in mitigation of the following proposal:

**Table 2: MTFS Proposals supported by Budget Reductions Contingency Reserve in 2017-18**

COM 18	MREC	£200,000
Total Allocated		£200,000

The level of this reserve will be kept under review by the Section 151 officer in light of forecast difficulties in delivering specific future budget reduction proposals.

### MTFS Resource Envelope

4.19 The 2018-19 AEF figure is a reduction of -0.6% based on the published Provisional Settlement. In the July report to Cabinet on the MTFS, it was stated that the Council would continue to work towards a most likely scenario in its planning assumptions for 2018-22 of an annual reduction in AEF of -3.2% and an assumed increase in Council tax of 4.2% in 2018-19 and 4.5% for each year thereafter, recognising the ongoing uncertainty around our funding in future years. However, as outlined in paragraph 4.7 the Cabinet Secretary has stated that the indicative settlement for 2019-20 is a further reduction of 1.5%. Given this message, and in recognition both of the twin risks around public sector pay (uncertainty around future pay awards and possible equal pay issues driven by the National Living Wage) and elevated inflation, it is proposed that the 2019-22 MTFS assumptions are adjusted to include:

- A most likely annual reduction of -1.5% in AEF, with best and worst case scenarios of -1.0% and -3.0% respectively
- An uplift to the assumed annual provision for pay, prices, demographic and unavoidable pressures for the outer three years of the MTFS.

The MTFS will be regularly reviewed against service performance and external economic and fiscal information to ensure that early action can be taken as necessary to keep it and the Corporate Plan on track. In view of the uncertainties, the MTFS has been developed taking into account possible resource envelope scenarios, based on percentage changes in AEF shown in Table 3.

**Table 3 – MTFS Scenarios: % Change in AEF**

	2018-19	2019-20	2020-21	2021-22
<b>Best Scenario</b>	-0.6%	-1.0%	-1.0%	-1.0%
<b>Most Likely Scenario</b>	-0.6%	-1.5%	-1.5%	-1.5%
<b>Worst Scenario</b>	-0.6%	-3.0%	-3.0%	-3.0%

4.20 Table 4 shows the Council's potential net budget reduction requirement based on the forecast resource envelope, inescapable spending assumptions and assumed Council tax increases.

**Table 4: MTFS Potential Net Budget Reductions Requirement**

	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Best Scenario</b>	6,123	7,503	7,336	6,161	<b>27,123</b>
<b>Most Likely Scenario</b>	6,123	9,457	9,266	7,068	<b>31,914</b>
<b>Worst Scenario</b>	6,123	12,318	11,998	9,675	<b>40,114</b>

### **Managing within the MTFS Resource Envelope**

- 4.21 The financial forecast for 2018-22 is predicated on £31.914 million budget reductions being met from Directorate and Corporate budgets and these are referred to later in the report. It is also predicated on a number of spending assumptions, including:
- 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.
  - Inflationary uplifts to support specific contractual commitments. This is a much more significant risk compared to previous years as CPI has risen from around 1% a year ago to currently 3% at the time of writing.
  - Potentially significant increases in energy costs following a relative decrease in previous years, which appears to be reversed in 2017-18.
  - The future impact of national policies and new legislation which may not be accompanied by commensurate funding such as the ALN Reform Bill.
  - Fees and Charges will increase by the statutory minimum or CPI (at prevailing rate, currently +3.0%) plus 1%.
  - Significant increases in staffing cost as a result of the increase in the national living wage from April 2018. Whilst this has already been an issue in respect of external contracts in the last two budgets, it is forecast to increasingly affect upon not only the lowest pay grades of Council employees but also has the potential to impact upon the pay spine itself over the MTFS period.

### **Net budget reduction requirement**

- 4.22 Table 5 shows the current position in respect of addressing the most likely forecast budget reduction requirement of £31.914 million. It shows that £13 million of budget reduction proposals have already been identified over the period of the MTFS, including the full £6.123 million required for 2018-19. The table shows that the Council still needs to develop proposals to the value of £18.7 million and a range of options are under consideration including:

- Digital transformation of wider Council services
- Income generation opportunities
- Further reductions in employee numbers
- Reconfiguration of post 16 education provision;

- Working with partners to asset transfer and protect community facilities;
- Further implementation of the Corporate Landlord Model.

**Table 5 - Risk Status of Budget Reduction Proposals 2018-19 to 2021-22**

Year	GREEN: Proposal developed and deliverable	AMBER: Proposal in development but includes delivery risk	RED: Proposals not fully developed and include high delivery risk	Budget reductions Identified so far	Budget reductions not yet developed	Total Required
	£000	£000	£000	£000	£000	£000
2018-19	1,127	4,882	114	6,123	0	6,123
2019-20	0	1,572	1,886	3,458	5,999	9,457
2020-21	0	947	1,719	2,666	6,600	9,266
2021-22	0	947	0	947	6,121	7,068
<b>Total</b>	<b>1,127</b>	<b>8,348</b>	<b>3,719</b>	<b>13,194</b>	<b>18,720</b>	<b>31,914</b>
Percentage of total required	4%	26%	12%	41%	59%	100%

**Risk Status Key:**

**RED** Proposals not fully developed and include high delivery risk

**AMBER** Proposal in development, but includes delivery risk

**GREEN** Proposal developed and deliverable

4.23 The budget reduction proposals identified can be categorised as:

- I. Smarter Use of Resources
- II. Managed Service Reductions
- III. Collaboration and Service Transformation; and
- IV. Policy Changes

4.24 The value of budget reduction proposals identified to date is shown in Table 6 by category. The categories are also shown by individual proposal in Appendix B.

**Table 6 – Budget Reduction Proposals Identified 2018-19 to 2021-22**

	2018-19 £000	2019-20 £000	2020-21 £000	2021-22 £000	Total £000	%
<b>Smarter Use of Resources</b>	4,590	2,248	2,591	872	10,301	78%
<b>Managed Service Reductions</b>	566	170	0	0	736	6%
<b>Collaboration &amp; Service Transformation</b>	570	230	0	0	800	6%
<b>Policy Changes</b>	397	810	75	75	1,357	10%
<b>Total Identified as at 9.11.17</b>	<b>6,123</b>	<b>3,458</b>	<b>2,666</b>	<b>947</b>	<b>13,194</b>	

4.25 The table shows that three quarters of the proposed budget reductions identified so far will come from Smarter Use of Resources, for example through:

- Efficiencies in services such as catering and engineering
- Rationalisation of hardware and software across the Council
- Rationalisation of core office estate
- Analysis and reduction of Council wide budgets
- Development of online services
- Staffing restructures and rigorous application of vacancy management

- 4.26 Budget reduction proposals relating to Collaboration and Service Transformation amount to 6% of the total budget reductions. These include implementation and roll-out of the Corporate Landlord model. Policy changes amount to 10% and include reducing services to the statutory minimum as well as cutting some discretionary services. The policy change proposals are subject to consultation.
- 4.27 All of the proposals have implications for the Council workforce given that around two thirds 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 strong vacancy management, redeployment, early retirements and voluntary redundancies, but some compulsory redundancies will continue to be necessary.

### **Scrutiny and Challenge**

- 4.28 A full consultation "Shaping Bridgend's Future" was launched in early October and runs until 3 December. This covers a range of budget proposals under consideration as well as seeking public views on resource allocation, priorities and the principles around budget protections and taxation levels. The consultation includes an online survey, community engagement workshops and social media debates. Members have had the opportunity to take part in two budget workshops similar to the public engagement events. The results will be collated and presented to Cabinet on 19 December in order to further inform decisions on the final MTFS.

### **2018-19 Draft Revenue Budget**

- 4.29 The following table shows the draft revenue budget for 2018-19.

**Table 7 – Draft Revenue Budget 2018-19**

	Revised Budget 2017-18	Specific Transfers to/ (from) WG	Inter-Directorate Transfers incl. Corporate Landlord	Pay / Prices / Demographics	Budget Pressures	Budget Reduction Proposals	Revenue Budget 2018-19
	£000	£000	£000	£000	£000	£000	£000
<b>Service Directorate Budgets:</b>							
<b>Education &amp; Family Support</b>							
Education & Family Support	21,154	263	-1,411	159	389	-630	19,924
Schools	87,209			663	500		88,372
	<b>108,363</b>	<b>263</b>	<b>-1,411</b>	<b>822</b>	<b>889</b>	<b>-630</b>	<b>108,296</b>
<b>Social Services &amp; Wellbeing</b>							
Communities	64,791	2,474	-313	742	88	-350	67,432
Operational & Partnership Services	23,824	1,503	2,052	54	758	-1,454	26,737
Chief Executives / Finance	15,358	236	-150		37	-848	14,633
	3,921					-231	3,690
<b>Total Directorate Budgets</b>	<b>216,257</b>	<b>4,476</b>	<b>178</b>	<b>1,618</b>	<b>1,772</b>	<b>-3,513</b>	<b>220,788</b>
<b>Corporate Budgets:</b>							
Capital Financing	10,184				500	-1,170	9,514
Levies	6,952				86		7,038
Repairs and Maintenance	900						900
Council Tax Reduction Scheme	14,254			500		-400	14,354
Apprenticeship Levy	700						700
Pension Related Costs	1,203					-773	430
Insurance Premiums	1,559			29			1,588
Other Corporate Budgets	6,084		-178	3,181		-267	8,820
<b>Total Corporate Budgets</b>	<b>41,836</b>	<b>0</b>	<b>-178</b>	<b>3,710</b>	<b>586</b>	<b>-2,610</b>	<b>43,344</b>
<b>Net Budget Requirement</b>	<b>258,093</b>	<b>4,476</b>	<b>0</b>	<b>5,328</b>	<b>2,358</b>	<b>-6,123</b>	<b>264,132</b>

### Council Tax Implications

- 4.30 Based on the proposed budget of £264.132 million, the Council tax increase for 2018-19 will be 4.2%.

### Pay, Prices and Demographics

- 4.31 National pay increases for public sector workers have been capped at 1% for a number of years, with only those on the lowest pay grades receiving higher levels of pay to keep in line with the National Living Wage. Over recent months, pay offers to both the police and fire services have both been above 1%, implying, if perhaps not a total abandonment, then at least a relaxation of pay restraint. The RSG reduction of 0.6% does not take into account any pay and price increases, which will create an additional budget pressure for the Council. Whilst no agreement has yet been reached for national pay bargaining, 1% has been assumed in the 2018-19 draft budget. Any increase above this will undoubtedly place additional pressure on Council resources, and may result in further budget reductions if not funded by Welsh Government. Funding for pay increases will be retained centrally until further information is known.
- 4.32 Price inflation has been allocated to service budgets, where known, and includes provision for contractual increases in food costs, social care provision and other commitments. These will be further reviewed for the final budget and amended where necessary with updated inflation rates.

- 4.33 The remaining inflationary provision will be retained centrally within corporate budgets and allocated during the year as any unknown or unforeseen contract price inflation is agreed, in particular where the index is set after the Council's budget is approved.

### **Schools' Budgets**

- 4.34 The Council's 2017-18 Budget and MTFS included an annual 1% efficiency target for schools. This recognised that school funding accounts for around a third of net revenue expenditure, and that protection inevitably leads to increased pressure on other budgets. Following the better than expected settlement, it has been possible to remove this proposal for 2018-19. The budget will include allowances for inflationary and inescapable pressures. Furthermore, in recognition of the detrimental impact which the Welsh Government's decision to reduce the Education Improvement Grant is forecast to have, it is recommended that an additional £500,000 be delegated to school budgets to maintain educational improvement.

It should however be noted that the efficiency target is maintained for 2019-20 and beyond, in recognition of both forecast reductions to the settlement and mounting external pressures across Council services.

### **Unavoidable Pressures**

- 4.35 During 2017-18 a number of unavoidable 2018-19 service budget pressures have arisen totalling £1.212 million, detailed in Appendix A. A number of the figures are provisional at this stage and will be refined as further information becomes available, for example specific information on Welsh Government grants. As such they may change between draft and final budget.

### **Discretionary Budget Growth**

- 4.36 In the context of continued pressure on budgets, the Council remains committed to the delivery of high quality services which improve people's lives. To support service improvement, there are a number of areas which it is proposed to increase in the draft budget. In contrast to inescapable pressures and contractual inflationary costs, these represent the conscious choice of members to invest in enhancements, and are set out in Table 8 below.

**Table 8: Discretionary Budget Growth Items**

<b>Item</b>	<b>Value £000</b>	<b>Description</b>
Delegated School Budgets	<b>500</b>	To support Educational Improvement despite WG grant reduction
Unsupported Borrowing	<b>500</b>	Funding to support borrowing for future capital investment projects. Depending on schemes supported, estimated capital capacity of between £5 million - £15 million
Festival of Learning	<b>65</b>	To provide funding for a one-off week of knowledge-sharing events involving schools and Bridgend College to share best practice and, in particular, address an Estyn recommendation
Valleys Taskforce	44	One-off funding for a fixed term appointment to



Item	Value £000	Description
		identify and improve funding outcomes for our valley communities
Empty Properties	37	Creation of a new role to provide a co-ordinated approach to tackling empty properties
<b>TOTAL</b>	<b>1,146</b>	

A full breakdown of budget pressures is provided in Appendix A

### **Budget Reduction Proposals**

- 4.37 Budget reduction proposals of £6.123 million have been identified from service and corporate budgets to achieve a balanced budget, detailed in Appendix B.

### **Corporate Budgets**

- 4.38 Corporate budgets include funding for the Council Tax Reduction Scheme, costs of financing capital expenditure, levies, centrally held pay and prices provisions, insurance budgets, discretionary rate relief and provision for redundancy related costs. A thorough review of recent years' under spends within corporate budgets has been undertaken, including an assessment of the risks associated with budget reductions to, in some cases, demand led expenditure. As a result, it is proposed to implement budget reductions totalling £2.610 million to corporate budgets, and to set aside an earmarked reserve which can provide one off temporary relief in the event of unforeseen over spends. This will mitigate against the need to make urgent, undesirable adjustments to directorate budgets in this scenario. Consideration to this reserve will be given by the Section 151 Officer once the draft budget is approved.

### **Fees and Charges**

- 4.39 Generally, income from fees and charges will be increased by CPI (at the prevailing rate, currently +3.0%) 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.

### **Council Reserves**

- 4.40 In line with the MTFS principle 8, the Council will maintain its general fund at no less than £7 million in 2018-19. Details of the Council's earmarked reserves position at 30 September 2017 (as previously reported to Cabinet) are shown in Table 9. These are kept under review, and will be drawn down where required, and the position will be updated in the Final MTFS report to Council in February 2018.

**Table 9 – Usable Earmarked Reserves**

Opening Balance 1 April 2017 £'000	Reserve	Net Additions/ Reclassification £'000	Draw-down £'000	Closing Balance 30 Sept 2017 £'000
	<b>Corporate Reserves:-</b>			
-	Education & Family Support	30	(233)	-
-	Social Services & Wellbeing	-	(63)	-
-	Communities	-	(554)	-
-	Operational and Partnership Services	-	(207)	-
-	Chief Executives & Finance	-	(19)	-
-	Non-Directorate	38	-	-
<b>39,260</b>	<b>Total Corporate Reserve</b>	<b>68</b>	<b>(1,076)</b>	<b>38,252</b>
	<b>Directorate Earmarked Reserves:-</b>			
663	Education & Family Support	-	(16)	647
1,916	Social Services & Wellbeing	-	(175)	1,741
1,167	Communities	425	(106)	1,486
246	Operational and Partnership Services	100	-	346
300	Chief Executives & Finance	-	-	300
<b>4,292</b>	<b>Total Directorate Reserves</b>	<b>525</b>	<b>(297)</b>	<b>4,520</b>
	<b>Equalisation &amp; Grant Earmarked Reserves:-</b>			
230	Education & Family Support	-	(200)	30
-	Social Services & Wellbeing	-	-	-
2,364	Communities	9	(125)	2,248
153	Operational and Partnership Services	-	(65)	88
45	Chief Executives & Finance	-	-	45
<b>2,792</b>	<b>Total Directorate Reserves</b>	<b>9</b>	<b>(390)</b>	<b>2,411</b>
<b>46,344</b>	<b>Total Usable Reserves</b>	<b>602</b>	<b>(1,763)</b>	<b>45,183</b>

### **Capital Programme and Capital Financing Strategy**

4.41 This section of the report deals with the proposed Capital Programme for 2017-18 to 2027-28, 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 draft capital settlement for 2018-19, which provides general capital funding (GCF) for the Council for 2018-19 of £6.328 million of which £3.934 million is provided through un-hypothecated supported borrowing and the remainder £2.394 million as general capital grant. No indicative allocations have been provided for 2019-20, so for now it is assumed that this level of funding will remain constant for the years after 2018-19, but this will be indicative only.

4.42 The Programme was last revised in October 2017. Since then a review has been underway to identify the Council's capital investment requirements for 2018 to 2028, compared to available capital funding, against the following criteria:

- Mandatory requirements linked to delivery of statutory services and health and safety risks to both Council staff and the wider public;
- Link to corporate priorities;
- Investments linked to delivery of the Council's corporate priorities and the continued delivery of financially sustainable public services;
- Financial returns either through cost savings or increased income generation.

Whilst it is not possible to give details of specific schemes at this stage, the most significant areas (by value) under consideration are:

Schools – a requirement for the Council to provide 50% match funding for 21<sup>st</sup> Century Schools Band B Programme. The overall scale is highly dependent upon the future requirement for school places, but the overall investment (at 100%) is currently estimated to be in the range of £60 - £70 million. The period to 2028 will also include potential match funding requirements for Band C, though it is too early to begin to quantify these.

Highways – there is a forecast need to increase investment in the highways network to maintain current standards. In previous years there have been a number of different external funding sources, such as Welsh Government Local Government Borrowing Initiative Schemes (LGBI). However there is currently no indication of any forthcoming future support of this kind. Over the next decade the scale of investment required is indicatively estimated at around £20 million to maintain current standards.

Energy Efficiency – the Council has identified the opportunity to reduce energy costs on an “invest to save” basis. This includes further rollout of LED streetlights as well as implementation of low energy solutions to both the corporate and schools' estate. It is foreseen that the scale of investment required may be in excess of £10 million, with payback periods of specific measures typically ranging from 5-15 years. The Council is exploring the possibility of targeted external funding such as interest free Salix loans to support this.

Commercial Property Investment – the previous year's budget consultation indicated both public and member support for the Council to invest in commercial property within the County Borough. Such investments are not without risk, and the returns must be considered after the cost of borrowing has been taken into account.

Sea Defences – the need to both maintain our existing coastal infrastructure as well as the likely need for improvements to enable future regeneration.

ICT – Providing the right tools for the continued operational requirements of the Council is likely to require £10 - £20 million over the next decade. Consideration is being given to the possibility of increased use of “cloud” based solutions, however these will have increased ongoing revenue costs.

4.43 The capital programme also contains a number of annual allocations that are met from the total general capital funding for the Council. The allocations for 2017-18 are shown

in Table 10 below, and amounted to 95.9% of the indicative 2018-19 general capital funding:

**Table 10 – 2017-18 Annual Allocations of Capital Funding**

	<b>2017-18 £'000</b>
Highways Capitalised Repairs	200
Transportation Capitalised Repairs	250
Disabled Facilities Grant	2,350
Housing Renewal Schemes	100
Special Regeneration Funding	540
Minor Works	1,100
Community Projects	100
Bridgeline / Telecare replacement	30
Street lighting / Bridge infrastructure replacement	400
Contribution to 21 <sup>st</sup> Century Schools	1,000
<b>Total</b>	<b>6,070</b>

4.44 These annual allocations are also in the process of being reviewed for any further opportunities to release capital for new schemes. In particular, consideration is being given to:

- The future scale of Disabled Facilities Grants, as the Council's current allocation exceeds the level of WG funding by around £400,000 annually.
- Whether there is potential for Housing Renewal Scheme funding to be used differently in future.

### **Capital Financing Strategy**

4.45 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**

- 4.46 The Council estimated that around £21 million could be generated as part of the enhanced disposals programme which commenced in 2014. So far, circa £15.8 million has already been delivered, with circa £5.2 million to be realised over the next 2 years (2018-2020). Of the £21 million, £8.8 million relates to school buildings and land vacated through the 21st Century Schools Programme, to be used as match funding for the programme. It excludes any receipts anticipated from the sale of the Waterton or Porthcawl Regeneration sites. Receipts are subject to the exchange of contracts, so it is prudent not to commit them until we have a contractual agreement.

## **Prudential (Unsupported) Borrowing**

- 4.47 Total Prudential Borrowing taken out as at 1 April 2017 was £35.83 million, of which £22.45 million was outstanding. It is estimated that the total borrowed will increase to £42.18 million by the end of this financial year.
- 4.48 Future prudential borrowing will include an estimated £5.66 million of Local Government Borrowing Initiative (LGBI) funding towards the costs of the 21<sup>st</sup> Century Schools Programme.
- 4.49 In recognition of the scale and importance of future capital expenditure requirements, the 2018-19 draft revenue budget includes £500,000 as a recurrent revenue budget to meet the costs of additional unsupported borrowing. In line with prudent accounting practice, the costs of any investments made will be repaid within the life of the particular asset. Whilst the funding has not yet been earmarked for specific investments, it is estimated that the funding will provide between £5 - £15 million of capital works, depending upon the type of investments approved by Council.

## **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 An Equality Impact Assessment will be carried out and included within the Final MTFS in February 2018.

## **7. Financial Implications**

- 7.1 The financial implications are reflected in the report.

## **8. RECOMMENDATIONS**

8.1 Committee Members are asked to:

- i) Consider the information contained in the report and attached appendices;
- ii) Determine whether it wishes to make any comments or recommendations for consolidation and inclusion in their report to Cabinet on the draft budget proposals as part of the budget consultation process.

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**28 November 2017**

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**Background Papers:**

Cabinet Report – Medium Term Financial Strategy 2018-19 to 2021-22 – 25 July 2017  
Council Report – Capital Programme 2017-18 to 2026-27 – 4 October 2017