

BRIDGEND COUNTY BOROUGH COUNCIL**REPORT TO CABINET****9 DECEMBER 2014****REPORT OF THE SECTION 151 OFFICER****MEDIUM TERM FINANCIAL STRATEGY 2015-16 to 2018-19****1. Purpose**

- 1.1 The purpose of this report is to present Cabinet with the Medium Term Financial Strategy 2015-16 to 2018-19, which includes a financial forecast for 2015-19, a detailed draft revenue budget for 2015-16 and a draft revised Capital Programme for 2015-16 to 2024-25.

2. Connections to the Corporate Plan

- 2.1 The Corporate Plan and Medium Term Financial Strategy (MTFS) identify the Council's service and resource priorities for the next four financial years, with particular focus on 2015-16.

3. Background**Corporate Plan - Policy Context**

- 3.1 The Council reviews its Corporate Plan each year to ensure it continues to reflect the Council's corporate improvement priorities, commitments and performance indicators. The Council's six corporate improvement priorities and specific commitments for 2015-16 are currently under review. The final plan will be presented to Council for approval alongside the MTFS 2015-19 in February 2015. The final Corporate Plan and MTFS will be fully aligned and will include explicit links between resources and corporate priorities.
- 3.2 The Council's MTFS is set within the context of UK economic and public expenditure plans, Welsh Government 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 work more effectively with partners in other sectors and provides a strategy for the use of balances to meet changes in resources or demands from year to year without impacting unduly on services or council tax payers.
- 3.3 The MTFS includes:
- The principles that will govern the strategy and a four year financial forecast, comprising detailed proposals for 2015-16 and outline proposals for 2016-17 to 2018-19.

- The capital programme for 2015-16 to 2024-25, linked to priority areas for capital investment and Capital Financing Strategy.
- The Treasury Management Strategy and Corporate Risk Register, which will both be updated and included in the final MTFS in February 2015.

The Financial Context

- 3.4 The Chancellor of the Exchequer reported in his 2013 Autumn Statement that the economy was growing faster than had been expected and he reinforced the UK Government's commitment to the long term economic plan set out in 2010. The UK budget deficit remains both higher than last year (net borrowing to October of £64.1 billion compared to £60.5 billion in 2013) and well behind the Office of Budget Responsibility forecast, which estimated that net borrowing would fall by 11.2% over the whole year.
- 3.5 At the time of the 2014-15 Final Settlement the then Minister for Local Government advised councils of a 2015-16 indicative settlement of -1.5%, but caveated that this could be subject to change. The MTFS approved by Council in February 2014 assumed settlement reductions of -3.0% for 2015-16, -4.0% for 2016-17 and -2.0% for 2017-18. However, in June 2014 the Minister recommended that local councils consider how to respond to reductions in future years of as much as -4.5% per annum. As a result revised assumptions have been built into the MTFS of -4.5% for the four years 2015-16 to 2018-19.
- 3.6 The UK Government Settlement to the Welsh Government for 2015-16 is a cash reduction of -0.4%. There is no settlement at this point for future years. On 30 September 2014 the Welsh Government published its draft budget which included £425m of extra funding to the Welsh NHS over 2014-15 and 2015-16 "to deliver high quality, sustainable health services".

Welsh Government Provisional Local Government Settlement 2015-16

- 3.7 On 8 October councils received the Provisional Local Government Settlement which provided an average -3.4% reduction in Aggregate External Finance (AEF) for 2015-16 across Wales (after allowing for transfers into and out of the Settlement). It shows Bridgend's reduction as being -3.4%. However, the published figures do not recognise that additional funding of £10 million in the settlement for social care appears to have replaced funding that was previously provided, albeit in the form of a specific grant. When this is taken into account the reduction across Wales is -3.6% and -3.6% for Bridgend. Councils were advised that the settlement also includes sufficient funding to protect school budgets equivalent to 1% above the change in the Welsh Government's Revenue Budget. This equates to a 0.6% cash increase or £508,000 for BCBC.

Settlement Implications for 2016 to 2019

- 3.8 The Minister has given no indication of the indicative allocations for 2016-17 onwards, but in view of current economic and fiscal projections and in the absence of other information the most likely scenario in the MTFS is that predicated on an assumption that AEF will reduce by 4.5% for 2016-17, 2017-18 and 2018-19.

Based on these assumptions the total recurrent savings required from 2016-17 to 2018-19 amount to £37.6 million.

Grant Transfers into the 2015-16 Revenue Settlement

- 3.9 There have been a number of transfers into and out of the provisional settlement for 2015-16, amounting to £298,000 net transfer into the Council:

Transfers in:

- Local Government Borrowing Initiative (LGBI) for 21st Century Schools (£115,000)
- Integrated Family Support Service (£288,000)
- Autistic Spectrum Disorder (£40,000)

Transfers out:

- Student Finance Wales (£111,000)
- Food Safety Controls (£22,000)
- National Adoption Service (£12,000)

- 3.10 The transfer out of £111,000 for Student Finance Wales is in respect of the transfer of new responsibilities to the Student Loans Company in February 2014.

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

- 3.11 Welsh Government has advised local authorities that they are not able to confirm the future position on funding available under RCF until the Welsh Government Final Budget is tabled and agreed in early December. We understand that there is £5 million in the Welsh Government Draft Budget to support RCF projects that were approved and offered funding in 2013. There is no future funding in the Draft Budget for the ICF which is £50 million in 2014-15 (£35 million revenue and £15 million capital).

Council Tax

- 3.12 In his statement the Minister advised that when drawing up budget plans for 2015-16 he expects local authorities "to look at all income streams including council tax" and advises councils that Welsh Government offers considerable flexibility to authorities in Wales which is not available to their counterparts in England where restrictive freezes apply. The 2015-16 draft Revenue Budget, shown in Table 6, assumes a Council tax increase of 4.8% based on an appropriate balance between the needs of the council and its citizens.

Welsh Government Capital Settlement

- 3.13 In February 2014 Council approved a capital programme for 2014-15 to 2023-24, based on the assumption that annual Welsh Government capital funding would be flat lined from 2015-16 onwards. Council subsequently approved a revised capital programme in July 2014, reflecting funding changes to some schemes, slippage from 2013-14, additional external funding approvals and changes to expenditure

profiles. The draft local government capital settlement for 2015-16 provides this Council with £6.288 million capital funding for 2015-16, which is £36,000 less than 2014-15. No indications have been given for 2016-17 or beyond.

Current Year (2014-15) Financial Performance

3.14 The in-year financial position as at the 30 September 2014 is shown below.

Table 1- Comparison of budget against projected outturn at 30 September 2014

Directorate/Divisions	Budget 2014-15 £'000	Projected Outturn 2014-15 £'000	Projected Over / (Under) Spend Qtr 2 2014-15 £'000	Projected Over / (Under) Spend Qtr 1 2014-15 £'000
Directorate				
Children	124,990	124,990	0	230
Wellbeing	43,346	43,493	147	0
Communities	26,239	26,418	179	(75)
Resources	16,622	16,704	82	(28)
Legal & Regulatory Services	6,496	6,067	(429)	(206)
Total Directorate Budgets	217,693	217,672	(21)	(79)
Council Wide Budgets	37,438	37,438	0	0
Total	255,131	255,110	(21)	(79)

- 3.15 At the half year stage, an overall under spend of £21,000 is projected on Directorate budgets. This demonstrates consistent and close monitoring of Council budgets over time and very focused and determined action by Directorates to maintain balanced budgets. The budget approved for 2014-15 included saving proposals of £11.274 million (8.6% of net service budgets excluding schools). While some of these proposals may not be achievable, due to longer delivery timescales, alternatives have been identified and are being delivered as part of Directors' recovery plans. The forecast outturn also masks some underlying budget pressures which are addressed in the 2015-16 draft revenue budget in Table 6.
- 3.16 In accordance with the Council's Financial Procedure Rules any planned over spends or under spends by directorates will be carried forward into next year to meet known funding pressures. Fortuitous under spends in budgets will be applied to offset over spends on other budgets.

4. Current Situation

Medium Term Financial Strategy (MTFS) 2015-16 to 2018-19

- 4.1 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.

- 4.2 The development of the MTFS 2015-16 to 2018-19 has been led by Cabinet and CMB and has taken into account auditors' views and issues arising in 2014-15, underpinned by the ongoing aim to embed a culture of medium term financial planning closely aligned with corporate planning.
- 4.3 Implementation of the MTFS will continue to be led by Cabinet and CMB, supported by financial and performance data. The Council will seek to ensure that it is widely understood by internal stakeholders (Members, employees and Unions) and external stakeholders (citizens, businesses and partners). As well as linking explicitly to the Council's corporate priorities the MTFS also links to other internal resource strategies such as the Workforce Development Plan, the ICT Strategy, the Asset Management Plan and Bridgend Change Programme (BCP).

MTFS Principles

- 4.4 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 2015-2019 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 saving or increase in council tax is made in the following year in recognition that balances are a one-off resource.
 8. The Council Fund balance will be maintained at a minimum of £7 million over the MTFS period.

9. Capital investment decisions support the Council's corporate priorities and mitigate any statutory risks taking account of return on investment and sound option appraisals.
10. Prudential borrowing is only used to support the capital programme where it is affordable and sustainable within the Council's overall borrowing limits and the revenue budget over the long term.
11. Decisions on the treatment of surplus assets are based on an assessment of the potential contribution to the revenue budget and the capital programme.
12. Sufficient resources are made available to deliver the Bridgend Change Programme.
13. Other resource strategies (including the Workforce Development Plan, Treasury Management Strategy, ICT Strategy and Asset Management Plan) are kept under review to maintain alignment with the MTFS and the Corporate Plan.
14. Budgets will be managed by Corporate Directors in accordance with the Council's Financial Procedure Rules.

MTFS Resource Envelope

- 4.5 The MTFS planning assumptions for 2016-17, 2017-18 and 2018-19 are based on a reduction in AEF of -4.5% and an assumed increase in council tax of 4.5% each year. The 2015-16 AEF figure is -3.4% based on the published Provisional Settlement. However, these assumptions, together with forecast pressures and risks are all subject to change not least due to continuing economic uncertainty as well as national legislative and policy developments. 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 2.

Table 2 – MTFS Scenarios: % Change in AEF

	2015-16	2016-17	2017-18	2018-19
	% Change	% Change	% Change	% Change
Best Scenario		-3.0%	-3.0%	-3.0%
Most Likely Scenario	-3.4%	-4.5%	-4.5%	-4.5%
Worst Scenario		-6.0%	-6.0%	-6.0%

- 4.6 Table 3 shows the Council's potential net savings requirement based on the forecast resource envelope (paragraph 4.5), inescapable spending assumptions (paragraph 4.7) and an assumed increase in council tax of 4.5% each year.

Table 3: MTFS Potential Net Savings Requirement

	2015-16	2016-17	2017-18	2018-19	Total
	£000	£000	£000	£000	£000
Best Scenario	11,225	10,738	9,647	9,347	40,956
Most Likely Scenario	11,225	13,566	12,263	11,763	48,817
Worst Scenario	11,225	16,394	14,794	14,021	56,434

Managing within the MTFS Resource Envelope

4.7 The financial forecast is also predicated on £48.82 million savings 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.
- Inflation for energy costs of 6.2% based on notification of known increases and projected forward pricing.
- The potential impact of national policies and new legislation not accompanied by commensurate funding e.g. Welfare Reform Bill, Social Services and Wellbeing Act, Housing Act and auto enrolment related to the provision of employee pension schemes.
- A projected increase of 0.2% in 2015-16, 0.3% in 2016-17 and a further 0.2% in 2017-18 in employers' pension contributions resulting from the triennial Actuarial Valuation. There are additional increases in employers' contributions for teachers' pensions of 2.3%.
- The removal of the National Insurance Contribution rebate as a result of the introduction of the single tier state pension in April 2016.
- Fees and Charges will increase by the statutory minimum or CPI (at prevailing rate, currently 1.3%) plus 1%.
- Services will absorb within budgets non contractual inflationary pressures of up to the prevailing CPI rate.

Net savings requirement

4.8 Savings proposals are being developed by officers to meet the £48.82 million requirement and Table 4 shows the current risk status of those identified so far.

Table 4 - Risk Status of Savings Proposals 2015-16 to 2018-19

Year	GREEN	AMBER	RED	Total Savings Identified	Yet to be Identified	Total Required
	£000	£000	£000	£000	£000	£000
2015-16	5,518	4,437	1,270	11,225	0	11,225
2016-17	2,548	4,499	3,991	11,038	2,528	13,566
2017-18	80	458	5,810	6,348	5,915	12,263
2018-19	0	0	0	0	11,763	11,763
Total Identified	8,146	9,394	11,071	28,611	20,206	48,817
% Identified	28.47%	32.83%	38.70%			

Risk Status Key:

RED Proposals in Development

AMBER Implementation Plans in Development

GREEN Implementation Plans in Place

4.9 The savings proposals identified can be categorised as:

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

4.10 The value of savings proposals identified to date (i.e. up to 2017-18 only at this stage) is shown in Table 5 by category. The categories are also shown by individual proposal in Appendix B.

Table 5 – Savings Proposals 2015-16 to 2018-19

	2015-16	2016-17	2017-18	Total	%
	£'000	£'000	£'000	£'000	
Making Best Use of Resources	6,398	6,749	2,273	15,420	53.9
Managed Service Reductions	1,327	1,255	677	3,259	11.4
Collaboration & Service Transformation	1,506	1,154	118	2,778	9.7
Policy Changes	1,994	1,880	3,280	7,154	25.0
Total Identified as at 30.11.2014	11,225	11,038	6,348	28,611	

4.11 The table shows that over fifty percent of the proposed savings identified so far will come from Making Best Use of Resources, for example through:

- Retendering learner transport contracts
- Modernising the school estate
- Waste management initiatives
- Remodelling health and social care
- School transport route efficiencies
- Staffing restructures

- 4.12 Savings proposals relating to Collaboration and Service Transformation amount to 9.7% of the total savings. These include remodelling cultural services and adult social care, regulatory services and youth offending services. Policy changes amount to 25% and include reducing services to the statutory minimum as well as cutting some discretionary services. The policy change proposals are subject to consultation.
- 4.13 All of the proposals have implications for the Council workforce given that 69% of the Council's net revenue budget relates to pay costs. It follows that annual real terms reductions in Council budgets over the next four years will lead to a reduced workforce over the MTFs period. The intention is to manage such a reduction through the continuation of a recruitment freeze, redeployment, early retirements and voluntary redundancies, but some compulsory redundancies will continue to be necessary.

Scrutiny and Challenge

- 4.14 As stated in paragraph 4.2 Cabinet and CMB are seeking to embed a culture of medium term planning within the Council. Against that background, further efforts have been made in 2014-15 to secure greater involvement of stakeholders.
- 4.15 A full consultation on the MTFs has been undertaken over a six week period during October and November, including a budget simulation exercise and community engagement workshops. The results are presented in a separate Cabinet report, but in broad terms a total 443 responses were received with consistent feedback from all engagement methods. The level of engagement with young people was increased through use of the budget simulator and social media communication.
- 4.16 The budget consultation showed that 50% of participants believed they were very aware of the current financial situation. In being asked how respondents would manage the budget all services received a minimum reduction of 3%. The service area responses showed that:

Service Area	% of Respondents proposing a reduction in budget	Average reduction proposed
Corporate Functions	85%	30%
Resources	74%	14%
Legal and Regulatory Services	68%	13%
Sport, Play and Active Wellbeing	54%	6%

Schools and Adult Social Care were both the least likely to be decreased and/or maintained.

- 4.17 There was majority support for introducing a charge for pest control, parking charges for Blue Badge holders in our off-street car parks and for introducing a percentage charge for credit card payments made to the Council. 64% of respondents voted 'yes' to delivering libraries and cultural services through a not for profit trust. This was the most supported proposal, offering a potential saving of

£391,000. A review of home to school transport received a split 50:50 response rate between yes and no - this is currently under public consultation (closing date of 22 December 2014). The associated saving is estimated to be £550,000. Over one in three (36%) believed that residents could help to reduce demand on the council by taking more personal responsibility. This is also supported by other respondents suggesting a need for third party and/or voluntary/co-production collaboration.

- 4.18 In addition to the public consultation Members have participated in the planning process through the Budget Research and Evaluation Panel, Council briefings and a specific Members' budget workshop. The Town and Community Councils (TCC) and the third sector have also been engaged through the TCC Forum and the Third Sector Review project.

2015-16 Draft Revenue Budget

- 4.19 The following table shows the draft revenue budget for 2015-16. It includes specific grants transferring into the settlement as outlined in paragraphs 3.9 and 3.10.

Table 6 –Draft Revenue Budget 2015-16

	Revised Budget 2014-15	Specific Grant Transfers from WG	School Protection	Pension Changes	Pay / Prices / Demographics	Unavoidable Budget Pressures	Savings	Revenue Budget 2015-16
	£000	£000	£000	£000	£000	£000	£000	£000
Service Budgets								
Childrens	40,344	341		89	456		-2,667	38,563
Schools	84,748		508				-170	85,086
Adult Social Care	40,415	483		78	1,511	1,398	-2,787	41,098
Sport, Play and Active Wellbeing	2,975			17	79		-277	2,794
Communities	26,535			120	399	243	-2,488	24,809
Resources	14,969			53	325	554	-1,337	14,564
Legal & Regulatory Services	6,519	-22		14	69		-554	6,026
Corporate Budgets								
Capital Financing	10,515						-200	10,315
Levies	7,030						-102	6,928
Repairs and Maintenance	1,150						-50	1,100
CTR Scheme	13,825				622		-193	14,254
Pension Related Costs	1,361			-171				1,190
Insurance Premiums	1,737							1,737
Other Corporate Budgets	3,008	-61			388	936	-400	3,871
Net Budget Requirement	255,131	741	508	200	3,849	3,131	-11,225	252,335

Council Tax Implications

- 4.20 Based on the proposed budget of £252,335 million the council tax increase for 2015-16 will be 4.8%.

Pay, Prices and Demographics

- 4.21 The additional cost to the Council of the agreed NJC pay award for the period April 2015 to March 2016 is estimated to be £1.897 million (including £452,000 relating to schools) and is allocated to directorate budgets. Funding has also been allocated to adult social care budget to meet demographic pressures in line with paragraph 4.7 above.
- 4.22 Price inflation has been allocated to service budgets and includes provision for contractual increases in business rates, food costs, energy costs and other commitments. In addition, provision has been made for an estimated increase in employer pension contributions from 1 April 2015.
- 4.23 The remaining inflation provision will be retained centrally within corporate budgets and reviewed pending the outcome of any unforeseen demand led contract price inflation in relation to, for example, Out of County Education placement agreements or adjustments which may be required to meet contractual increases where the index is set after the council's budget is approved.

Unavoidable Pressures

- 4.24 During 2014-15 a number of unavoidable 2015-16 service budget pressures have arisen totalling £3.131 million, detailed in Appendix A. These have been categorised into one-off pressures, with varying degrees of probability, and more certain and recurring pressures. In total for 2015-16, the recurring pressures total £2.195 million. The one-off pressures total £936,000 and an earmarked reserve will be required to fund them, should they arise during 2015-16. The pressures figures are provisional at this stage and will be refined. As such they may change between draft and final budget.

Savings

- 4.25 Savings proposals of £11.225 million have been identified from service and corporate budgets to achieve a balanced budget, detailed in Appendix B.
- 4.26 The delegated schools' budget has been completely protected from the average 8.5% savings that other directorates have had to find. In order to meet this protection commitment, Cabinet is requested to reverse the decision they made on 1 April 2014 to top-slice £750,000 (half of the £1.5 million savings associated with changes to the early years policy) from delegated schools' budgets. This decision will be deferred and reviewed for 2016-17 in line with the Welsh Government's view on school protection for that year. The 2015-16 draft budget also provides an additional £508,000 to the schools' budget to meet the Welsh Government's 1% protection commitment.

Corporate Budgets

- 4.27 Corporate budgets include funding for the Council tax reduction scheme, costs of financing capital expenditure, the unallocated inflation budget, a central contingency provision, discretionary rate relief, provision for redundancy related costs and the carbon reduction commitment.
- 4.28 The income budget for the Outcome Agreement Grant (OAG), which underpins base budgets by £1.4 million, is also included in corporate budgets. This is

dependent on the achievement of specific outcomes linked to targets set by the authority and agreed with Welsh Government. This figure has not yet been confirmed for 2015-16.

Fees and Charges

- 4.29 Generally, income from fees and charges will be increased by CPI (at the prevailing rate, currently 1.3%) 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

- 4.30 In line with the MTFs principle 8, the Council Fund balance will be £7.4 million in 2015-16. Details of the Council's earmarked reserves are shown in Table 7. These are kept under review and the forecast may therefore change in the Final MTFs report to Council in February 2015.

Table 7 – General Fund and Usable Earmarked Reserves

Opening Balance 1 April 2014 £'000	Reserve	Movement 2014-15 £'000	Closing Balance 31 March 2015 £'000	Movement 2015-16 £'000	Closing Balance 31 March 2016 £'000
7,395	Council Fund Balance	-	7,395	-	7,395
	Earmarked Balances :-				
348	Asset Management Plan	-	348	-	348
987	Building Maintenance Reserve	(367)	620	(620)	-
300	Capital feasibility fund	-	300	-	300
5,513	Capital Programme Contribution	(394)	5,119	(606)	4,513
555	Car Parking Strategy	-	555	(555)	-
2,069	Change Management	(1,141)	928	(328)	600
196	Connecting Families	(76)	120	(120)	-
330	Directorate Issues	(330)	-	-	-
201	Election costs	-	201	-	201
1,257	ICT & Finance Systems	(287)	970	(690)	280
1,691	Insurance reserve	(81)	1,610	-	1,610
411	Invest to save / Joint projects	(261)	150	(150)	-
824	Looked After Children	(100)	724	(724)	-
11,046	Major Claims Reserve	(913)	10,133	(3,800)	6,333
300	Porthcawl regeneration	(157)	143	7	150
1,200	Service Pressures Contingency	(34)	1,166	(1,166)	-
3,052	Service Reconfiguration / Severance Costs	(1,000)	2,052	948	3,000
1,044	Treasury Management Reserve	-	1,044	-	1,044
50	Unitary Development Plan	20	70	(70)	-
300	Welfare Reform Bill	-	300	-	300
707	Wellbeing Projects	(335)	372	(372)	-
32,381	Total Earmarked Reserves	(5,456)	26,925	(8,246)	18,679
39,776	Total Usable Reserves	(5,456)	34,320	(8,246)	26,074

Capital Programme and Capital Financing Strategy

- 4.31 This section of the report deals with the proposed Capital Programme for 2015-16 to 2024-25, 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 provisional capital settlement for 2015-16, which provides general capital funding for the Council for 2015-16 of £6.288 million of which £3.909m is un-hypothecated supported borrowing and the remainder £2.379m as general capital grant. No indicative allocations have been provided for 2016-17, so for now it is assumed that this level of funding will remain constant for years after 2015-16, but this will be indicative only.

Capital Programme

- 4.32 Development of the proposed Capital Programme has involved a review of the current programme in light of the provisional settlement as well as historical annual allocations to certain service areas e.g. Disabled Facility Grants (DFGs) and Special Regeneration Funding (SRF). Appendix C sets out the revised capital programme by Directorate for the period 2015-16 to 2024-25.
- 4.33 The programme proposed contains a number of significant strategic investment projects that will support a number of corporate priorities as described below. Outline proposals have been developed for a number of projects linked to council priorities which will be considered for inclusion in the capital programme following the preparation of detailed business plans and once further capital funding becomes available.

Raising aspirations and improving educational achievement

- 4.34 The Schools' Modernisation and Investment programme forms a cornerstone of the corporate priority to raise aspirations and improve educational achievement, by improving the learning environment. School modernisation and school improvement complement each other, and well established collaborative arrangements are taking forward strategies to enhance teaching and learning and school leadership, supported by state of the art buildings and the innovative use of new technology. The Welsh Government has committed to fund 50% (£22.475 million) of the total costs for Band A priority projects, through a combination of capital grant and the Local Government Borrowing Initiative. To receive this funding the Council needs to submit detailed business cases for each project including details of how the Council's 50% match funding (£22.475 million) required from the Council will be provided. Council has agreed that this would be met from core funding allocations of £5 million, anticipated S106 funding of £4 million and projected receipts from the sale of school and other sites, and central funding, of £13.475 million.
- 4.35 The programme is based on the current estimated expenditure profile over the funding period. Once further details are known there are likely to be changes required to the timing and funding profile of the 21st Century schools projects within the capital programme. This is an ambitious programme and it is essential that the planned capital receipts already committed and ring fenced from the sale of school

sites to finance the programme are retained for this purpose. Any change to this commitment would require Council approval.

4.36 In the meantime, the following projects have been included in the Council's approved programme, but funding for each project will not be confirmed until Welsh Government approves the final business case and sufficient capital receipts have been generated:

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

Supporting the Local Economy

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

Capital Minor Works

4.38 The capital programme includes an annual allocation of funding to tackle the backlog of capital minor repairs and maintenance works in the Council's existing buildings and non-buildings infrastructure, as well as energy management, fire prevention and DDA capital schemes. A similar budget is also available in the revenue budget to tackle revenue related works. The allocation proposed for 2015-16 for capital minor works remains at £1.1million. However, it is proposed to top-slice the revenue budget by £50,000 in 2015-16, as in 2014-15, to fund prudential borrowing to the value of £500,000 to enable the Council to progress major packages of repair.

Capital Programme Fixed Allocations

4.39 The Capital Programme contains a number of fixed annual allocations which are shown in Table 8 below.

Table 8 – Current annual allocations of capital funding

	2014-15 £'000	2015-16 £'000	2016-17 £'000	2015-16 as %age of GCF
Highways Capitalised Repairs	200	200	200	3.2%
Transportation Capitalised Repairs	250	250	250	3.4%
Disabled Facilities Grant	2,350	2,350	2,350	37.4%
Housing Renewal Schemes	100	100	100	1.6%
Special Regeneration Funding	540	540	540	8.9%
Minor Works	1,100	1,100	1,100	17.5%
Community Projects	50	50	50	0.8%
Total	4,590	4,590	4,590	72.8%

4.40 Against the background of the reductions in capital funding, these annual allocations have been reviewed and the following proposed for the 2015-16 capital programme:

- Highways and Transportation Capitalised Repairs – unchanged now that the Local Government Borrowing Initiative has come to an end;
- Minor works – £1.1 million core funding plus £500,000 funded from prudential borrowing, to help address the backlog maintenance requirements in existing property assets;
- Housing Renewal and DFGs – Cabinet agreed in November 2013 to allow this funding to be used for two additional grants - the Healthy Home Assistance and Homes in Town grants. It is proposed to keep these allocations at existing levels;
- Strategic Regeneration Fund (SRF) allocations are committed to projects up to 2016-17. However, following announcement of the Welsh Government's Structural Funding Programme 2014-20, and the additional funding that can be secured using the SRF as matched funding, it is proposed to extend the period of matched funding in the capital programme up to and including the 2020-21 financial year.
- Since 2008-09 Town and Community Councils have been able to apply for match funding from the Council for local projects and as a result a number of worthwhile community projects have been developed. Funding of £50,000 has been allocated for 2015-16.

Maximising Space and Technology (MST) programme

4.41 The current capital programme includes a budget of £1 million for the physical works to the Civic office. A further £360,000 is required to address existing problems in the building which have emerged during the refurbishment and to meet essential safety requirements on level 1 that have been identified during the design phase.

Llynfi Valley Development

4.42 On 11 November 2014 Cabinet agreed to accept a loan from the Welsh Government's Capital Retained Fund to enable site investigation and land remediation work to be undertaken so that three sites within the Llynfi Valley can be taken to the open market for future residential-led development. Cabinet agreed to include the capital works within a revised capital programme.

Provision of a Playground at Ffordd yr Eglwys, North Cornelly

4.43 Cabinet agreed at its meeting of 8 March 2011 to dispose of land at Ffordd yr Eglwys, North Cornelly. As part of the negotiations it was agreed that £75,000 of the capital receipts would be ring-fenced to provide a replacement playground on adjacent land. A capital receipt of £80,000 has now been received and it is

proposed that, in accordance with the Cabinet decision, £75,000 of this is used to fund the cost of a new playground in the area.

Nantymoel Community Facilities

- 4.44 Within the existing capital programme is an allocation of £200,000 to provide alternative community facilities within Nantymoel, following the demolition of the Berwyn Centre. Initially Cabinet agreed this funding to the end of March 2015. However, due to the time taken to develop alternative options and seek agreement with the community representatives, the physical works are likely to be delayed, and a request is to be made to Cabinet to extend this deadline until 31st March 2016 as part of the revised capital programme.

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 estimates that around £19 million of capital receipts could be generated over the next three years, of which £9.5 million relates to school buildings vacated through the 21st Century Schools Programme, to be used as match funding for the programme. It includes receipts anticipated from Glanogwr offices, industrial units, and Parc Afon Ewenny along with the sale of other surplus sites within the County Borough. Other usable receipts may be generated from the rationalisation of depots within the authority. These receipts are subject to the exchange of contracts, so it is prudent not to commit these receipts without firm agreement. The Council cannot consider progressing additional capital projects until there is more certainty regarding future capital receipts; only the receipts essential to meet current commitments have been incorporated in this programme.
- 4.47 As indicated earlier, around £11 million of capital receipts from the sale of school sites is required as part of the match funding requirement for the 21st Century Schools Programme. Confirmation of these receipts will be required before contracts can be awarded for these projects.

Prudential Borrowing

- 4.48 Prudential Borrowing totalling £34.6 million was approved by Council on 27 February 2014. It is proposed that this borrowing be increased by a further £0.5 million to allow for additional capital minor works.

4.49 In addition, over the next financial year the Welsh Government will be making funding available to meet the cost of the Council borrowing an additional £3.6 million in 2015-16 and 2016-17 towards the costs of the 21st Century Schools Programme under the Local Government Borrowing Initiative. This will take the overall level of approved Prudential / Unsupported Borrowing to a minimum of £41.5 million by the end of 2016-17. This does not include the £2.5 million loan, from the Welsh Government Central Capital Retained Fund, to develop sites in the Llynfi Valley.

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 Equality Impact Assessments will be undertaken on all budget reduction proposals before the final recommendations are made concerning next year's revenue budget.

7. Financial Implications

7.1 The financial implications are reflected in the report.

8. RECOMMENDATIONS

8.1 It is recommended that Cabinet:-

- submits for consultation the 2015-16 annual budget and development of the MTFS 2015-16 to 2018-19 as set out in this report.
- agrees to reverse their decision of 1 April 2014 to top-slice £750,000 from school budgets in 2015-16 to meet the costs of early years.
- approves that the revised Capital Programme be submitted to Council.

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1 December 2014

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Background Papers:
Provisional Local Government Revenue and Capital Settlements 2015-16
Cabinet Report – MTFS 2015-16 to 2018-19 - 16 September 2014