

# **BRIDGEND COUNTY BOROUGH COUNCIL**

## **REPORT TO COUNCIL**

**25 FEBRUARY 2015**

### **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 Council with the Medium Term Financial Strategy 2015-16 to 2018-19, which includes a financial forecast for 2015-19, a detailed revenue budget for 2015-16 and a 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 have been reviewed. The final plan will be presented to Council for approval alongside the MTFS 2015-19 on 25 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 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.
- 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.

### **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. However, the UK government budget deficit remains well behind the Office of Budget Responsibility forecast, which estimated that net borrowing would fall by 11.2% over the whole year. Net borrowing to the end of November was £75.8 billion which, whilst £500 million less than in November 2013, is not reducing at the pace required to meet the borrowing target.
- 3.5 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 13 January 2015 the Welsh Government published its final budget which included £70 million of extra funding to the Welsh NHS in 2015-16 to deliver high quality, sustainable health services, in addition to the £295 million already announced by the Welsh Government for health and social care for 2015-16.

### **Welsh Government Final Local Government Settlement**

- 3.6 The Final Local Government Settlement was published on 10 December 2014. The published figures show the average reduction in Aggregate External Finance (AEF) for Councils across Wales for 2015-16 (after allowing for transfers into the settlement) is -3.4%. It shows Bridgend's reduction as being -3.4%. However, the published figures do not recognise that the additional funding of £10 million for social care in the settlement 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. This is a reduction of £134,000 on the Provisional Settlement because of minor changes to data sets and the use of the updated council tax base for 2015-16.
- 3.7 Councils have been 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 Bridgend.

### **Settlement Implications for 2016-2019**

- 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 Medium Term Financial Strategy 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 reductions 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 final settlement for 2015-16, amounting to £298,000 net transfer into the Council:

Transfers in:

- Local Government Borrowing Initiative (LGBI) for 21<sup>st</sup> 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 written to local authorities to advise them that the funding allocation for the Regional Collaboration Fund (RCF) in the Welsh Government budget for 2015-16 is £5 million to cover all the ongoing projects approved under the Fund in 2013. This is a significant reduction from the original allocation of £10 million. Projects receiving funding have been asked to consider how they will reconfigure projects to manage within revised reduced funding for 2015-16. There is no future funding in the Final Budget for the ICF which is £50 million in 2014-15 (£35 million revenue and £15 million capital). However, Welsh Government has recently announced £20 million of additional funding for the Health Service for 2015-16 (from the £70 million referred to in paragraph 3.5) to take forward projects funded by the Intermediate Care Fund in 2014-15.

## **Council Tax**

- 3.12 When announcing the Provisional Settlement in October 2014 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 advised 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 proposals for 2015-16 are based on 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 revised capital programmes in July and December 2014, reflecting funding changes to some schemes, slippage from 2013-14, additional external funding approvals and

changes to expenditure profiles. The final 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 31 December 2014 is shown below.

**Table 1- Comparison of budget against projected outturn at 31 December 2014**

Directorate/Divisions	Budget 2014-15 £'000	Projected Outturn 2014-15 £'000	Projected Over / (Under) Spend Qtr 3 2014-15 £'000	Projected Over / (Under) Spend Qtr 2 2014-15 £'000
<b>Directorate</b>				
Children	125,109	125,109	0	0
Wellbeing	43,416	43,513	97	147
Communities	26,570	26,656	86	179
Resources	14,973	14,983	10	82
Legal & Regulatory Services	6,532	6,042	(490)	(429)
<b>Total Directorate Budgets</b>	<b>216,600</b>	<b>216,303</b>	<b>(297)</b>	<b>(21)</b>
Council Wide Budgets	38,531	38,531	0	0
<b>Total</b>	<b>255,131</b>	<b>254,834</b>	<b>(297)</b>	<b>(21)</b>

3.15 The projected Directorate underspend is £297,000 as at the end of December 2014. This is mainly due to the significant underspend in Legal and Regulatory Services, but the overall figure masks a number of in year budget pressures in Safeguarding and Family Support and Adult Social Care, over and above the additional recurrent funding that was allocated to these areas in the 2014-15 budget. The outturn assumes full implementation of the current year budget reduction requirements across the Council's budget which amount to £11.274 million. Where proposals to meet this requirement have been delayed or are not achievable directorates have met their requirements using other measures such as vacancy management.

3.16 The Council cannot exceed its approved cash limited budget. As such, fortuitous underspends in budgets will be applied to offset overspends on other budgets. In accordance with the Council's Financial Procedure Rules, at year end, consideration will be given to requests from directors to carry forward any planned directorate underspends for specific purposes into the following year, as long as these can be met from within the Council's cash limited budget for 2014-15. Similarly, consideration will be given to any overspends to determine whether these should be carried forward as a first call on the directorate budget for the following year.

## **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).

### **Scrutiny and Challenge**

- 4.4 As stated in paragraph 4.2 above Cabinet and CMB are seeking to embed a culture of medium term financial planning within the Council. Against that background, further efforts have been made in 2014-15 to secure greater involvement of stakeholders.
- 4.5 A full consultation on the MTFS was undertaken over a six week period during October and November, including a budget simulation exercise and community engagement workshops. A total of 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.
- 4.6 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:

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.

- 4.7 There was majority support for introducing a charge for pest control, a parking charge 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 – the full public consultation on this proposal ended on 22 December 2014, and a separate report will be presented to Cabinet on the outcomes of the consultation at a later date. 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 and engagement.
- 4.8 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. The draft MTFS and 2015-16 budget proposals have been considered by the Budget Research and Evaluation Panel and each of the Scrutiny Committees. The Corporate Resources and Improvement Overview and Scrutiny Committee has summarised and collated observations and recommendations. Cabinet has provided a response to these recommendations which is attached at Appendix M.

### **MTFS Principles**

- 4.9 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 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.
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.
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**

- 4.10 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 Final 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**

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

- 4.11 Table 3 shows the Council's potential net budget reduction requirement based on the forecast resource envelope (paragraph 4.10), inescapable spending assumptions (paragraph 4.12) and an assumed increase in council tax of 4.5% each year.

**Table 3: MTFS Potential Net Budget Reduction Requirement**

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

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

- 4.12 The financial forecast is also predicated on £48.82 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.
  - 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 0.5%) plus 1%.
- Services will absorb within budgets non contractual inflationary pressures of up to the prevailing CPI rate.

### **MTFS Net Budget Requirement**

- 4.13 The MTFS net budget requirement for 2015-16 is based on the most likely scenario, taking into account the net percentage change in AEF in paragraph 4.10, inescapable budget pressures in paragraph 4.12 and the budget reduction requirement in paragraph 4.15. This is shown in Table 4.

**Table 4 – Net Budget Requirement**

	<b>2015-16</b>
	<b>£000</b>
Net Budget Previous Year (2014-15)	255,131
Net Change in AEF	6,454
Pressures incl. demographic & legislative (Para 4.12)	5,365
Budget Reduction Requirement (Para 4.15)	(11,225)
Increase in Council Tax Income	(3,524)
<b>Net Budget Requirement</b>	<b>252,201</b>

- 4.14 Appendix A shows the indicative budgets for the next four years based on the most likely scenario. It is built up based on the assumptions in paragraph 4.12 and predicated on the budget reduction requirement being met from Directorate and Corporate budgets identified in Table 3.

### **MTFS Budget Reduction Requirement**

- 4.15 Budget Reduction proposals are being developed by officers to meet the £48.82 million requirement, and Table 5 shows the current risk status of those identified so far.

**Table 5 - Risk Status of Budget Reduction Proposals 2015-16 to 2018-19**

Year	GREEN	AMBER	RED	Total Reductions Identified	Total to be Identified	Total Reductions Required
	£'000	£'000	£'000	£'000	£'000	£'000
2015-16	6,266	4,394	565	11,225	0	11,225
2016-17	2,351	4,147	6,272	12,770	796	13,566
2017-18	80	477	8,753	9,310	2,953	12,263
2018-19	40	25	5,989	6,054	5,709	11,763
<b>Total Identified</b>	<b>8,737</b>	<b>9,043</b>	<b>21,579</b>	<b>39,359</b>	<b>9,458</b>	<b>48,817</b>
% of Reductions Identified	22.20%	22.97%	54.83%			

**Risk Status Key:**

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

4.16 A number of proposals for 2016-17 onwards require further information and analysis, and as such are not identified separately in Appendix C but presented in respect of whether they relate to:

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

They include proposals such as stopping delivering day services in adult social care, the potential closure of some public buildings and services such as public toilets, parks pavilions and playgrounds, further rationalisation of Council buildings and rationalisation of school places, alongside significant reductions in staffing across the Council. The impact of such reductions would be significant for residents in the County Borough and cannot be underestimated, but such proposals must be considered as the Council is legally bound to set a balanced budget each year and so will have some very difficult decisions to take going forward. Making Best Use of Resources encapsulates proposals which relate to staff restructures, rationalisation of assets and ICT and account for the majority of budget reduction proposals. Despite these proposals, there is still a shortfall against the forecast budget reduction requirement over the next four years of £9,458,000.

4.17 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 C.

**Table 6 – Budget Reduction Proposals 2015-16 to 2018-19**

	2015-16	2016-17	2017-18	2018-19	Total	%
	£'000	£'000	£'000	£'000	£'000	
<b>Making Best Use of Resources</b>	6,748	7,046	4,187	2,096	20,077	51.0
<b>Managed Service Reductions</b>	1,177	2,334	1,887	1,041	6,439	16.4
<b>Collaboration &amp; Service Transformation</b>	1,406	1,154	738	1,277	4,575	11.6
<b>Policy Changes</b>	1,894	2,236	2,498	1,640	8,268	21.0
<b>Total Identified as at 20.01.2015</b>	<b>11,225</b>	<b>12,770</b>	<b>9,310</b>	<b>6,054</b>	<b>39,359</b>	

4.18 The table shows that over fifty percent of the planned reductions 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

4.19 Budget reduction proposals relating to Collaboration and Service Transformation amount to 11.6% of the total reductions. These include remodelling cultural services and adult social care, regulatory services and youth offending services. Policy changes amount to 21.0% and include reducing services to the statutory minimum as well as cutting some discretionary services. The policy change proposals are subject to consultation.

4.20 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. The costs of redundancies will be significant and the Council will need to ensure there are sufficient funds in earmarked reserves to meet these one off costs.

### **Corporate Risk Assessment**

4.21 The Council's Risk Assessment which identifies the key corporate risks and mitigating actions is attached as Appendix L. The main risks which have been taken into account in the preparation of the MTFs are failure to use resources effectively and achieve the planned reductions target, the impact of welfare reform measures and local government reorganisation and increased support for vulnerable people, including children and their families.

## 2015-16 Revenue Budget

- 4.22 This section of the report sets out the Council's revenue budget for 2015-16 which forms part of the MTFs. It has been developed using the MTFs principles stated in paragraph 4.9 above.
- 4.23 On 9 December 2014 Cabinet received a report on the Medium Term Financial Strategy 2014-15 to 2018-19, which included a draft revenue budget for 2015-16. This included proposals for increases in budget allocations in specific service areas to meet budget pressures and also budget reduction proposals.
- 4.24 WG agreed its budget and the final settlement on 10 December 2014. The change in Revenue Support Grant in cash terms for Bridgend between the provisional and final settlement is a reduction in funding of £134,000. This is due to:
- Minor changes to some data sets
  - Application of the 2015-16 council tax base in the distribution formula for the final settlement.
- 4.25 Table 7 shows the revenue budget for 2015-16. This includes specific grants transferring into the settlement as outlined in paragraph 3.9.

**Table 7 – Revenue Budget 2015-16**

	Revised Budget 2014-15	Specific Grant Transfers from WG	School Protection	Pension Changes	Pay / Prices / Demographics	Inescapable Budget Pressures	Budget Reduction Proposals	Revenue Budget 2015-16
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Service Budgets</b>								
<b>Education &amp; Transformation</b>								
Education & Transformation	22,207	353		69	341		-2,281	20,689
Schools	84,748		508				-170	85,086
	<b>106,955</b>	<b>353</b>	<b>508</b>	<b>69</b>	<b>341</b>	<b>0</b>	<b>-2,451</b>	<b>105,775</b>
<b>Social Services &amp; Wellbeing</b>								
Adult Social Care	40,438	483		78	1,580	1,398	-2,787	41,190
Safeguarding	18,381	-12		20	157		-470	18,076
Sport, Play and Active Wellbeing	2,978			4	85		-277	2,790
	<b>61,797</b>	<b>471</b>	<b>0</b>	<b>102</b>	<b>1,822</b>	<b>1,398</b>	<b>-3,534</b>	<b>62,056</b>
Communities	26,570			133	455	243	-2,488	24,913
Resources	14,746			53	333	693	-1,153	14,672
Legal & Regulatory Services	6,532	-22		14	83		-554	6,053
<b>Corporate Budgets</b>								
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						-100	1,637
Other Corporate Budgets	2,913	-61		0	-80	936	-400	3,308
<b>Net Budget Requirement</b>	<b>255,131</b>	<b>741</b>	<b>508</b>	<b>200</b>	<b>3,576</b>	<b>3,270</b>	<b>-11,225</b>	<b>252,201</b>

4.26 The net budget will be funded by:

	£
Revenue Support Grant/ Non Domestic Rates	188,409,365
Council Tax Income	63,791,853
<b>Total</b>	<b>252,201,218</b>

### **Council Tax Implications**

4.27 The implications in terms of the Council Tax increase (excluding Police & Crime Commissioner for South Wales and Community Council precepts) are shown in Table 8.

**Table 8 – Council Tax Increase 2015-16**

2014-15 Average Band D	£1191.87
2015-16 Average Band D	£1249.07
% Increase	4.8%
Weekly Increase	£1.10

### **Pay, Prices and Demographics**

4.28 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 the adult social care budget to meet demographic pressures in line with paragraph 4.12 above.

4.29 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 the proposed increases in employer pension contributions from 1 April 2015.

4.30 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.

### **Delegated Schools Budgets**

4.31 The delegated schools' budget has been completely protected from the average 8.5% reductions that other directorates have had to find. The 2015-16 budget provides an additional £508,000 to the schools' budget to meet the Welsh Government's 1% protection commitment.

### **Unavoidable Pressures**

4.32 During 2014-15 a number of unavoidable 2015-16 service budget pressures have arisen totalling £3.270 million, detailed in Appendix B. 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

£2.334 million. The one-off pressures total £936,000 and funding will be retained centrally and allocated to services to meet the cost of these pressures, should they arise during 2015-16.

### **Budget Reductions**

- 4.33 Budget reduction proposals of £11.225 million have been identified from service and corporate budgets to achieve a balanced budget, detailed in Appendix C.

### **Corporate Budgets**

- 4.34 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.
- 4.35 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 a reduction of £14,000 from 2014-15. This is dependent on the achievement of specific outcomes linked to targets set by the authority and agreed with Welsh Government.

### **Fees and Charges**

- 4.36 Generally, income from fees and charges will be increased by CPI (at the prevailing rate, currently 0.5%) 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. New charges or charges that have been included above the general increase are shown in Appendix D. A number of new charges are proposed as a consequence of the public consultation exercise, during which the proposals received wide support e.g. credit card charges, parking charges for blue badge holders.

### **Links to Corporate Priorities**

- 4.37 Allocations of the 2015-16 budgets at area of service level are shown in Appendix E. Table 9 summarises how the budget allocations contribute to corporate improvement priorities and support core business, and further details can be found in Appendix F.

**Table 9 – 2015-16 Budget by Corporate Improvement Priority**

<b>Budget 2015-16 Corporate Improvement Priorities</b>			
<b>Directorate</b>	<b>Corporate Improvement Priorities</b>	<b>Core Business</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Education & Transformation	18,492	2,197	20,689
Schools	84,916	170	85,086
Adult Social Care	38,397	2,793	41,190
Safeguarding & Family Support	17,606	470	18,076
Sport, Play & Active Wellbeing	2,513	277	2,790
Communities	10,838	14,075	24,913
Legal & Regulatory Services	3,835	2,218	6,053
Resources	(1,021)	15,693	14,672
Corporate Budgets	0	38,732	38,732
<b>NET BUDGET REQUIREMENT</b>	<b>175,576</b>	<b>76,625</b>	<b>252,201</b>

### **Council Reserves**

- 4.38 It is proposed that the Council's unallocated balances are maintained at the current level of at least £7 million throughout the MTFS period. Any accrued council tax income for 2014-15 will be used to mitigate unforeseen service pressures including service reconfiguration costs in 2015-16. Also, as part of the 2015-16 budget strategy process, the Council undertook a review of all its earmarked reserves and has developed a protocol for Reserves and Balances. It outlines the principles to assess the adequacy of reserves, rationale for establishing reserves and the monitoring of the reserves. This protocol together with the full details of the earmarked reserves can be found in Appendix G. A summary of the General Fund and Usable Earmarked Reserves is provided below:

<b>Opening Balance 1 April 2014 £'000</b>	<b>Reserve</b>	<b>Movement 2014-15 £'000</b>	<b>Closing Balance 31 March 2015 £'000</b>	<b>Movement 2015-16 £'000</b>	<b>Closing Balance 31 March 2016 £'000</b>
7,395	Council Fund Balance	0	7,395	0	7,395
32,381	Total Earmarked Reserves	(1,578)	30,803	(11,298)	19,505
<b>39,776</b>	<b>Total Usable Reserves</b>	<b>(1,578)</b>	<b>38,198</b>	<b>(11,298)</b>	<b>26,900</b>

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

- 4.39 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 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. The Programme has been revised since it went to Cabinet on 10 February 2015 to take into account one new scheme and an amendment to an existing scheme.

## Capital Programme

- 4.40 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 H sets out the revised capital programme by Directorate for the period 2015-16 to 2024-25.
- 4.41 The programme proposed contains a number of significant strategic investment projects that will support a number of corporate priorities, as described below. Appendix I sets out the programme by improvement priority and a summary is shown in Table 10 below.

**Table 10 – Capital Programme by Improvement Priority**

Improvement Priority	Revised 2014-15	2015-16	2016-17	2017/18 to 2024/25	Total
	£000	£000	£000	£000	£000
1. Developing the Local Economy	5,025	13,772	4,735	3,030	26,562
2. Raising Aspirations and Educational Achievement	9,885	10,497	17,751	9,873	48,006
3. Supporting Children and Families	821	0	0	0	821
4. Helping Vulnerable and Older People to stay independent	4,045	3,134	2,350	18,800	28,329
5. Encouraging Healthy Lifestyles to reduce Health Inequalities	0	0	0	0	0
6. Best Use of Resources	9,111	5,064	0	0	14,175
Addressing Statutory Risks / OBAU	3,870	3,974	1,600	25,677	35,121
<b>TOTAL</b>	<b>32,757</b>	<b>36,441</b>	<b>26,436</b>	<b>57,380</b>	<b>153,014</b>

### Raising aspirations and improving educational achievement

- 4.42 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) 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.

- 4.43 The programme is based on the current estimated expenditure profile over the funding period. 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.
- 4.44 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:

<b>Project</b>	<b>Current Status</b>
Coety / Parc Derwen Primary School	Welsh Government approved the Full Business Case – Under construction
Special Education Needs Provision	Welsh Government approved the Business Justification Case – Under construction
Garw Valley South Primary Provision	Welsh Government approved the Outline Business Case – In design.
Pencoed Primary School	Strategic Outline Case to be submitted in February 2015
Gateway Primary Provision	Welsh Government approved the Strategic Outline Case. Outline Business Case to be submitted to Welsh Government in February 2015. Cabinet approval received to consult on the enlargement and relocation of Brynmenyn Primary School.
Mynydd Cynffig Primary School	Cabinet approval received to consult on the closure of Mynydd Cynffig Infants School and extend the age range of Mynydd Cynffig Junior School to create a primary school
Héronsbridge Special School	Exploring opportunities for additional capacity to meet needs of children with ASD.

### **Supporting the Local Economy**

- 4.45 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.

### **Leveraging Energy Company Obligation (ECO) into Wales Capital 2014 – 15 grant**

- 4.46 This grant of £1.385 million, from the Welsh Government, supports projects to fit energy efficiency measures to properties including external wall insulation, boiler replacement and heating upgrades.

### **Parc Afon Ewenni**

- 4.47 The Parc Afon Ewenni programme is the means by which the Council intends to regenerate and redevelop one of the most important gateways into Bridgend Town and deliver its commitment to support the development of 650 new homes in an identified strategic housing site within the Council approved Local Development Plan. To enable the benefits of the programme to be realised the Council needs to vacate the Waterton site and relocate services currently provided there to alternative sites. Against that background in February 2013 Council approved £1.69 million of funding in the capital programme for the depot rationalisation project associated with the Parc Afon Ewenni programme. The initial allocation was only to meet the costs of refurbishment of the Bryncethin offices to accommodate the “building” element of the depot function. It did not specifically include removal costs or relocation costs, such as the salt barn, warehousing, or furniture costs as these had not been evaluated at that time.
- 4.48 On 3 February 2015 Cabinet received a report which explained how the depot project has developed since the original funding approval was given. In particular, the report detailed how the scope of the project had widened considerably following detailed feasibility and the capital funding requirements had therefore also significantly increased. The Cabinet report evaluated the range of options that officers considered in seeking the most cost effective means of relocating the whole depot function, taking into account that the original proposal to relocate to Bryncethin site was the most expensive of the options identified. Cabinet approved the recommendation to purchase a vacant warehouse at Eastern Business Park, Bridgend Industrial Estate, with an adjacent plot of land and to relocate the depot function there. Under this proposal, once vacated the Bryncethin site would be declared surplus (excluding the Customer and Community Support Unit which would remain) and could be disposed of to deliver a capital receipt to support the Capital programme. This would be in addition to the substantial capital receipt from the sale of the land at Waterton in due course, once the site has been vacated by the depot and County Borough Supplies by April 2016.
- 4.49 The Depot Relocation cannot be achieved within the existing budget which is currently £1.69 million with spend to date of £60,000. Council is requested that the additional capital funding required for the option chosen by Cabinet, which amounts to £2.746 million including the cost of the warehouse and adjacent land purchase referred to in 4.48 above, be included within the Capital Programme and met from a combination of earmarked reserves for capital expenditure and realised capital receipts.

### **Capital Minor Works**

- 4.50 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.

- 4.51 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.

### Capital Programme Fixed Allocations

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

**Table 11 – 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%
<b>Total</b>	<b>4,590</b>	<b>4,590</b>	<b>4,590</b>	<b>72.8%</b>

- 4.53 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 of 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.

### **Capital Financing Strategy**

- 4.54 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**

- 4.55 The Council estimates that around £19 million of capital receipts could be generated over the next three years, of which £6 million is expected to be realised in 2015-16. Of the £19 million, £9.5 million relates to school buildings vacated through the 21<sup>st</sup> Century Schools Programme, to be used as match funding for the programme. It also includes receipts anticipated from Glanogwr offices, industrial units, and the Waterton site along with the sale of other surplus sites within the County Borough. Receipts are subject to the exchange of contracts, so it is prudent not to commit them until we have a contractual agreement. However, the capital programme does assume £11 million of anticipated capital receipts from the sale of school sites as this was a Welsh Government requirement as part of the match funding for the 21<sup>st</sup> Century Schools Programme. Confirmation of these receipts will be required before contracts can be awarded for these projects.

### **Prudential Borrowing**

- 4.56 Prudential Borrowing totalling £34.6 million was approved by Council on 27 February 2014 along with an additional £2.1 million to carry out works on the Highways Infrastructure and approximately £6.6 million between 2014-15 and 2016-17 towards the costs of the 21<sup>st</sup> Century Schools Programme under the Local Government Borrowing Initiative. It is proposed that this borrowing be increased by a further £0.5 million to allow for additional capital minor works.
- 4.57 The Welsh Government has now confirmed its LGBI funding for the 21<sup>st</sup> Century Schools Programme (£5.6 million) and after taking into account minor adjustments in prudential borrowing requirements on existing schemes, 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.

### **Treasury Management Strategy 2015-16**

- 4.58 The Prudential Code for Capital Finance in Local Authorities (fully revised 2011) requires the Council to set a number of Treasury Management Indicators and report

them within the Treasury Management Strategy. The Council is required, prior to the start of the financial year, to approve the Treasury Management and Investment Strategies for 2015-16, and the Treasury Management and Prudential Indicators for the period 2015-16 to 2018-19. These are included in the Treasury Management Strategy 2015-16, attached as Appendix K. The indicators either summarise the expected activity or introduce limits upon the activity, reflect the underlying capital programme and provide assurance that capital investment decisions are affordable, prudent and sustainable.

## **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 A high level equality impact assessment (EIA) has been undertaken on the Council's budget proposals and updated MTFS (see Appendix J). EIAs have been completed for individual 2015-16 proposed budget reduction proposals which may impact on certain groups of citizens within the County Borough.

## **7. Financial Implications**

- 7.1 This report outlines the financial issues that Council is requested to consider as part of the 2015-16 to 2018-19 MTFS. The Council's Chief Financial Officer is required to report annually on the robustness of the level of reserves. The level of Council reserves is sufficient to protect the Council in light of unknown demands or emergencies and current funding levels. It must be emphasised that the biggest financial risks the Council is exposed to at the present time relate to realising unplanned budget reduction proposals in future years and the unknown impact of national legislative changes, further collaborations and local government re-organisation. Therefore, it is imperative that the council fund balance is kept at the current level over the term of the MTFS and essential that revenue service expenditure and capital expenditure is contained within the identified budgets.
- 7.2 The Chief Financial Officer is also required to report to Council if he/she does not believe that he/she has sufficient resource to discharge his/her role as required by s114 of the Local Government Act 1988. Members should note that there is sufficient resource to discharge this role.
- 7.3 The budget includes estimates which take into account circumstances and events which exist or are reasonably foreseeable at the time of preparing the budget. The budget has been prepared following consultation with Members, the School Budget Forum and service managers. Subject to the risks identified in the body of the report the MTFS provides a firm basis for managing the Council's resources for the year 2015-16 and beyond.

## 8. RECOMMENDATIONS

8.1 Council is asked to approve the MTFS 2015-16 to 2018-19 including the 2015-16 revenue budget, the Capital Programme 2015-16 to 2024-25 and the Treasury Management Strategy 2015-16. In particular it is asked to approve the following specific elements:

- The MTFS 2015-16 to 2018-19
- The Net Budget Requirement of £252,201,218 in 2015-16.
- A Band D Council Tax for Bridgend County Borough Council of £1249.07 for 2015-16.
- The 2015-16 budgets as allocated in accordance with Table 7 in paragraph 4.25.
- The Capital Programme 2015-16 to 2024-25 (Appendix H).
- The Treasury Management Strategy 2015-16 and Treasury Management and Prudential Indicators 2015-16 to 2018-19 (Appendix K).

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