

# BRIDGEND COUNTY BOROUGH COUNCIL

## REPORT TO COUNCIL

16 JULY 2014

### REPORT OF THE SECTION 151 OFFICER

#### MEDIUM TERM FINANCIAL STRATEGY 2014-15 TO 2018-19

##### 1. Purpose of this report

- 1.1 The purpose of this report is to update Council on the implications for the Medium Term Financial Strategy (MTFS) following revision of funding assumptions for 2015-16 to 2018-19.

##### 2. Connections to the Corporate Plan

- 2.1 The development of the Corporate Plan and Medium Term Financial Strategy (MTFS) identifies the Council's service and resource priorities for the next four financial years, with particular focus on 2014-15.

##### 3. Background

###### Corporate Plan - Policy Context

- 3.1 The Council reviewed its Corporate Plan and improvement priorities for 2014-15 in line with the integrated business and budget planning process introduced last year. In the autumn the Corporate Plan will be rolled forward one year to cover the period 2015 -2019. It is important that actions identified in business plans to deliver outcomes are commensurate with the resources identified in the MTFS.

###### The Financial Context

- 3.2 The Council's MTFS is set within the context of UK economic and public expenditure plans, Welsh Government priorities influencing settlements and legislation which defines the scope the Council has to raise income from council tax and to borrow for capital expenditure.
- 3.3 The Council's MTFS includes all elements of the Council's financial strategy for the next four years, with emphasis on planned budget savings and development of the Bridgend Change Programme. It also encompasses the Capital Strategy which is designed to ensure that capital investment proposals are prioritised and evaluated in accordance with asset management principles and contribute towards the Council achieving its strategic and service priorities.
- 3.4 The MTFS funding projections for 2014-15 to 2017-18, reported to Council in February 2014, were based on information available at that time, including potential percentage changes in Aggregate External Finance (AEF) as shown in the table below. The worst case scenario was that an estimated £44 million would be required to fund the budget gap, while the best required £23 million over this period. The MTFS was predicated on the Most Likely Scenario of £36 million.

**Table 1 - Impact of % change in AEF on Net Budget Requirement**

	2014-15	2015-16	2016-17	2017-18	Budget Gap
	% Change	% Change	% Change	% Change	£m
Best Scenario		-1.3%	-2.0%	0%	(23)
<b>Most Likely Scenario</b>	<b>-2.7%</b>	<b>-3.0%</b>	<b>-4.0%</b>	<b>-2.0%</b>	<b>(36)</b>
Worst Scenario		-4.0%	-4.0%	-4.0%	(44)

**National economic outlook and public expenditure plans**

- 3.5 Following the Comprehensive Spending Review (CSR) 2013 the Welsh Government revenue budget was reduced by -0.1% in 2014-15 and -0.4% in 2015-16. Welsh Ministers subsequently announced their intention to protect funding for the National Health Service (NHS), schools and universal benefits. As a consequence Welsh councils were told to expect English style reductions to their settlements in 2014-15 and 2015-16.
- 3.6 The Final Local Government Settlement was agreed by WG on 14 January 2014 and although this provided indicative AEF allocations for 2015-16 of -1.5%, the Council's MTFs assumption was based on a reduction of -3.0% because the Minister stated that these figures were indicative and subject to change as a result of further UK budget revisions. No figures were given for 2016-17 and 2017-18 and in view of the macro-economic and fiscal projections and in the absence of other information, the MTFs assumed reductions in AEF of -4% for 2016-17 and -2% for 2017-18.
- 3.7 The MTFs reported to Cabinet on 24 June 2014 was based on a reduction in funding from Welsh Government of -4.0% for each of the years 2015-16 to 2017-18. Subsequently, the Minister for Local Government and Government Business has advised that whilst the 2015-16 indicative settlement allowed for a reduction in funding of -1.5% , she would suggest that local councils consider in their planning assumptions how to respond to a reduction of as much as -4.5%.
- 3.8 No indicative figures have been provided for the years beyond 2015-16 but the Minister's message clearly indicates that similar type settlements can be expected for future years. Therefore, it is advisable to plan for a reduction in funding of -4.5% for each of the years 2015-16 to 2018-19. As a result, this Council now anticipates a budget shortfall of £12.4million in 2015-16 and will need to find recurrent savings of £50 million over the period 2015-16 to 2018-19. This excludes the impact of as yet unknown, but likely cuts to specific grants, the uncertainty of the value of protection for schools' budgets, the impact on services of new legislation e.g. the Social Services and Wellbeing (Wales) Act and collaborative arrangements.

## 4. Current Situation

### 2014-15 – Budget Update

- 4.1 Cabinet has agreed that the Council will enter into negotiations on the proposed pay award for 2014-15 for NJC employees. The cost of the proposed pay award adds a recurrent amount of £1.170 million to the base budget. The agreed budget included £70,000 to meet a 1% pay award for those employees on Grade 1 and Grade 2 of the Pay and Grading structure for 2014-15 and approximately £300,000 falls within delegated schools budgets. The balance of £800,000 will be funded from within corporate budgets and accelerating, where feasible, future years' staff related savings proposals. In addition, the Council will no longer be able to provide the staff self-referral counselling service.
- 4.2 These changes will impact on savings requirements for future years which will need to be increased to compensate for this switch in budget within the overall approved budget for 2014-15. This means that whilst the Council will still try and limit job losses these will inevitably be greater in number than previously anticipated.
- 4.3 The agreed budget included one savings proposal (COM1, MREC of £780,000) which was RED and identified that this amount would be held centrally within the inflation provision to mitigate the risk of the saving not being achieved. Discussions with Neath Port Talbot Council are on-going, but due to changes in the timescale for the procurement this saving will not be achieved in 2014-15 and the value of savings for future years also needs to be re-profiled. Consequently, as agreed previously, the Directorate is in the process of developing alternative achievable savings proposals which will be reported to Cabinet in September.
- 4.4 The budget savings proposal to transfer homecare hours to the independent sector (ASC1) amounting to £164,000 is still achievable in full in 2014-15, but will reduce in 2015-16 and 2016-17 and the Directorate will identify, as part of the general budget savings review, alternative savings proposals to meet any shortfall in future years.

### MTFS Resource Envelope

- 4.5 The table below shows the funding assumptions and budget savings required in the MTFS approved by Council in February 2014 compared to the revised funding projections. It also shows the revised forecast budget shortfall for the Council.

**Table 2 - MTFS Funding Assumptions and Savings Proposals**

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
<b>Original Assumptions as per Report to Council 19th Feb 2014</b>				
Reduction in AEF	-3.0%	4.0%	-2.0%	
<b>Original MTFS total forecast budget shortfall</b>	<b>-10,456</b>	<b>-10,040</b>	<b>-4,000</b>	
<b>Revised Assumptions</b>				
Reduction in AEF	-4.5%	-4.5%	-4.5%	-4.5%
<b>Revised MTFS total forecast budget shortfall</b>	<b>-12,417</b>	<b>-13,460</b>	<b>-12,175</b>	<b>-11,798</b>

- 4.6 For each of the future years up to 2018-19 it has been assumed that the commitment by Welsh Government to protect schools budgets could be by as much as 0.6% per annum based on the change in the Welsh Government (WG) budget for 2015-16, but as yet this has not been quantified or confirmed because it is impossible to predict the WG budget beyond the current CSR. On this basis it has been assumed that schools will absorb all salary related and price inflation relating to delegated schools budgets. Consequently, the budget savings required could be higher than those shown in Table 2.
- 4.7 The impact of demographic and other unavoidable pressures have been reviewed but any allocation for pressures will be limited and cannot be considered until recurrent achievable budget savings proposals have been identified to meet the budget gap.
- 4.8 The table below shows the value of budget savings identified to date and the current budget shortfall based on the revised funding assumptions in Table 2. This means that, assuming that all budget savings proposals identified are achievable, there is a current forecast budget shortfall of £16.2 million for the period 2015-16 to 2017-18 with a further £11.8 million required for 2018-19.

**Table 3 - Revised Forecast Budget Shortfall**

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	Total £000
<b>MTFS forecast budget shortfall</b>	<b>-12,417</b>	<b>-13,460</b>	<b>-12,175</b>	<b>-11,798</b>	<b>-49,850</b>
<b>Savings Identified to date</b>	<b>-9,918</b>	<b>-9,099</b>	<b>-2,765</b>	<b>0</b>	<b>-21,782</b>
<b>Current forecast budget shortfall</b>	<b>-2,499</b>	<b>-4,361</b>	<b>-9,410</b>	<b>-11,798</b>	<b>-28,068</b>

- 4.10 Given the time scales the immediate focus must be on delivering the identified budget savings proposals (including substitute proposals in the 2014-15 budget) and in particular recurrent budget savings of £12.4 million to achieve a balanced budget for 2015-16.
- 4.11 Whilst it has been the practise in recent years to apportion required savings across services on a straight line basis, this will be less feasible in the future, particularly in the context of the future funding forecast and the requirement to simultaneously deliver collaborative arrangements and regional services. Over the coming months options to deliver savings on a prioritised basis from 2016-17 to 2018-19 will be explored. This will mean that savings will not fall equally across all services and will inevitably shape the type and volume of services which the Council will be able to provide in the future.

## **Conclusion**

4.12 The financial position the Council is faced with is extremely challenging. The immediate concern is the impact that the continued national fiscal tightening will have on services in the longer term as the level of savings required will impact on the type and level of services the Council can provide. The tight timescales to reshape some of the savings proposals already identified for 2015-16 is also of concern. This will require Members and Officers to work together over the coming months to deliver the MTFS. In reality, there is no alternative but to deliver the budget savings proposals as setting a balanced budget is a legal requirement and the use of reserves to fund recurring expenditure is unsustainable.

## **5. Effect on Policy Framework and Procedure Rules**

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

## **6. Equality Impact Assessment**

6.1 The final budget proposals will cover a wide range of services and it is inevitable that the necessary budget reductions in developing these proposals will impact on the local population in different ways. The Equality Impact Assessment will be carried out and included with the final budget and reported to Council in February 2015.

## **7. Financial Implications**

7.1 The Council will be required to identify £12.4million of budget savings to achieve a balanced budget for 2015-16 and £50 million over the period 2015-16 to 2018-19. It is imperative that a balanced budget is achieved and essential that revenue service expenditure and capital expenditure is contained within the identified budgets for the current year.

7.3 The alternative would have serious implications for the Council. In addition to the statutory requirement to set a balanced budget, under the 2003 Local Government Act the Council's Chief Financial Officer (i.e. S151 Officer) must report on the robustness of the budget and the adequacy of proposed financial reserves and this must form part of the Council's budget consideration and decision making. This will include identifying the risks associated with identified savings, the implications and contingency plans if savings are not delivered as planned. As such it is essential that the savings put forward are deliverable or where they are at risk contingency plans are produced.

## **8. RECOMMENDATIONS**

8.1 Council is asked to:-

- Approve and adopt the revised MTFS for 2015-16 to 2018-19
- Note the impact of the proposed pay award for 2014-15 as outlined in paragraphs 4.1 and 4.2
- Note the actions being taken in relation to the MREC and Homecare budget savings proposals for 2014-15.

- Note the requirement to ensure £12.4 million of recurrent savings are delivered by 1 April 2015 and the need for services to develop longer term plans to deliver future years' savings.

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Background Documents :  
19 February 2014 Council Report – Medium Term Financial Strategy 2014-15 to 2017-18