

**BRIDGEND COUNTY BOROUGH COUNCIL
REPORT TO ADULT SOCIAL CARE OVERVIEW AND SCRUTINY COMMITTEE**

**13 JANUARY 2016
REPORT OF THE SECTION 151 OFFICER**

MEDIUM TERM FINANCIAL STRATEGY 2016-17 to 2019-20

1. Purpose

- 1.1 The purpose of this report is to present the Scrutiny Committee with the draft Medium Term Financial Strategy 2016-17 to 2019-20, which includes a financial forecast for 2016-20 and a detailed draft revenue budget for 2016-17.

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 2016-17.

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 2016-17 are currently under review, with revised set of three priorities being included in the public consultation "Shaping Bridgend's Future". The final plan will be presented to Council for approval alongside the MTFS 2016-20 in March 2016. 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 2016-17 and outline proposals for 2017-18 to 2019-20.
 - The capital programme for 2016-17 to 2025-26, 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 March 2016.

The Financial Context

- 3.4 The Chancellor of the Exchequer announced the results of his Comprehensive Spending Review on 25 November 2015. Although the Westminster government remains committed to tackling the budget deficit and achieving a surplus by 2019-20, George Osborne announced an improvement of £27 billion in public sector finances over the next five years, according to figures from the Office of Budget Responsibility. As a result, he was able to halt the introduction of controversial changes to tax credits as well as announce increased investment of £3.8 billion in the English NHS and protection for policing budgets.
- 3.5 As a consequence of the Barnett formula and the increase in spending to relevant areas, particularly health, the UK Government Settlement to the Welsh Government for 2016-17 is a cash increase of 0.85%. The Welsh Government has not been given a firm settlement at this point for future years, but indicative figures in the HM Treasury Spending Review report suggest similar settlements in 2017-18 and beyond. That said, these figures are subject to change and there is much speculation from economic commentators regarding their reliability. On 8 December 2015 the Welsh Government published its draft budget which included £293 million of extra funding to the Welsh NHS in 2016-17.

Welsh Government Provisional Local Government Settlement 2015-16

- 3.6 On 9 December councils received the provisional Local Government Settlement which provided an average -1.4% reduction in Aggregate External Finance (AEF) for 2016-17 across Wales (after allowing for transfers into and out of the Settlement). Bridgend's reduction in funding versus AEF received in 2015-16 is 1.2%. This takes into account the £1.4 million Outcome Agreement Grant which is now included in the Revenue Support Grant (RSG). 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 (£1.578 million or 1.85%) as well as additional funding to help councils support pressures in social services.
- 3.7 The provisional settlement compares favourably to the -4.5% "most likely" assumption that is contained within the Council's MTFs for 2016-17 and is better even than the "best" case scenario assumption of -3%.

Settlement Implications for 2017 to 2020

- 3.8 In line with previous years, there is no indication of local government settlements for 2017-18 onwards. While the 2016-17 draft settlement is better than forecast, the prospect of interest rate rises and the continuing uncertainty around the economy and the subsequent pace of the Westminster government's ongoing austerity programme make future years' settlements highly unpredictable. Against this background and in the absence of any further clarity from Welsh Government, the MTFs "most likely" scenario assumptions have been revised to an annual reduction in AEF of -3.2% for 2017-18, 2018-19 and 2019-20. Based on these assumptions the total recurrent budget reduction requirements are forecast to be £36.549 million from 2016-17 to 2019-20.

Grant Transfers into the 2016-17 Revenue Settlement

3.9 The full picture on specific grants is not yet clear, but the draft settlement includes information on a number of changes to the level of grants at an all Wales level which impact on the Council's resources. Specifically:

- The Outcome Agreement grant funding of £1.4 million has been transferred into the RSG
- A 6.4% reduction in the Single Environment Grant across Wales (BCBC received £2.904 million in 2015-16)
- A reduction in the Families First grant of 16.7% across Wales. The actual reduction to Bridgend is 11.7%, or £223,000.

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

3.10 In line with previous announcements, Welsh Government has ceased the RCF in 2016-17. Bridgend has historically benefitted from the RCF to help establish collaborations, such as Western Bay, and the Regulatory Services collaboration. By contrast, the ICF has increased from £20 million in 2015-16 to a proposed £50 million across Wales for 2016-17 in the draft budget, which will again be allocated to the NHS to manage, albeit working in partnership with local authorities.

Council Tax

3.11 In line with recent years, the Minister's statement included an expectation on Local Authorities "to take account of all the available funding streams in considering service provision and setting their budgets and Council Tax". The previous version of the MTFS assumed a 4.5% increase in Council Tax for 2016-17. However the 2016-17 draft Revenue Budget, shown in Table 7, assumes a Council tax increase of 3.9%. This change reflects the provisional settlement and recognises the views expressed in response to the Council's recent "Shaping Bridgend's future" consultation. This increase seeks to strike an appropriate balance between the needs of the Council and its citizens.

Welsh Government Capital Settlement

3.12 In February 2015 Council approved a capital programme for 2015-16 to 2024-25, 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 and again in October 2015, to incorporate budgets carried forward from 2014-15 and any new schemes and grant approvals. The draft local government capital settlement for 2016-17 provides this Council with £6.293 million capital funding for 2016-17, which is £5,000 more than 2015-16. No indications have been given for 2017-18 or beyond.

Current Year (2015-16) Financial Performance

3.13 The in-year financial position as at the 30 September 2015 is shown below.

Table 1- Comparison of budget against projected outturn at 30 September 2015

Directorate/Divisions	Revised Budget 2015-16 £'000	Projected Outturn 2015-16 £'000	Projected Over / (Under) Spend Qtr 2 2015-16 £'000	Projected Over / (Under) Spend Qtr 1 2015-16 £'000
Directorate				
Education and Transformation	105,860	105,639	(221)	7
Social Services and Wellbeing	61,944	61,937	(7)	60
Communities	24,988	25,092	104	145
Resources	14,510	14,177	(333)	(79)
Legal & Regulatory Services	6,065	5,951	(114)	(140)
Total Directorate Budgets	213,367	212,796	(571)	(7)
Total Council Wide Budgets	38,834	38,059	(775)	(100)
Total	252,201	250,855	(1,346)	(107)

3.14 At the half year stage, an overall under spend of £571,000 is projected on Directorate budgets. The main contributors are projected under spends on the Education and Transformation, Resources and Legal and Regulatory Services directorates, a projected over spend on the Communities directorate, and a projected under spend on the Council Tax Reduction Scheme (CTRS) and other corporate budgets.

3.15 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) 2016-17 to 2019-20

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 2016-17 to 2019-20 has been led by Cabinet and Corporate Management Board (CMB) and has taken into account auditors' views,

the recommendations of the Budget Research and Evaluation Panel and issues arising in 2015-16, 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. As usual Cabinet and CMB will seek to ensure that it is widely understood by internal stakeholders (Members, employees and Unions) and external stakeholders (citizens, businesses and partners). As well as linking explicitly to the Council's corporate priorities the MTFS also links to other internal resource strategies (eg ICT strategy and the Council's Workforce Plan).

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 2016-2020 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 and a MTFS Budget Reduction Contingency Reserve will be maintained.
13. Other resource strategies (including the Workforce Development Plan, Treasury Management Strategy, ICT Strategy and Asset Management Plan) are kept under review to maintain alignment with the MTFS and the Corporate Plan.
14. Budgets will be managed by Corporate Directors in accordance with the Council's Financial Procedure Rules.

Principle 12 has been expanded to include provision for a MTFS Budget Reduction Contingency Reserve to enable the Council to manage delays or unforeseen obstacles to the delivery of significant MTFS budget reduction proposals. The current financial landscape of declining external funding demands that significant budget reductions need to be made to deliver a sustainable budget. It is therefore prudent to set aside a specific reserve to provide a buffer or a safeguard against budget reductions with a RED risk status not being delivered to plan. An earmarked reserve will be established at year end from any corporate under spends at a level to be determined annually following an assessment of budget reductions categorised as 'red' and deemed material within the MTFS. This will provide additional capacity for discretionary use by the Chief Financial Officer, on consultation with CMB and Cabinet to manage inescapable problems with delivery until a solution can be found.

MTFS Resource Envelope

- 4.5 The MTFS planning assumptions for 2017-20 are based on an annual reduction in AEF of -3.2% and an assumed increase in council tax of 3.9% for 2017-18, 4.2% for 2018-19 and 4.5% for 2019-20, recognising the ongoing uncertainty around our funding in future years. The 2016-17 AEF figure is -1.2% 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

	2016-17	2017-18	2018-19	2019-20
	% Change	% Change	% Change	% Change
Best Scenario		-1.5%	-1.5%	-1.5%
Most Likely Scenario	-1.2%	-3.2%	-3.2%	-3.2%
Worst Scenario		-4.5%	-4.5%	-4.5%

- 4.6 Table 3 shows the Council's potential net budget reduction requirement based on the forecast resource envelope (paragraph 4.5), inescapable spending assumptions (paragraph 4.7) and assumed council tax increases.

Table 3: MTFS Potential Net Budget Reductions Requirement

	2016-17 Actual	2017-18	2018-19	2019-20	Total
	£000	£000	£000	£000	£000
Best Scenario	7,495	7,002	6,509	5,979	26,985
Most Likely Scenario	7,495	10,190	9,697	9,167	36,549
Worst Scenario	7,495	12,628	12,135	11,605	43,863

Managing within the MTFS Resource Envelope

- 4.7 The financial forecast is predicated on £36.549 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 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 0.3% in 2016-17, 0.2% in 2017-18 and a further 0.2% in 2018-19 in employers' pension contributions resulting from the triennial Actuarial Valuation. Teachers' pensions increased from 14.1% to 16.48% in September 2015 so there is also the additional increase in employers' contributions of 2.38% from April to August 2016.
- 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 +0.1%) plus 1%.

- Services will absorb within budgets non contractual inflationary pressures up to the prevailing CPI rate.
- Significant increases in the cost of external contracts as a result of the implementation of the living wage from April 2016.

Net budget reduction requirement

4.8 Table 4 shows the current position in respect of the addressing the forecast budget reduction requirement of £36.549 million. It shows that £17.4 million of budget reduction proposals have already been identified over the period of the MTFs, including the full £7.495 million required for 2016-17. The table shows that the Council still needs to develop proposals to the value of £19.2 million and a range of options are under consideration including:

- Digital transformation of council services
- Income generation opportunities
- Further reductions in employee numbers
- Reconfiguration of post 16 education provision;
- Working with partners to protect community facilities;
- Review of nursery education provision;

Table 4 - Risk Status of Budget Reduction Proposals 2016-17 to 2019-20

Year	GREEN: Proposal developed and deliverable	AMBER: Proposal in development but includes delivery risk	Budget reductions Identified So far	RED: proposals not yet developed	Total Required
	£000	£000	£000	£000	£000
2016-17	3,469	4,026	7,495	0	7,495
2017-18	617	4,908	5,525	4,665	10,190
2018-19	0	2,769	2,769	6,928	9,697
2019-20	0	1,583	1,583	7,584	9,167
Total	4,086	13,286	17,372	19,177	36,549
Percentage of total required	11.2%	36.3%	47.5%	52.5%	100%

Risk Status Key:

- RED** Proposals not yet developed or under consideration
- AMBER** Proposal in development, but includes delivery risk
- GREEN** Proposal developed and deliverable

4.9 The budget reduction 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 budget reduction proposals identified to date is shown in Table 5 by category. The categories are also shown by individual proposal in Appendix B.

Table 5 – Budget Reduction Proposals Identified 2016-17 to 2019-20

	2016-17	2017-18	2018-19	2019-20	Total	%
	£000	£000	£000	£000	£000	
Making Best Use of Resources	4,389	4,305	1,604	1,216	11,514	66%
Managed Service Reductions	735	504	335	0	1,574	9%
Collaboration & Service Transformation	1,221	319	163	200	1,903	11%
Policy Changes	1,150	397	667	167	2,381	14%
Total Identified as at 22.12.2015	7,495	5,525	2,769	1,583	17,372	

4.11 The table shows that two thirds of the proposed budget reductions identified so far will come from Making Best Use of Resources, for example through:

- Retendering learner transport contracts
- A safe reduction in the number of Looked after children
- Income generation from other public sector bodies
- Development of online services
- Staffing restructures

4.12 Budget reduction proposals relating to Collaboration and Service Transformation amount to 11% of the total budget reductions. These include budget reductions within the Youth Offending Service, remodelling of adult social care and delivering further budget reductions from the regulatory services collaboration which has been created. Policy changes amount to 14% and include reducing services to the statutory minimum as well as cutting some discretionary services. These include eligibility criteria for adult social care, changes to childrens respite care and increasing planning application fees in line with Welsh Government guidelines. The policy change proposals are subject to consultation.

4.13 All of the proposals have implications for the Council workforce given that around two thirds of the Council's net revenue budget relates to pay costs. It follows that annual real terms' reductions in Council budgets over the next four years will lead to a reduced workforce over the MTFS period. The intention is to manage such a reduction through the continuation of a recruitment freeze, redeployment, early retirements and voluntary redundancies, but some compulsory redundancies will continue to be necessary.

Scrutiny and Challenge

4.14 A full consultation, "Shaping Bridgend's Future" has been undertaken over an eight week period during October and November, covering both the Council's proposed new priorities as well as a range of budget proposals under consideration. The consultation included an online survey, community engagement workshops, social

media debates, community engagement stands and a meeting with third sector organisations. Members had the opportunity to take part in a budget workshop similar to the public engagement events. The results have been presented in a separate Cabinet report, (attached at Appendix D), but in broad terms a total 1,819 responses were received, with nearly 1,000 people completing the full survey. There was positive support for the majority of proposals put forward. The level of responses was significantly higher than in previous years.

- 4.15 The budget consultation showed that at least 80% of participants agreed with the three proposed priorities. However, 71% believed something was missing, citing most commonly the themes of streamlining the council, public transport and infrastructure and local business support. The majority of respondents agreed with the idea of protecting some services over others, but equally around two thirds felt that schools, an area which has received Welsh Government protection in recent years, should be expected to make efficiency savings too. 11 of the 12 budget reduction proposals put forward received majority support, with the weakest support for reductions in highway maintenance, which received 48%. A full list is given below in table 6:

Table 6 – Budget Reduction Proposals consultation response

Rank	Proposal	Introduce or increase proposed budget reduction (%)	Introduce Smaller budget reduction (%)	Cut elsewhere (%)
1	Online services	87	9	5
2	Lifeguard services	83	14	3
3	Regeneration	82	13	5
4	Looked after children	73	18	9
5	Complex homecare	72	19	9
6	Holiday support for people with a learning disability	69	24	7
7	Nursery service	66	24	10
8	Subsidised bus routes	61	30	9
9	Parks and playing fields	59	29	12
10	Street cleaning	57	27	16
11	Respite care	54	33	13
12	Highway maintenance	48	37	15

2016-17 Draft Revenue Budget

- 4.16 The following table shows the draft revenue budget for 2016-17.

Table 7 – Draft Revenue Budget 2016-17

	Revised Budget 2015-16	Specific Grant Transfers from WG	Inter-Directorate Transfers	School Protection	NI & Pension Changes	Pay / Prices / Demographics	Inescapable Budget Pressures	Budget Reduction Proposals	Revenue Budget 2016-17
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Service Budgets									
Education & Transformation									
Education & Transformation	20,548				270	29	223	-910	20,160
Schools	85,287			1,578	0	0			86,865
	105,835	0		1,578	270	29	223	-910	107,025
Social Services & Wellbeing									
Adult Social Care	40,173		-157		429	467	298	-1,544	39,666
Safeguarding	18,068				143	32		-850	17,393
Sport, Play and Active Wellbeing	2,746				16	0		-296	2,466
	60,987	0	-157	0	588	499	298	-2,690	59,525
Communities	25,075		255		290	67	70	-1,336	24,421
Resources	14,438		-105		291	36	363	-1,205	13,818
Legal & Regulatory Services	6,090				93	0		-398	5,785
Corporate Budgets									
Capital Financing	10,372		56					-300	10,128
Levies	6,912							-23	6,889
Repairs and Maintenance	1,100							-200	900
CTR Scheme	14,254					650		-300	14,604
Sleep Ins	800								800
Pension Related Costs	1,190				68				1,258
Insurance Premiums	1,634		-3			28		-100	1,559
Other Corporate Budgets	3,514	1,400	-46	-1,578		3,252	1,663	-33	8,172
Net Budget Requirement	252,201	1,400	0	0	1,600	4,561	2,617	-7,495	254,884

Council Tax Implications

4.17 Based on the proposed budget of £254.884 million, the council tax increase for 2016-17 will be 3.9%.

Pay, Prices and Demographics

4.18 At this point in time, a national pay settlement has not been agreed, but the Employers are offering 1% each year for two years. The draft budget assumes this

is accepted and the appropriate amount has therefore been allocated centrally to meet this cost, which will be allocated to directorate budgets once known.

- 4.19 Price inflation has been allocated to service budgets and includes provision for contractual increases in business rates, food costs and other commitments. In addition, provision has been made for an estimated increase in employer pension contributions from 1 April 2016.
- 4.20 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

- 4.21 During 2015-16 a number of unavoidable 2016-17 service budget pressures have arisen totalling £2.617 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 2016-17, the recurring pressures total £2.290 million. The one-off pressures total £327,000. The pressures figures are provisional at this stage and will be refined as further information becomes available, for example specific information on Welsh Government grants. As such they may change between draft and final budget.

Schools Protection and Social Services Funding

- 4.22 The draft settlement from Welsh Government included within it additional amounts in respect both of schools protection (1% above the Welsh Government's own settlement, in line with recent years) as well as in recognition of the pressures facing social care and the positive contribution it makes towards health outcomes and spending. Schools protection equates to 1.85% and the cost of this protection is £1.578 million. The funding provided for social care will help the Council to manage pressures on this service, including the impact of demographics, the living wage and support for carers.

Budget Reduction Proposals

- 4.23 Budget reduction proposals of £7.495 million have been identified from service and corporate budgets to achieve a balanced budget, detailed in Appendix B.

Corporate Budgets

- 4.24 Corporate budgets include funding for the Council tax reduction scheme, costs of financing capital expenditure, precepts and levies, centrally held pay and prices provisions, insurance budgets, discretionary rate relief, provision for redundancy related costs and the Carbon Reduction Commitment.
- 4.25 The Outcome Agreement Grant (OAG), which in 2015-16 underpins base budgets by £1.4 million, has been transferred into the main Revenue Support Grant from Welsh Government. It will therefore no longer be dependent on the achievement of specific outcomes.

Fees and Charges

- 4.26 Generally, income from fees and charges will be increased by CPI (at the prevailing rate, currently +0.1%) 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

- 4.27 In line with the MTFs principle 8, the Council will maintain its general fund at no less than £7 million in 2016-17. Details of the Council's earmarked reserves forecast as at 30 September 2015 are shown in Table 8. These are kept under review and the forecast will be updated in the Final MTFs report to Council in March 2016.

Table 8 – General Fund and Usable Earmarked Reserves

Opening Balance 1 April 2015 £'000	Reserve	Forecast Movement 2015-16 £'000	Forecast Closing Balance 31 March 2016 £'000	Forecast Movement 2016-17 £'000	Forecast Closing Balance 31 March 2017 £'000
7,450	Council Fund	-	7,450	-	7,450
	Earmarked Balances:-				
10,531	Major Claims Reserve	(51)	10,480	(250)	10,230
3,177	Insurance Reserve	(500)	2,677	(200)	2,477
210	Waste Management Contract	-	210	(210)	-
1044	Treasury Management Reserve	(1,044)	-		-
300	Welfare Reform Bill	-	300		300
702	Asset Management Plan	(202)	500	-	500
300	Building Maintenance Reserve	-	300	-	300
627	Capital feasibility fund	(41)	586	(190)	396
115	DDA Emergency Works	-	115	(35)	80
6,434	Capital Programme Contribution	811	7,245	(2,987)	4,258
4,749	Service Reconfiguration	1,277	6,026	1,200	7,226
2,398	Change Management	(362)	2,036	(300)	1,736
861	ICT & Finance Systems	(283)	578	(250)	328
261	Invest to save / Joint projects	(133)	128	(128)	-
555	Car Parking Strategy	(120)	435	(435)	-
600	Wellbeing Projects	(67)	533	(250)	283
31	Connecting Families	-	31	(31)	-
1,490	Directorate Issues	(1,490)	-	-	-
824	Looked After Children	-	824	(400)	424
125	Porthcawl Regeneration	(15)	110	-	110

42,784	Total Usable Reserves	(2,220)	40,564	(4,466)	36,098
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Capital Programme and Capital Financing Strategy

- 4.28 This section of the report deals with the proposed Capital Programme for 2016-17 to 2025-26, 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 2016-17, which provides general capital funding (GCF) for the Council for 2016-17 of £6.293 million of which £3.912 million is un-hypothecated supported borrowing and the remainder £2.381 million as general capital grant. No indicative allocations have been provided for 2017-18, so for now it is assumed that this level of funding will remain constant for the years after 2016-17, but this will be indicative only.
- 4.29 The Programme was last revised in October 2015. Since then a review has been underway to identify the Council's capital investment requirements for 2016-2025, compared to available capital receipts, against the following criteria:
- Link to proposed new corporate priorities
 - High level of Risk of not progressing, in terms of impact on service delivery, ability to meet MTFs budget reductions, and prevention of building failure and closure
 - Service is able to meet any additional revenue costs arising from the scheme
 - Payback period (where appropriate)
- 4.30 The capital programme also contains a number of fixed annual allocations that are met from the total general capital funding for the Council. These allocations are shown in Table 9 below, and currently amount to 73.73% of the 2016-17 general capital funding:

Table 9 – Current Annual Allocations of Capital Funding

	2015-16 £'000	% of 2016-17 GCF
Highways Capitalised Repairs	200	3.18%
Transportation Capitalised Repairs	250	3.97%
Disabled Facilities Grant	2,350	37.34%
Housing Renewal Schemes	100	1.59%
Special Regeneration Funding	540	8.58%
Minor Works	1,100	17.48%
Community Projects	100	1.59%
Total	4,640	73.73%

- 4.31 These annual allocations are also in the process of being reviewed, and any changes will be reported in the Final MTFS report in March 2016.
- 4.32 In addition, Council approved a contribution of £1 million per year (£5 million total across the life of the 21st Century Schools Programme), as part of the local authority matched funding contribution for the Programme. This leaves a balance of general capital funding of £653,000.

Capital Programme

- 4.33 The current programme contains a number of significant strategic investment projects that support a number of the proposed new corporate priorities. Appendix C sets out the current capital programme for the period 2016-17 to 2025-26 as approved by Council in October 2015, which will be updated for any new schemes in the MTFS 2016-17 to 2019-20 final report.
- 4.34 In October 2015, Council gave approval to the following additional capital projects:
- necessary works to the administrative estate
 - ICT investment to enable agile working
 - Updates to the 21st century schools programme
 - Community Asset Transfer support funding
 - Additions to the councils vehicle fleet
 - Sports facilities match funding

Raising Aspirations and Improving Educational Attainment

- 4.35 The Schools' Modernisation and Investment Programme forms a cornerstone of the corporate priority making smarter use of resources. 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 £22.475 million of the total costs (currently estimated at £45.510 million) for Band A priority projects, through a combination of capital grant and the Local Government Borrowing Initiative, with the balance met from Council resources. Council has agreed that this would be met from core funding allocations of £5 million, anticipated S106 funding of £5.228 million and projected receipts from the sale of schools and other sites, and central funding, of £12.747 million.
- 4.36 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.
- 4.37 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:

Project	Current Status
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Coety / Parc Derwen Primary School	Construction complete – school opened 2 nd November 2015 as per the statutory notice.
Special Education Needs Provision	Construction completed – school opened 15 th June 2015 as per the statutory notice. The Bridge Alternative Provision and education support services have transferred into the campus.
Garw Valley South Primary Provision	Revised OBC submitted to Welsh Government - awaiting approval to move to FBC. The design is being progressed.
Pencoed Primary School	Design commenced. School opening date revised to April 2018.
Gateway Primary Provision	Cabinet approved the enlargement to Brynmenyn Primary School. OBC approval has been received from WG. Appointed a cost consultant and project manager for the scheme. Cabinet approval received to tender the scheme, which will be undertaken in due course via the SEWSCAP framework
Mynydd Cynffig Primary School	Primary school opened on a split site on 1 st September 2015 as per the statutory notice. Feasibility study completed. Additional funding sought for preferred option.
Héronsbridge Special School	Exploring opportunities for additional capacity to meet needs of children with ASD.

Capital Financing Strategy

4.38 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

4.39 The Council estimates that around £21 million could be generated as part of the enhanced disposals programme, with circa £9.3 million already delivered (anticipated to reach £10 million by the end of 2015-16) and circa £11 million of capital receipts to be generated over the next three years 2016-17 to 2018-19, of which £4 million is expected to be realised in 2016-17. Of the £21 million, £8.8 million relates to school buildings and land vacated through the 21st Century Schools Programme, to be used as match funding for the programme. It also includes receipts anticipated from the sale of 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.

Prudential Borrowing

- 4.40 Prudential Borrowing totalling £41.5 million was approved by Council on 25 February 2015, which included £5.6 million of Local Government Borrowing Initiative (LGBI) funding towards the costs of the 21st Century Schools Programme.
- 4.41 Total prudential borrowing taken out by the end of 2016-17 is estimated to be £41.745 million, of which approximately £32 million is still outstanding.
- 4.42 At the time of reporting, the draft Medium Term Financial Strategy 2016-17 to 2019-20 was due to be considered by Cabinet on 12 January 2016 for them to agree to submit it for consultation.

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 Committee Members are asked to:
 - (i) Consider the information contained in the report and attached appendices;
 - (ii) Determine whether it wishes to make any comments or recommendations which fall within their remit to submit to the Corporate Resources Overview and Scrutiny Committee for consolidation and inclusion in their report to Cabinet on the draft budget proposals as part of the budget consultation process.

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December 2015
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Background Papers:

Cabinet Report – MTFS 2016-17 to 2019-20 – 14 July 2015

Council Report – Capital Programme 2015-16 to 2024-25 – 7 October 2015