

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO CABINET

6 JULY 2016

REPORT OF THE SECTION 151 OFFICER

MEDIUM TERM FINANCIAL STRATEGY 2017-18 TO 2020-21

1. Purpose of this report

- 1.1 The purpose of this report is to update Cabinet on the development of the Medium Term Financial Strategy (MTFS) 2017-18 to 2020-21.

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 2017-18.

3. Background

- 3.1 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.
- 3.2 The Council's MTFS includes all elements of the Council's financial strategy for the next four years, with particular emphasis on planned budget reductions necessary to achieve a balanced budget. 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.
- 3.3 Following the Welsh Assembly elections held in May a minority Labour led government has been formed, which includes the appointment of a new Cabinet Secretary for Finance and Local Government, Against this background, and with no clarity over Local Government Reform there remains uncertainty over local government funding., Without any further indication from Welsh Government regarding likely future settlements, the council will continue to work towards a "most likely scenario" in the MTFS of a reduction of -3.2% in Aggregate External Financing (AEF). In pursuit of further improvements to its Financial Strategy development, the council has expanded the budget development process to proactively consider how the council might respond to different settlement scenarios. These are based on a reduction in AEF of -1.5% annually in the best case and -4.5% annually in the worst case. These are as follows:

Year	Best Case £000s	Most Likely £000s	Worst Case £000s
2017-18	6,002	9,190	11,627
2018-19	6,659	9,697	11,947
2019-20	6,274	9,167	11,241
2020-21	6,084	8,839	10,746
Total Reductions	25,019	36,893	45,561

3.4 Cabinet should note that even in the best case scenario, the council would still be required to make budget reductions totalling over £25 million. Added to the £34 million which the council has reduced budgets over the last four years, this totals nearly a quarter of the council's net budget. Under the worst case scenario, this rises to over 30%. Under the Most Likely scenario, it is highly unlikely that the level of budget reductions can be delivered without changes to the level of scope of discretionary services which the council provides, involving difficult choices about which to retain versus reduce or remove.

3.4 A key planning assumption which influences the Financial Strategy and Budget Reductions development is schools' protection. During the last term of office, the previous Welsh Government administration afforded protection to schools' delegated budgets, to a level of 1% above its own settlement from Westminster as calculated by the Barnett formula. Under current MTFS assumptions, there is no protection offered to schools and the budget reductions presented to Council in March included a 1% efficiency saving from schools' delegated budgets from 2017-18 to 2019-20. If Welsh Government continue to afford protection to schools this efficiency saving cannot be met and this will put more pressure on other service area budgets. The value of school protection for 2016-17 was a £1.578 million increase in schools' delegated budgets.

4. Current Situation

MTFS development

4.1 The Corporate Plan, with its revised corporate objectives, will direct the allocation of resources in the MTFS period 2017-2021. All areas of the council will be set a 1% annual efficiency target, with further reductions over and above this targeted more heavily towards budget areas which contribute less towards the council's objectives. This approach aligns the MTFS directly with the corporate plan and supports the council in the delivery of its goals.

4.2 As well as developing proposals to meet the different scenarios, Directors are reviewing existing proposals to confirm their current status and achievability, and may make necessary changes particularly in respect of timescales and value of reductions. The table below sets out the proposals which were presented to council in March 2016.

Year	GREEN	AMBER	Total Reductions Identified	RED Total to be Identified (Most Likely)	Total Reductions Required (Most Likely)
	£'000	£'000	£'000	£'000	£'000
2017-18	617	5,003	5,620	3,570	9,190
2018-19	0	2,619	2,619	7,078	9,697
2019-20	0	1,283	1,283	7,884	9,167
2020-21	0	0	0	8,839	8,839
Total Identified	617	8,905	9,522	27,371	36,893
% of Reductions Identified	1.7%	24.1%	25.8%	74.2%	

4.3 The remaining revenue budget shortfall under a “most likely” scenario over the four years is currently estimated at £27.371 million, but may change subject to an evaluation of previous proposals.

Next Steps

4.4 Directors are leading reviews of proposals to identify options that will allow the council to meet the budget shortfall identified. This work is being carried out in consultation with the relevant cabinet portfolio holders.

4.5 Collated proposals will undergo a detailed review and assessment by officers during July and August. Following a self assessment of their work over the previous budget cycle, the members’ Budget Research and Evaluation Panel (BREP) have determined to focus future research on strategic or large scale budget reductions. In addition, they have agreed to invite the Cabinet Member – Resources to future meetings to strengthen the link between BREP and cabinet.

4.6 Once budget options have been developed, a public consultation will be held in the autumn to engage with citizens and wider stakeholders on proposals.

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 2017.

7. Financial Implications

7.1 The Council will be required to identify budget savings to achieve a balanced budget for 2017-18 and a total £36.9 million over the next four years under the most likely scenario. 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.

7.2 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.

8.0 Recommendation

8.1 Cabinet is asked to:

- Note the work being undertaken in MTFs development strategy
- Note the requirement for further budget reduction proposals totalling over £27 million over the term of the MTFs which are under development

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Background Documents:
10 March 2016 Council Report – Medium Term Financial Strategy 2016-17 to 2019-20