



SCRUTINY REPORT

Date Written	11 th January 2016
Report Author	Steve Jones
Service Area	Finance
Committee Date	27 th January 2016

To: Chair, Ladies and Gentlemen

Budget Requirement 2016/17 to 2019/20

1.0 SUMMARY OF THE REPORT

- 1.1 The report considers proposed revisions to the Medium Term Financial Plan including the implications of the Provisional Local Government Settlement 2016/17 announced on 9th December 2015.
- 1.2 The Corporate Budget Strategy, through the Transformational Change Programme, in addressing the projected budget deficit of £10 million for the period 2016/17 to 2017/18 is considered.
- 1.3 An application has been submitted to the Welsh Government for a capitalisation direction of £1 million to assist with financing the costs of service reform.
- 1.4 This report was considered at Cabinet of 27th January 2016 whereby, subject to the outcomes of Public, Employee and Trade Unions consultations together with any recommendations from the Joint Scrutiny Committee and Audit Committee, the revisions to the Medium Term Financial Plan were accepted and recommended to Council for approval.

2.0 RECOMMENDATION(S)

- 2.1 The Cabinet approved revisions (subject to the outcomes of Public, Employee and Trade Unions consultations) to the Medium Term Financial Plan 2016/17 to 2019/20 be considered and approved.

- 2.2 The Corporate Budget Strategy and Transformational Change Programme be noted.
- 2.3 The application to the Welsh Government for a capitalisation direction of £1 million be noted.

3.0 INTRODUCTION AND BACKGROUND

- 3.1 The Provisional Local Government Settlement announcement on 9th December 2015 for the 2016/17 financial year followed two key events, both of which continued the theme of financial austerity and additional funding for the National Health Service, namely:
 - Comprehensive Spending Review – announced by the Chancellor of the Exchequer on 25th November 2015
 - Welsh Government Draft Budget – announced on 8th December 2015
- 3.2 The Welsh Government's Provisional Local Government Settlement for 2016/17 is governed by the following characteristics:
 - A total revenue funding reduction for all Welsh Local Authorities of 1.37% (£56.757 million) from an adjusted 2015/16 base of £4.156 billion to £4.099 billion
 - A revenue funding reduction for Merthyr Tydfil of 0.74% (£660,000) from an adjusted 2015/16 base of £89.848 million to £89.188 million
 - Merthyr Tydfil's revenue settlement is ranked the 4th best of all 22 Welsh Local Authorities and 3rd best on a per capita basis
 - A transfer into the all Wales Revenue Settlement of £31.1 million Outcome Agreement Grant previously held as a specific grant outside of the Revenue Settlement
 - A transfer into Merthyr Tydfil's Revenue Settlement of £614,000 Outcome Agreement Grant previously held as a specific grant outside of the Revenue Settlement
 - The 1% cash protection commitment for schools is maintained
 - A standstill all Wales capital funding of £142.837 million with Merthyr Tydfil allocated £2.622 million
- 3.3 The summary Provisional Revenue Settlement and Capital Settlement for 2016/17 is included as Appendices 1 and 2 respectively and is re-produced from the documentation received from the Welsh Government.
- 3.4 The Council's Medium Term Financial Plan (MTFP) 2015/16 to 2017/18 was approved by full Council on 25th March 2015 based on a Council Tax increase of 4.5% per annum (as approved for 2015/16), with projected budget deficits derived as indicated in Table 1.

Table 1 – Reported Indicative Budget Deficits 2015/16 to 2017/18

Description	2015/16 £'000	2016/17 £'000	2017/18 £'000
Directorate Requirements	114,998	117,818	120,848
Net Severance Costs / Savings "Slippage"	1,233	1,255	1,239
Non General Fund Allocations	-1,342	-979	-835
Collection Fund Surplus	-600	-600	-600
Corporate Vacancy Factor	-200	-200	-200
Employee Related Reductions	-824	-824	-824
Net Expenditure	113,265	116,470	119,628
Available Finance	-113,265	-111,603	-109,641
Indicative Budget Deficit	0	4,867	9,987

- 3.5 It is evident from Table 1 that a budget deficit of £10 million was projected for the period 2016/17 to 2017/18 which has been consistently communicated as the projected Council funding gap throughout 2015/16.

4.0 REVISED MEDIUM TERM FINANCIAL PLAN

- 4.1 A Medium Term Financial Plan is a rolling programme, continually evolving as further information and changing circumstances become known. The following identified changes are considered within this report:

- Cabinet / Council approved adjustments
- Adjustments from updated information
- Additional pension contributions
- Implications of provisional settlement
- Schools' cash protection
- Corporate Risk Fund
- Indicative Council Tax increase

- 4.2 The financial impact of the above changes to the reported budget deficits for 2016/17 to 2017/18 are outlined in Table 2 together with projected budget deficits for 2018/19 to 2019/20 in establishing the MTFP for the 4 year period 2016/17 to 2019/20.

Table 2 – Revised Projected Budget Deficits 2016/17 to 2019/20

Description	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Budget Deficit – Council 25th March 2015	4,867	9,987	n/a	n/a
Cabinet/Council Approved Adjustments	241	323	n/a	n/a
Revised Budget Deficit	5,108	10,310	n/a	n/a
Adjustments from Updated Information	110	-249	n/a	n/a
Updated Budget Deficit	5,218	10,061	15,622	20,220
Additional Pension Contributions	0	650	****	****
Implications of Provisional Settlement	-2,882	-2,799	-2,706	-2,609
Schools' Cash Protection	1,003	1,003	1,003	1,003
Corporate Risk Fund	600	600	600	600
Indicative Council Tax Adjustment	142	504	785	1,089
Final Revised Budget Deficit	4,081	10,019	15,304	20,303

**** included in 'Updated Budget Deficit'

4.3 It is evident from Table 2 that the 'Updated Budget Deficit' position for the period 2016/17 to 2017/18 was a projected budget deficit of £10 million which was consistently advised as the projected Council funding gap throughout 2015/16. The 'Final Revised Budget Deficit' is £4.081 million for 2016/17, a projected £10.019 million for the 2 year period 2016/17 to 2017/18 and a projected £20.303 million for the 4 year period 2016/17 to 2019/20.

4.4 Sections 5 to 11 consider in further detail the required revisions to the MTFP 2016/17 to 2019/20.

4.5 The revised MTFP was presented at Budget Board on 16th December 2015 and Corporate Management Team on 21st December 2015.

5.0 CABINET / COUNCIL APPROVED ADJUSTMENTS

5.1 Revisions to the MTFP resulting from Cabinet and Council approved adjustments are outlined in Table 3 followed by detailed explanations.

Table 3 – Cabinet / Council Approved Adjustments

Description	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Contribution from Employees	412	412	n/a	n/a
Nursery Education Provision	350	352	n/a	n/a
Service Prioritisation (PwC)	-521	-441	n/a	n/a
Total	241	323	n/a	n/a

5.2 Contribution from Employees

- 5.2.1 The MTFP 2015/16 to 2017/18 included a contribution from employees of £412,000 per annum over the 3 year period in setting a balanced budget for 2015/16 and assisting in addressing the projected budget deficits for 2016/17 and 2017/18.
- 5.2.2 A number of options were considered with the most agreeable to Cabinet, Senior Management and employees being a period of mandatory unpaid leave for all employees of up to 5 days per annum as this would reduce the number of redundancies required for the 2015/16 financial year. It was recognised however that this proposal would potentially require amendments to existing employee terms and conditions and was not sustainable over the long term. In addition the proposal was not met with universal support from the Trade Unions.
- 5.2.3 Owing to robust and effective budget management by all parties throughout the 2014/15 financial year, the surplus revenue outturn position for 2014/15 allowed the Council to contribute £412,000 to the 'Efficiencies Reserve' to assist with potential future budget pressures. This was reported to Cabinet on 1st July 2015 (*"Provisional Revenue Outturn 2014/15"*) and Council on 23rd September 2015 (*"Statement of Accounts 2014/15"*).
- 5.2.4 Recognising the potential difficulties associated with the mandatory unpaid leave proposals including delays in potential implementation arising through the consultation process, the Leader of the Council communicated to all employees on 24th July 2015 that the employee contribution proposal was to be discontinued with the £412,000 budget reduction requirement financed through the 2014/15 set aside monies for the 2015/16 financial year. This leaves £412,000 to be identified for both 2016/17 and 2017/18 resulting in additions to the projected budget deficits.
- 5.2.5 No adjustment is required for the 2018/19 and 2019/20 financial years since the budget requirements and associated projected budget deficits are calculated excluding any required employee contribution.

5.3 Nursery Education Provision

- 5.3.1 Council of 22nd April 2015 (*"Nursery Education Proposal to Fund all Nursery Places Part Time from September 2015"*) revoked the decisions of Council of 28th January 2015 and 11th March 2015 in respect of nursery education provision. This resulted from:

- Widespread public interest against the proposal – including a public petition in excess of 1,000 signatories
- Legal challenge against the proposal – the gist being that the Council did not consider whether what was being proposed would result in sufficient nursery education provision for its area; instead Council proceeded on the erroneous premise that the Council’s statutory duty was to provide part-time nursery education to every three year old from the term following their third birthday.

5.3.2 Consequently Council approved the reissuing of schools’ 2015/16 formula allocations calculated based on the scheme of delegation prior to these decisions of 28th January 2015 and 11th March 2015 whereby funding for full-time nursery places is provided up to the 1979/80 FTE limit.

5.3.3 As reported to Cabinet on 29th July 2015 (*“Revenue Budget Monitoring 2015/16 – Quarter 1”*), the financial implications of the Council decision of 22nd April 2015 resulted in an additional commitment to schools of £377,000 for 2015/16. It was confirmed at Cabinet of 18th November 2015 (*“Revenue Budget Monitoring 2015/16 – Quarter 2”*) that this additional commitment be financed through a calculated reduction in the savings “slippage” provision based on current requirements.

5.3.4 As the review in respect of sufficient provision of nursery education is still ongoing the projected budget deficits for 2016/17 and 2017/18 are increased by £350,000 and £352,000 respectively.

5.3.5 No adjustment is required for the 2018/19 and 2019/20 financial years since the budget requirements and associated projected budget deficits are calculated excluding any decision in respect of sufficient nursery education provision.

5.4 Service Prioritisation

5.4.1 Council of 28th October 2015 (*“Identification of Immediate Budget Saving Opportunities”*) approved Cabinet’s recommendations in respect of 2015/16 in-year savings proposals identified by PricewaterhouseCoopers (PwC) through its service prioritisation exercise approved by Cabinet on 3rd June 2015 (*“Implementing Immediate Opportunities and Strategic Partnership Engagement”*).

5.4.2 Business Case in-year savings for 2015/16 totalled £100,000 as reported to Cabinet on 27th January 2016 (*“Revenue Budget Monitoring 2015/16 – Month 8”*). The full year impact of £521,000 and £441,000 for 2016/17 and 2017/18 respectively is outlined in Appendix 3.

5.4.3 No adjustment is required for the 2018/19 and 2019/20 financial years since the budget requirements and associated projected budget deficits are calculated including the financial implications of the PwC exercise.

6.0 **ADJUSTMENTS FROM UPDATED INFORMATION**

6.1 Appendix 4 outlines the detailed proposed adjustments to the MTFP resulting from updated information in respect of the following:

- Implications of the National Joint Council for Local Government Services pay award recommendations for 2016/17 – pay award revised from 2% to 1% and maintained at 1% for the period of the MTFP
- Implications of the single tier state pension effective from 1st April 2016
- Implications of applying the living wage provision from 1st April 2016
- Implications of recent case law in respect of holiday pay for employees regularly working above contracted hours
- Implications of Central Government's Climate Change Levy effective from 1st April 2016
- Implications of re-tendered contracts for transport and insurance
- Re-alignment of budgets to reflect both current and projected financial pressures in respect of bailiff fees, recycling and refuse collection
- Reflection of developments within the Waste Management service
- Implications of required additional borrowing to support capital investment ambitions
- Re-appraisal of budget requirements in respect of council tax benefit demands
- Reflecting changing accounting practices in respect of the treatment of Salix borrowing
- Reflecting minor service budget adjustments resulting from budget re-alignments following review of MTFP assumptions

- 6.2 The adjustments outlined in Appendix 4 result in an increase of £110,000 to the 2016/17 budget deficit and a decrease of £249,000 to the 2017/18 projected budget deficit as indicated in Table 2.
- 6.3 No adjustment is required for the 2018/19 and 2019/20 financial years since the budget requirements and associated projected budget deficits are calculated with regard to the proposed adjustments.

7.0 ADDITIONAL PENSION CONTRIBUTIONS

- 7.1 At the Rhondda Cynon Taf Pension Fund Annual Employer's Meeting on 23rd November 2015, the Fund's actuary Aon Hewitt highlighted the probability that the employer's pension contributions would significantly increase from 2017/18 following the Fund's valuation during the 2016/17 financial year.
- 7.2 Although Aon Hewitt reports that the Rhondda Cynon Taf Pension Fund is performing well, there is an inevitable upward pressure on contributions resulting from the following:
- Fall in assumed pension fund investment returns resulting from the current and future economic outlook
 - Longer life expectancy of pension fund members
 - Impact of Central Government austerity measures with greater number of employees leaving the Council than expected together with lower pay growth than anticipated

- 7.3 Aon Hewitt's outlook in respect of employer's contributions to the Rhondda Cynon Taf Pension Fund is outlined in Table 4 and demonstrates an increase in the past service pension deficit for all employers contributing to the Fund.

Table 4 – Outlook for Pension Fund Contributions

Description	31 March 2013	30 Sept 2015
Employer Future Service Rate	13.8%	16.0%
Past Service Pension Fund Shortfall	£585.0 million	£877.6 million
Deficit Contributions per annum (over 25 years)	£29.4 million	£40.4 million

- 7.4 It is evident from Table 4 that to address the past service pension fund shortfall, deficit contributions are required to increase by £11 million per annum (over 25 years) from that projected at the previous Fund valuation date of 31st March 2013 (£29.4 million) to the current projection at 30th September 2015 (£40.4 million).
- 7.5 The MTFP impact from the projected pension contribution increase is outlined in Table 5.

Table 5 – Increased Employer's Pension Contributions

Employer's Pension Contribution	2016/17	2017/18	2018/19	2019/20
Original MTFP Calculations	25.5%	26.2%	26.9%	27.6%
Revised MTFP Calculations	25.5%	29.1%	32.0%	35.0%
Increased Pension Contributions	n/a	2.9%	5.1%	7.4%
Additional Cost (£'000)	n/a	650	Not Separately Quantified	Not Separately Quantified

- 7.6 It is evident from Table 5 that a projected £650,000 employer's pension contribution is required for the 2017/18 financial year. The financial impact for 2018/19 and 2019/20 have not been separately quantified since the budget requirement and associated projected budget deficits are calculated with regard to the projected pension contribution increase. It is recognised however that the financial liability significantly exceeds that projected for 2017/18.

8.0 IMPLICATIONS OF PROVISIONAL SETTLEMENT

- 8.1 The Welsh Government's Provisional Local Government Settlement was announced on 9th December 2015 and resulted in a reduction in Aggregate External Finance

(AEF) for 2016/17 of 0.74% for Merthyr Tydfil County Borough Council. No indications were provided in respect of indicative future year settlements thus inhibiting Local Authorities' ability to effectively plan over the medium term.

- 8.2 Owing to the delay in the announcement of the provisional settlement, resulting from the Comprehensive Spending Review only being announced in late November 2015, the provisional settlement included the actual council tax base for 2016/17 instead of the previous year's tax base as in previous financial years. The 2016/17 base was approved by Council on 2nd December 2015 ("*Council Tax Base for 2016/17*").
- 8.3 The MTFP impact from the provisional settlement is outlined in Table 6 and demonstrates increased spending power of £2.882 million for 2016/17.

Table 6 – Implications of Provisional Local Government Settlement

Description	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
<u>Aggregate External Finance (AEF)</u>				
Original MTFP	86,548	83,457	80,061	76,458
Provisional Settlement	89,188	86,004	82,503	78,791
Increase in AEF	-2,640	-2,547	-2,442	-2,333
<u>Council Tax Levy</u>				
Original Council Tax Base	25,056	26,184	27,362	28,593
Final Council Tax Base	25,298	26,436	27,626	28,869
Increase in Council Tax Levy	-242	-252	-264	-276
Net Impact of Provisional Settlement	-2,882	-2,799	-2,706	-2,609

8.4 Aggregate External Finance (AEF)

- 8.4.1 The AEF consists of the total of Revenue Support Grant (RSG) and Redistributed Non Domestic Rates and includes the transfer into the revenue settlement of £614,000 Outcome Agreement Grant for 2016/17. This grant was previously held outside of the settlement as a specific grant and was linked to performance measure outcomes.
- 8.4.2 Table 7 compares the budgeted AEF within the original MTFP with the revised finance assumptions included in the updated MTFP for 2016/17 to 2019/20.

Table 7 – Aggregate External Finance (AEF)

Description	2016/17 %	2017/18 %	2018/19 %	2019/20 %
Original Budgeted AEF	-3.07	-3.57	-4.07	-4.50
Revised AEF	-0.74	-3.57	-4.07	-4.50

8.4.3 Although it is evident from Table 7 that the Council has provisionally received a better than anticipated revenue settlement for 2016/17, no revisions to estimated revenue settlements for 2017/18 to 2019/20 are proposed owing to the following:

- The continuing austerity measures projected to be faced by Local Government over the medium term and the impact to potential future Local Government funding from continued financial pressures experienced in the National Health Service
- The Welsh Government's continuing 1% cash protection commitment for schools

8.5 Council Tax Levy

8.5.1 The increased spending power implications resulting from the council tax levy are based on the following principles over the 4 year period of the MTFP:

- Council Tax increase of 4.5% per annum
- Council Tax collection rate of 96%
- Council Tax base of 17,896.23 (17,725.11 for 2015/16)

9.0 **SCHOOLS' CASH PROTECTION**

9.1 The Minister for Public Services in his announcement of the Provisional Local Government Settlement for 2016/17 confirmed Welsh Government's continued financial commitment to schools. As a result the Council is expected to maintain the cash protection for schools at 1% above Welsh Government's funding from Central Government.

9.2 Table 8 indicates the Welsh Government's Draft Budget for 2016/17 in respect of funding received from Central Government.

Table 8 – Welsh Government Draft Budget

Description	2015/16 £billion	2016/17 £billion	2017/18 £billion	2018/19 £billion	2019/20 £billion
Capital	1.46	1.53	1.52	1.57	1.65
Revenue	12.92	13.03	13.15	13.21	13.29
Total	14.38	14.56	14.67	14.78	14.94
Increase in Revenue Funding	-0.4%	+0.85%	+0.92%	+0.46%	+0.61%
Potential Schools' Cash Protection	+0.6%	+1.85%	+1.92%	+1.46%	+1.61%

9.3 From Table 8 it is evident that the schools' cash protection for 2016/17 is 1.85% and has the following impact upon the MTFP and the Individual Schools Budget (ISB) for 2016/17.

- 1) Current MTFP – ISB commitment of £36.391 million
- 2) Growth Requirement – provisional schools growth requirement, reflecting pay awards, increased national insurance contributions and pension costs, salary incremental progressions and increased pupil numbers, of £1.299 million
- 3) Cash Protection – application of 1.85% cash protection, including ISB surplus prior year adjustment, equates to £1.003 million
- 4) Schools' Budget Reductions – required budget reductions identified by schools equate to the Growth Requirement (£1.299 million) less Cash Protection (£1.003 million), that is £296,000

9.4 The Schools Forum was advised by the Chief Finance Officer on 14th December 2015 of the schools' budget reduction requirement of £296,000 for 2016/17. This requirement was agreed by the Schools Forum as its Task and Finish Group had been tasked with identifying opportunities for budget reductions throughout the 2015/16 financial year.

10.0 CORPORATE RISK FUND

10.1 As indicated in paragraph 8.4.1 the former Outcome Agreement Grant of £614,000 was transferred into the revenue settlement for 2016/17 instead of held outside the settlement as a specific grant as in previous years.

10.2 Previously Merthyr Tydfil excluded the Outcome Agreement Grant from its budget setting procedures and instead utilised the grant to assist with specific projects or expenditure deemed to be adding value and meeting corporate priorities.

10.3 The Budget Board in considering the monthly revenue budget monitoring reports throughout 2015/16 proposed the creation of a contingency or innovation fund to support the following requirements:

- Addressing unavoidable in-year budget pressures
- Required investment in innovative projects with longer term benefits

10.4 It is proposed that a 'Corporate Risk Fund' be created with an annual budget commitment of £600,000 for the period 2016/17 to 2019/20.

11.0 INDICATIVE COUNCIL TAX INCREASE

11.1 In the Minister for Public Services' announcement of a better than anticipated provisional revenue settlement for 2016/17 there was an implied expectation for Local Authorities to earnestly review their plans for Council Tax for 2016/17 by restricting any increase to the minimum possible.

- 11.2 Merthyr Tydfil's original MTFP was based upon a Council Tax increase of 4.5% per annum. In responding to the Minister for Public Services' expectation the revised MTFP is modelled upon a decrease of 1% at an indicative Council Tax increase of 3.5% for 2016/17. For the purposes of the MTFP this modelled 3.5% Council Tax increase is maintained over the period 2016/17 to 2019/20.
- 11.3 The financial implications of an indicative 1% reduction in the provisional Council Tax increase are outlined in Table 9.

Table 9 – Implications of Indicative 3.5% Council Tax Increase

Financial Year	Spending Power at 4.5% CT Increase £'000	Spending Power at 3.5% CT Increase £'000	Spending Power Reduction £'000	Biffa Profit Share £'000	Net Reduction £'000
2016/17	114,485	114,243	242	-100	142
2017/18	112,440	111,936	504	0	504
2018/19	110,129	109,344	785	0	785
2019/20	107,660	106,571	1,089	0	1,089

- 11.4 Council of 4th November 2015 approved the utilisation of £100,000 of the Biffa Profit Share contribution, received from Biffa Waste Services in respect of its audited 2014/15 accounts, to assist with reducing the Council Tax increase for 2016/17.
- 11.5 From Table 9 it is evident that a reduction in the modelled Council Tax increase by 1% to 3.5% for 2016/17 results in an additional financial obligation of £142,000, net of the Biffa Profit Share contribution.

12.0 COUNCIL BUDGET STRATEGY

- 12.1 The immediate Council Budget Strategy is focused on identification of the required £10 million budget reductions for the 2 year period 2016/17 to 2017/18, through the Council's Transformational Change Programme.
- 12.2 Cabinet of 3rd June 2015 (*"Implementing Immediate Opportunities and Strategic Partnership Engagement"*) approved the procurement of a strategic partner to assist the Council in achieving its strategic transformational ambitions in meeting the following objectives:
- Delivery of the Council's corporate priorities and achievement of its target outcomes
 - Delivery of the Transformation Programme
 - Continue to ensure the financial stability of the Council
- 12.3 Council of 9th September 2015 (*"Strategic Partner Appointment"*) approved the appointment of PricewaterhouseCoopers (PwC) as the Council's Strategic Partner.

12.4 The Council's Transformational Programme is expected to realise £11.3 million of budget reductions over the 2 year period 2016/17 to 2017/18 whilst delivering better, more efficient services to the customer under the "better for less" concept. The Transformational Change Programme with indicative target budget reductions incorporates the following work streams:

- Customer Services – £2 million
- Back Office and Strategic Support Service Costs – £0.9 million
- Procurement – £3.4 million
- Income and Service Cost Recovery – £2 million
- Collaborative Arrangements – £1 million
- Outcome Focused Redesign – £2 million

As approved by Cabinet on 21st October 2015 ("*Strategic Partner – Commencement of Projects: Customer Offering and Procurement*") PwC as the Council's Strategic Partner is leading on the Customer Services and Procurement work streams.

12.5 The Customer Services work stream has the following characteristics and objectives:

- The development and implementation of a customer strategy which includes a clear approach to channel shift. A strategy based on genuine customer insight to exploit existing lower cost processes will enable a more tailored customer approach and a richer experience.
- Increased use and focus of the Customer Contact Centre to limit enquiries being passed to higher cost staff within service areas. The Contact Centre should be equipped to deal with the majority of queries.
- An improved digital offering including a website that is transactional, automated, proactive and mobile friendly, encouraging self-service. This will reduce the volume of face-to-face and telephone enquiries.
- The implementation of strategic technology where appropriate and cost-viable.
- Better use of data analytics and reporting to provide a consistent Council wide view of the customer that enables the deployment of preventative services rather than more costly reactive services.

12.6 The Back Office and Strategic Support Services work stream has the following characteristics and objectives:

- Review and restructure provision of both back office and strategic support services
- Identify where employees are completing similar activities providing the opportunity to share best practice
- Clearly defined roles will provide a level of flexibility within the workforce enabling better deployment of resources to cover during periods of absence
- Strengthening the areas of specialism and clearly defining all roles and responsibilities provides employees the opportunity to focus on their areas of expertise, driving consistency and best practice
- Recognising employee skills means they will be fully optimised and deployed where the strategic need is greatest

12.7 The Procurement work stream has the following characteristics and objectives:

- The development and implementation of a procurement strategy that aligns with the corporate strategy and wider business. The Procurement Strategy is being presented for approval at Council on 27th January 2016.
- Focus on category management developing capability and a robust approach. Initiated by a detailed review of current third party spend and a rationalisation of the supplier base.
- Standardisation of processes and enforcement of compliance to eliminate the culture of off-contract spend.
- Increased use of e-sourcing and e-procurement solutions to reduce the administrative burden of procurement
- Detailed review of the opportunities for integration with the Finance function and its processes including a review of the current Purchase to Pay system and analysis of alternatives that may be better integrated, such as the existing Financial Management System.

12.8 The Income and Service Cost Recovery work stream has the following characteristics and objectives:

- Development and implementation of an Income Strategy agreeing a Council wide approach to income management. This includes developing an income management policy and principles and an approach to calculating service cost recovery.
- A review of all current fees and charges, benchmarking against other local authorities and ensuring cost recovery opportunities are being realised.
- Identification of new opportunities for income generation.

12.9 The Collaborative Arrangements work stream has the following characteristics and objectives:

- Undertake cost/benefit review of current arrangements
- Where possible negotiate improved terms with existing arrangements and cease arrangements not providing value for money

12.10 The Outcome Focused Redesign work stream considers the outcomes the Council is aiming to achieve and the most appropriate method of delivery. It defines the Council's "to be" state and underpins the whole Transformational Change Programme. This exercise is fundamental in ensuring the £20 million projected budget deficit for the 4 year period of the MTFP is addressed and that decisions are linked to the Council's strategic ambitions.

12.11 Delivery of the Transformational Change Programme and the anticipated budget reductions will be monitored throughout 2016/17 by the Change Management Board supported by the Transformation Steering Group.

13.0 OTHER CONSIDERATIONS

- 13.1 On 14th January 2016 the Authority applied to the Welsh Government for a capitalisation direction for £1 million to assist with the costs arising in 2016/17 from service reform. If successful this would enable the Council to finance costs of employee severance through capital receipts thus alleviating the financial burden on the revenue budget.
- 13.2 The Welsh Government has a total of £5.7 million available for 2016/17 and invited applications from Local Authorities by 15th January 2016. Cabinet will recall that the Council was successful in receiving a capitalisation direction for £888,000 for 2015/16.

14.0 FINANCIAL IMPLICATION(S)

- 14.1 The revised MTFP for 2016/17 to 2019/20 currently projects a budget deficit of £4.081 million for 2016/17 and £20.303 million over the 4 year period of the MTFP.

GARETH CHAPMAN
CHIEF EXECUTIVE

COUNCILLOR PHIL WILLIAMS
CABINET MEMBER FOR GOVERNANCE
AND CORPORATE SERVICES

BACKGROUND PAPERS		
Title of Document(s)	Document(s) Date	Document Location
Medium Term Financial Plan 2015/16 to 2017/18	25 th March 2015	Council agenda and minutes / Finance Department
Provisional Local Government Settlement 2015/16	9 th December 2015	Finance Department
Budget Requirement 2016/17 to 2019/20	27 th January 2016	Cabinet agenda and minutes / Finance Department
Medium Term Financial Plan / Budget Working Papers	February 2015 to January 2016	Finance / Directorates
Does the report contain any issue that may impact the Council's Constitution?		No

WELSH LOCAL GOVERNMENT SETTLEMENT 2016-17

Provisional

Table 1a: Change in Aggregate External Finance (AEF), adjusted for transfers, by Unitary Authority

£000s

Unitary authority	2015-16 final AEF*	2016-17 provisional AEF	% change	Rank
Isle of Anglesey	93,841	91,925	-2.0%	17
Gwynedd	169,847	166,990	-1.7%	14
Conwy	152,740	149,429	-2.2%	18
Denbighshire	141,294	139,602	-1.2%	10
Flintshire	187,535	184,743	-1.5%	12
Wrexham	172,036	169,761	-1.3%	11
Powys	175,692	168,488	-4.1%	22
Ceredigion	100,010	96,570	-3.4%	21
Pembrokeshire	161,375	156,932	-2.8%	19
Carmarthenshire	254,306	251,685	-1.0%	8
Swansea	310,525	307,754	-0.9%	5
Neath Port Talbot	206,637	205,567	-0.5%	2
Bridgend	189,561	187,508	-1.1%	9
The Vale Of Glamorgan	153,530	150,443	-2.0%	16
Rhondda Cynon Taf	357,009	353,769	-0.9%	6
Merthyr Tydfil	89,848	89,188	-0.7%	4
Caerphilly	265,723	263,293	-0.9%	7
Blaenau Gwent	110,959	109,252	-1.5%	13
Torfaen	131,538	129,296	-1.7%	15
Monmouthshire	94,379	91,439	-3.1%	20
Newport	210,565	209,133	-0.7%	3
Cardiff	426,860	426,285	-0.1%	1
Total Unitary Authorities	4,155,809	4,099,052	-1.4%	

WELSH LOCAL GOVERNMENT SETTLEMENT 2016-17

Provisional

Table 2a: Breakdown of General Capital Funding (GCF), by Unitary Authority, 2016-17

Unitary authority	General Capital Funding 2016-17 (1)	of which:	
		General Capital Grant (2)	Unhypothecated Supported Borrowing (3)=(1)-(2)
Isle of Anglesey	3,530	1,335	2,195
Gwynedd	6,650	2,516	4,134
Conwy	5,496	2,079	3,417
Denbighshire	4,868	1,842	3,026
Flintshire	6,725	2,544	4,181
Wrexham	5,659	2,141	3,518
Powys	7,490	2,834	4,656
Ceredigion	4,693	1,775	2,918
Pembrokeshire	6,063	2,294	3,769
Carmarthenshire	9,406	3,558	5,848
Swansea	10,242	3,875	6,367
Neath Port Talbot	7,058	2,670	4,388
Bridgend	6,293	2,381	3,912
The Vale Of Glamorgan	5,419	2,050	3,369
Rhondda Cynon Taf	11,159	4,222	6,937
Merthyr Tydfil	2,622	992	1,630
Caerphilly	8,030	3,038	4,992
Blaenau Gwent	3,197	1,209	1,988
Torfaen	4,325	1,636	2,689
Monmouthshire	3,870	1,464	2,406
Newport	6,552	2,479	4,073
Cardiff	13,490	5,103	8,387
Total Unitary Authorities	142,837	54,037	88,800

(1) General Capital Funding is split into Unhypothecated Supported Borrowing (USB) and General Capital Grant (GCG).

(2) General Capital Grant is distributed in proportion to total General Capital Funding.

(3) The USB is derived by subtracting the General Capital Grant allocations from the General Capital Funding.

Budget Requirement 2016/17 to 2018/19**Service Prioritisation Exercise**

Ref.	Service	Proposal	Budget Reduction 2016/17 £'000	Budget Reduction 2017/18 £'000
1	Adult Services - Business Services - Financial Management Services	Deletion of vacant part-time Clerical Assistant Post	-10	-10
2	Adult Services - Daytime Activities - Outside Projects	Operational budget reductions in respect of the hydroponic facilities within the Greenhouses	-1	-1
3	Adult Services - Meal Charges	Cost recovery for the provision of meals at the Health Park	-12	-12
4	Community Regeneration - Orbit Business Centre	Cost recovery for Orbit Business Centre	-21	-13
5	Corporate Services - 2nd Class Post	Reduction of correspondence by 1st Class Post	-15	-15
6	Corporate Services - Organisational Discount	Discontinue subsidy payment to Leisure Trust in respect of employee discount for use of leisure facilities	-2	-2
7	Corporate Services - Radio Mast	Historical redundant budget	-1	-1
8	Education - Grants to Organisations	Cease payment of subscription to Swansea Institute in respect of governor support	-1	-1
9	Education - School Milk	Schools charged for unconsumed milk	-6	-6
10	Education -WJEC SLA	Savings resulting from nationally renegotiated contribution to WJEC	-5	-5
11	Neighbourhood Services - Bulky Waste	Savings resulting from review of fees and charges	-11	-11
12	Neighbourhood Services - Bins at New Developments	Introduction of charging Developers for bins required at new build developments	-3	-3
13	Neighbourhood Services - Bereavement Services	Cost recovery for the bereavement services function	-136	-68
14	Neighbourhood Services - Grounds Maintenance	Increase fees and charges for sports fields	-38	-38
15	Trading Standards - Team Restructure	Savings resulting from Licensing/Trading Standards restructure net of loss of income through new licensing laws	-9	-9
16	Neighbourhood Services - JCB Hire	Saving arising from leasing vehicle	-34	-34
	Total Business Case Reductions		-305	-229
17	Review of Third Party Expenditure	Review of all budget lines resulting in realignment where appropriate	-216	-212
	Total Service Prioritisation Reductions		-521	-441

Budget Requirement 2016/17 to 2018/19
Adjustments from Updated Information

Ref.	Description	Budget Reduction 2016/17 £'000	Budget Reduction 2017/18 £'000	Comments
1	Pay Award Revision	-337	-622	Amended from 2% to 1% per annum as per National Joint Council for Local Government Services
2	National Insurance Contributions	495	0	Single tier state pension from April 2016, originally anticipated from April 2017
3	Application of Living Wage Provision	59	166	Based on Chancellor of the Exchequer's Allowance of £7.20 per hour for 2016/17 rising to £9 per hour by 2020/21. Also includes an estimate for grade "creep" and/or application of the "real" living wage of £7.80 per hour for 2016/17.
4	Holiday Pay Estimate	125	125	Response to recent case law in respect of holiday pay for employees regularly working above contracted hours – Cabinet 16 th December 2015
5	Energy Levy	50	50	Climate Change Levy (CCL) in relation to gas and electricity based on Kwh used
6	Bailiff Fees Income	101	93	Reduction in the budgeted bailiff fees and court costs income resulting from fewer cases being taken to court
7	Transport Re-tender of Contracts	-84	-100	Reduction in the cost of home to school transport resulting from procurement exercise – Cabinet 15 th July 2015
8	Insurances	-80	-104	Reduction in insurance premium owing to reduced number of claims and revised claims strategy together with a reduction arising from the insurance tender process – Cabinet 13 th January 2016
9	Capital Financing Costs	-293	-339	Savings arising from the Salix borrowing in respect of street lighting whereby cost of borrowing repaid over longer term
10	Council Tax Reduction Scheme	-200	-260	Reduction based on current and projected demand and trend analysis
11	Sustainable Waste Management	182	223	Relates to reduction in the recycling income budget to reflect current estimates together with a provision for the treatment of unsorted recyclable materials (from flats)
12	Refuse	134	174	Relates to additional financial pressures including a provision for an agency worker and vehicle to provide a regular service for the delivery of bins/recycling containers
13	Waste Disposal	-28	-103	Reduction relates to revised waste volume (from 11,750 to 11,880 tonnes) and price (from £107 to £103.15 per tonne)
14	Residual Waste Grant	-288	-288	Welsh Government Grant secured as an incentive for procuring a long term contract for the disposal of waste through an 'Energy from Waste' plant. Joint procurement exercise between Merthyr Tydfil, Rhondda Cynon Taf, Blaenau Gwent and Torfaen with contract commencing 1 st April 2016.
15	Single Environment Grant	66	66	Reflects a 6.4% reduction in the all Wales figure for 2016/17. MTCBC grant for 2015/16 equates to £1.031 million.
16	Capital Financing Costs	280	606	Projected additional long-term borrowing costs resulting from capital expenditure in respect of potential investment costs associated with the transformational change strategy, purchase of land and buildings and re-profiling of capital funding in the event of a potential capitalisation direction bid for service reform for 2016/17
17	South Wales Fire and Rescue Service levy	22	22	Notified increase in proposed levy for 2016/17 currently out to consultation.
18	Other Adjustments	-94	42	Relates to a number of miscellaneous adjustments revising previous understanding of service commitments resulting from updated information
	Total	110	-249	