



SCRUTINY REPORT

Date Written	15 th February 2016
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Service Area	Finance
Committee Date	24 th February 2016

To: Chair, Ladies and Gentlemen

Budget Requirement 2016/17 to 2019/20 - Update

1.0 SUMMARY OF THE REPORT

- 1.1 Cabinet approved updates to the Medium Term Financial Plan were considered at the Joint Scrutiny/Audit Committee of 27th January 2016 where a projected budget deficit of £4.081 million for 2016/17 and £20.303 million for the period 2016/17 to 2019/20 were noted.
- 1.2 Cabinet of 24th February 2016 noted the implications of the updated Provisional Local Government Settlement for 2016/17 revising the projected budget deficits to £4.079 million for 2016/17 and £20.302 million for the period 2016/17 to 2019/20.
- 1.3 Cabinet of 24th February 2016 recommended to the Council of 2nd March 2016, a Budget Requirement of £114.245 million and Council Tax increase of 3.5% for 2016/17.
- 1.4 Projected budget reductions of £4.259 million resulting from the Council's Change Management Programme are anticipated for 2016/17.
- 1.5 The Council has the potential flexibility to utilise capital receipts of £750,000 per annum for the period 2016/17 to 2018/19 to finance the revenue costs of service reform.

2.0 RECOMMENDATION(S)

- 2.1 The revised budget deficits of £4.079 million for 2016/17 and £20.302 million for 2016/17 to 2019/20 be noted.
- 2.2 The ongoing progress with the change management work streams in addressing the projected budget deficit of £4.079 million for 2016/17 be considered and noted.
- 2.3 The Minister for Public Services' direction in respect of flexibility in respect of utilisation of capital receipts be noted.

3.0 INTRODUCTION AND BACKGROUND

- 3.1 A Medium Term Financial Plan is a rolling programme, continually evolving as further information and changing circumstances become known. At Council of 25th March 2015, it was noted that the indicative budget deficit was £4.867 million for 2016/17 and £9.987 million for the 2 year period 2016/17 to 2017/18.
- 3.2 The Joint Scrutiny/Audit Committee of 27th January 2016 considered revisions to the Medium Term Financial Plan (MTFP), approved by Council 25th March 2015, resulting from the following:
 - **Cabinet / Council approved adjustments** – in respect of employee terms and conditions, nursery education provision and immediate budget reduction opportunities
 - **Adjustments from updated information** – including employee pay award, single tier pension, living wage provision, re-tendering of contracts, waste management, capital financing costs and other miscellaneous requirements
 - **Additional pension contributions** – potential implications of the Rhondda Cynon Taf Pension Fund's 2016/17 actuarial valuation
 - **Implications of provisional settlement** – a better than anticipated provisional revenue settlement for 2016/17 of a reduction of 0.74%
 - **Schools' cash protection** – 1% above the Welsh Government's revenue settlement from the Treasury (+0.85%) at +1.85% for 2016/17
 - **Corporate Risk Fund** – proposal to create a fund to replicate the former Outcome Agreement Grant
 - **Indicative Council Tax increase** – impact of a 1% reduction in the indicative Council Tax increase from 4.5% to 3.5%
- 3.3 The revised MTFP for 2016/17 to 2019/20 resulting from the adjustments indicated in paragraph 3.2, together with associated projected budget deficits, is outlined in Table 1, and, subject to consultation, was supported by Cabinet of 27th January 2016.

Table 1 – Revised MTFP 2016/17 to 2019/20

Description	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Directorate Requirements	118,380	121,784	124,377	126,603
Net Severance Costs/Slippage	1,223	1,206	1,206	1,206
Corporate Risk Fund	600	600	600	600
Non General Fund Allocations	-979	-835	-835	-835
Collection Fund Surplus	-600	-600	-600	-600
Corporate Vacancy Factor	-200	-200	-100	-100
Biffa Profit Share Contribution	-100	0	0	0
Net Expenditure	118,324	121,955	124,648	126,874
Available Finance	-114,243	-111,936	-109,344	-106,571
Revised Budget Deficit	4,081	10,019	15,304	20,303

3.4 It is evident from Table 1 that the revised projected budget deficit for the period 2016/17 to 2017/18 is circa £10 million which was consistently advised as the projected Council funding gap throughout 2015/16.

4.0 UPDATED PROVISIONAL LOCAL GOVERNMENT SETTLEMENT

4.1 On 10th February 2016 the Minister for Public Services published an update to the Provisional Revenue Settlement for 2016/17, attached as Appendix 1, to reflect:

- Minor amendments to the Revenue Settlement's underlying data
- 'Top up' funding for three Local Authorities (Powys, Ceredigion and Monmouthshire) totalling £2.499 million to ensure no Authority receives a revenue settlement budget reduction in excess of 3%

4.2 The updated Aggregate External Finance of £89.189 million results in a reduction in funding of 0.73% for 2016/17, compared to the provisional settlement's reduction of 0.74%. This results in updated finance available, or Council spending power, for 2016/17 as outlined in Table 2.

Table 2 – Updated Finance Available 2016/17 to 2019/20

Description	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Provisional Settlement	-114,243	-111,936	-109,344	-106,571
Updated Settlement	-114,245	-111,938	-109,345	-106,572
Increased Finance	-2	-2	-1	-1

- 4.3 The impact of the marginal additional Council spending power on the projected budget deficits is outlined in Table 3, whereby the projected budget deficit for 2016/17 is reduced to £4.079 million and for 2016/17 to 2019/20 to £20.302 million.

Table 3 – Revised Budget Deficits 2016/17 to 2019/20

Description	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Budget Deficit (Cabinet 27 th January 2016)	4,081	10,019	15,304	20,303
Increase in Finance Available	-2	-2	-1	-1
Revised Budget Deficit	4,079	10,017	15,303	20,302

- 4.4 Cabinet of 24th February 2016 (*“Budget Requirement and Council Tax 2016/17”*) agreed and recommended to Council of 2nd March 2016 for approval:
- A Council Tax increase of 3.5% for 2016/17
 - A Budget Requirement of £114.245 million for 2016/17
- 4.5 The Final Local Government Settlement for 2016/17 is to be announced on 2nd March 2016, and debated by the Welsh Government on 10th March 2016. Indications from Welsh Government officials suggest that no adjustments to the updated provisional settlement are anticipated.

5.0 COUNCIL BUDGET STRATEGY

- 5.1 The immediate Council Budget Strategy is focused on identification of the required circa £10 million budget reductions for the 2 year period 2016/17 to 2017/18, through the Council’s Transformational Change Programme.
- 5.2 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 incorporates the following work streams:
- Customer Offering
 - Back Office Administrative Support
 - Strategic Support Services
 - Procurement
 - Income and Service Cost Recovery
 - Outcome Focused Redesign

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 Offering and Procurement work streams.

5.3 Progress against each work stream in addressing the immediate objective of identifying budget reductions of £4.079 million for 2016/17 is ongoing and is considered in paragraphs 5.4 to 5.8.

5.4 Customer Offering

5.4.1 The key objective of this work stream is *“to create a future state model to support the delivery of cost reduction savings whilst providing a stable and sustainable approach to the management of customer activities from June 2016 onwards”*.

5.4.2 The business case produced by the Council’s Strategic Partner, PwC, estimates annual gross recurring savings of **£1.6 million** with a reduction of 50.5 full time equivalent employees. This excludes Social Care which is subject to a separate review within the Procurement work stream.

5.4.3 The two themes encapsulating this work stream are:

- Channel shift – shifting customer management activity from expensive channels, for example face to face, to cheaper on-line channels. This involves the use of automation in the Contact Centre and Service areas, shifting simple transactions on-line, customer meetings by appointment only, no direct external calls to service areas and introduction of Interactive Voice Response (IVR) to route calls more effectively and improve customer experience.
- Process simplification – stopping of unnecessary activities with better integration across the Council.

5.5 Back Office Administrative Support / Strategic Support Services

5.5.1 To date, in reconfiguring administrative and strategic support services in line with the Council’s ‘Operating Model Design’, opportunities in respect of Voluntary Redundancy, Voluntary Early Retirement and the deletion of vacant posts have been identified and realised.

5.5.2 Further opportunities are currently being explored and business cases developed, the first of which presented to Cabinet on 24th February 2016 (*“MTCBC Change Programme – Projects Report 3”*).

5.5.3 It is anticipated that budget reductions of circa **£300,000** will be realised in 2016/17 from these two work streams.

5.6 Procurement

5.6.1 To date opportunities equating to budget reductions of circa **£2 million** have been identified encompassing fleet management, waste, transport, agency staff, buildings facilities management, grounds maintenance and information technology.

5.6.2 Strategic Sourcing Plans (SSP's) have been developed by the Council's Strategic Partner, PwC, for Fleet Management, Agency Staff and Procurement Governance and are currently subject to review.

5.6.3 A separate exercise within the procurement work stream has been commissioned, with PwC currently undertaking a comprehensive review of Social Care strategic commissioning and contracting.

5.7 Income and Service Cost Recovery

5.7.1 A detailed report has been prepared for the income and service cost recovery work stream which is currently in the process of review before being presented to Cabinet (provisionally 23rd March 2016).

5.7.2 New budget reduction opportunities, from increased income generation and/or service cost reduction, of between **£778,000 and £1.295 million** have been identified for 2016/17.

5.7.3 An Income Management and Cost Recovery Policy has been developed, supported by defined principles. The purpose of this policy is to establish a corporate framework within which fees and charges are levied by the Council, are agreed and regularly reviewed by determining general principles by which the Council will operate.

5.8 Outcome Focused Redesign

5.8.1 Chief Officers have led the process of aligning service budget requirements and priorities to the corporate strategy through the development of strategies on a page supported by project plans in determining both service and financial requirements.

5.8.2 Outcome focused redesign of all Council services will enable the 'Operating Model Design', presented to Cabinet on 7th October 2015 ("*Operating Model Design and Immediate Opportunities*"), to be realised.

5.8.3 Initial Business Cases relating to this work stream were presented to Council on 2nd December 2015 ("*MTCBC Change Programme – Projects Report 1*") and 27th January 2016 ("*MTCBC Change Programme – Projects Report 2*"). Budget reductions of circa **£1 million** are anticipated for this work stream in 2016/17.

5.9 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 Change Management Steering Group. Following Cabinet recommendation for approval, detailed budget reduction opportunities will be presented before the Joint Scrutiny/Audit Committee for consideration.

6.0 FLEXIBLE USE OF CAPITAL RECEIPTS

6.1 The Joint Scrutiny Committee of 27th January 2016 noted the Authority's application to the Welsh Government for a capitalisation direction for £1 million to assist with the

costs arising in 2016/17 from service reform. This would enable the Council to finance costs of employee severance through capital receipts thus alleviating the financial burden on the revenue budget.

- 6.2 Following the Chancellor of Exchequer's Spending Review announcement on 25th November 2015, allowing English Local Authorities additional flexibility to finance revenue costs of reform projects through capital receipts, the Welsh Government's Minister for Public Services notified Welsh Local Authorities on 9th February 2016 of his intention to allow Welsh Local Authorities the same flexibility.
- 6.3 Under sections 16(2) (b) and 20 of the Local Government Act 2003, Local Authorities in Wales may treat as capital expenditure and finance through 100% of capital receipts from the sale of fixed assets for the same accounting period, in line with the following criteria:
- Expenditure incurred on the revenue costs of projects designed to reduce future revenue costs and/or transform service delivery
 - Expenditure properly incurred during the financial years ending on 31st March 2017, 31st March 2018 and 31st March 2019

The specific example of qualifying expenditure appropriate to Merthyr Tydfil is:

“Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation”

- 6.4 It should be noted that the value of revenue expenditure eligible for capitalisation in any given financial year is restricted to the amount of new capital receipts realised in that same financial year, and is only in relation to the 2016/17, 2017/18 and 2018/19 financial years. Based on current and projected future fixed asset sales, the Council has an estimated £750,000 new capital receipts available per annum.
- 6.5 In addition capital receipts utilised to finance revenue service reform expenditure reduces the available finance to support the Council's capital projects, unless unsupported borrowing is used as an alternative funding mechanism. Additional unsupported borrowing will increase the Council's revenue capital financing costs commitment and consequently the revenue costs of supporting a potential additional £750,000 per annum unsupported borrowing for the 3 year period 2016/17 to 2018/19 is accommodated within the MTFP projected budget deficits indicated in Table 1.

7.0 FINANCIAL IMPLICATION(S)

- 7.1 The revised MTFP for 2016/17 to 2019/20 currently projects a budget deficit of £4.079 million for 2016/17 and £20.302 million over the 4 year period of the MTFP.
- 7.2 Anticipated budget reductions arising from the Council approved change management work streams are summarised in Table 4, and indicate 2016/17 minimum savings of £4.259 million.

Table 4 – Estimated Budget Reductions 2016/17

Work stream	Estimated Full Year Saving £'000	Estimated 2016/17 Saving** £'000
Customer Offering	1,600	1,200
Back Office/Strategic Support	300	225
Procurement	2,000	1,500
Income and Service Cost Recovery	778	584
Outcome Focused Redesign	1,000	750
Total	5,678	4,259

** assumes savings effective from 1st July 2016 owing to potential delays resulting from public, employee and union consultation

- 7.3 The Council has the flexibility to utilise £750,000 of capital receipts during 2016/17 to finance the revenue costs of service reform.

GARETH CHAPMAN
CHIEF EXECUTIVE

COUNCILLOR PHIL WILLIAMS
CABINET MEMBER FOR GOVERNANCE
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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
Budget Requirement 2016/17 to 2019/20	27 th January 2016	Joint Scrutiny/Audit Committee agenda and minutes / Finance Department
Flexible Use of Capital Receipts (Draft document) – Minister for Public Services	9 th February 2016	Finance Department
Update to the Provisional Local Government Settlement 2016/17	10 th February 2016	Finance Department
Budget Requirement and Council Tax 2016/17	24 th February 2016	Cabinet agenda / 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

Table 1: Updated 2016-17 Provisional Settlement - Comparison of 2015-16 AEF and 2016-17 Update

£000s

Unitary authority	2015-16 Adjusted¹ AEF	2016-17 Provisional AEF	Amendments	Additional Top- Up Funding	2016-17 Updated² Provisional AEF plus top-up	% change on 2015-16	Rank
Isle of Anglesey	93,841	91,925	3	0	91,928	-2.0%	17
Gwynedd	169,847	166,990	-39	0	166,951	-1.7%	15
Conwy	152,740	149,429	-8	0	149,421	-2.2%	18
Denbighshire	141,294	139,602	6	0	139,608	-1.2%	10
Flintshire	187,535	184,743	7	0	184,750	-1.5%	12
Wrexham	172,036	169,761	6	0	169,768	-1.3%	11
Powys	175,692	168,488	-19	1,952	170,421	-3.0%	21
Ceredigion	100,010	96,570	3	436	97,010	-3.0%	20
Pembrokeshire	161,375	156,932	-38	0	156,894	-2.8%	19
Carmarthenshire	254,306	251,685	2	0	251,686	-1.0%	8
Swansea	310,525	307,754	13	0	307,767	-0.9%	5
Neath Port Talbot	206,637	205,567	9	0	205,575	-0.5%	2
Bridgend	189,561	187,508	7	0	187,515	-1.1%	9
The Vale Of Glamorgan	153,530	150,443	5	0	150,448	-2.0%	16
Rhondda Cynon Taf	357,009	353,769	6	0	353,775	-0.9%	6
Merthyr Tydfil	89,848	89,188	1	0	89,189	-0.7%	4
Caerphilly	265,723	263,293	8	0	263,301	-0.9%	7
Blaenau Gwent	110,959	109,252	0	0	109,252	-1.5%	13
Torfaen	131,538	129,296	2	0	129,299	-1.7%	14
Monmouthshire	94,379	91,439	-2	111	91,548	-3.0%	22
Newport	210,565	209,133	9	0	209,142	-0.7%	3
Cardiff	426,860	426,285	19	0	426,303	-0.1%	1
Total Unitary Authorities	4,155,809	4,099,052	0	2,499	4,101,551	-1.3%	

1. 2015-16 AEF adjusted for transfer of £31.1m into the Settlement.

2. 2016-17 Provisional AEF updated for amendments and additional top-up funding.