

FULL COUNCIL REPORT

Date Written	22 nd February 2016
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Service Area	Finance
Exempt/Non Exempt	Non Exempt
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To: Mayor, Ladies and Gentlemen

Budget Requirement and Council Tax 2016/17 – State of the Council Debate

1.0 SUMMARY OF THE REPORT

- 1.1 Local Authorities are required by statute to declare their Budget Requirement and Council Tax for the financial year 2016/17 by 10th March 2016.
- 1.2 The updated Provisional Local Government Settlement announced on 10th February 2016 resulted in a revised budget reduction of 0.73% for Merthyr Tydfil County Borough Council for 2016/17.
- 1.3 Cabinet of 24th February 2016 recommended a Budget Requirement of £114.245 million and Council Tax increase of 3.5% for 2016/17.
- 1.4 The Medium Term Financial Plan for the period 2016/17 to 2019/20 indicates budget deficits of £4.079 million for 2016/17, £10.017 million for the 2 year period 2016/17 to 2017/18 and £20.302 million for the 4 year period 2016/17 to 2019/20.
- 1.5 The Corporate Budget Strategy, through the Transformational Change Programme, in addressing the projected budget deficits of £4.079 million for 2016/17 and £10.017 million for the period 2016/17 to 2017/18 is considered and projected to realise savings of £4.259 million for 2016/17.
- 1.6 The Minister for Public Services on 9th February 2016 announced a relaxation of the capitalisation direction regulations, allowing Authorities flexibility in utilisation of capital receipts to finance the revenue costs of service reform.

- 1.7 The Minimum Revenue Provision Policy for 2016/17 is based on the principle of asset useful economic lives and is currently being reviewed to ensure that the concept of prudent provision is maintained.
- 1.8 The Chief Finance Officer comments on the robustness of the estimates and the adequacy of financial reserves.

2.0 RECOMMENDATION(S)

- 2.1 The Council Tax increase of 3.5% for 2016/17 ('Band D' of £1,400.07) for the County Borough Council be approved.
- 2.2 The Budget Requirement of £114.245 million for 2016/17 (net revenue budget) be approved.
- 2.3 The revisions to the Medium Term Financial Plan 2016/17 to 2019/20 be approved.
- 2.4 The Corporate Budget Strategy and Transformational Change Programme in addressing the Medium Term Financial Plan projected budget deficits be noted.
- 2.5 The Minister for Public Services' direction in respect of flexible use of capital receipts to finance revenue costs of service reform be noted.
- 2.6 The Minimum Revenue Provision Statement for 2016/17 be approved on the following basis (whilst subject to review):
 - (a) Regulatory Method – historic debt liability at 31st March 2007
 - (b) Asset Life Method – capital expenditure financed by borrowing from 1st April 2007
- 2.7 The Chief Finance Officer's comments relating to the robustness of the estimates and adequacy of reserves be noted.
- 2.8 The proposed reporting of the Medium Term Financial Plan 2016/17 to 2019/20 (incorporating the Capital Programme and Prudential Indicators) to Council on 23rd March 2016 be noted.

3.0 INTRODUCTION AND BACKGROUND

- 3.1 The Local Government Act 2003 requires authorities to take an integrated approach in the compilation of annual Budgets. Through the Medium Term Financial Plan (MTFP), the Council's revenue priorities are integrated with capital priorities and reflect the consequences of capital investment decisions.
- 3.2 Although referenced within this report the detailed MTFP document for 2016/17 to 2019/20 will be presented to the Council meeting of 23rd March 2016, together with

the Capital Programme for 2016/17 to 2019/20 and Prudential Indicators in compliance with the Prudential Code framework for capital investment in local authorities.

- 3.3 By virtue of section 32(10) of the Local Government Finance Act 1992 the Council must calculate its Budget Requirement for 2016/17 by 10th March 2016 at the very latest, including the setting of the annual Council Tax rate.
- 3.4 The Provisional Local Government Settlement for 2016/17 was announced on 9th December 2015 and resulted in a reduction in the Council's Aggregate External Finance (AEF) of 0.74% for 2016/17, equating to £660,738.
- 3.5 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%

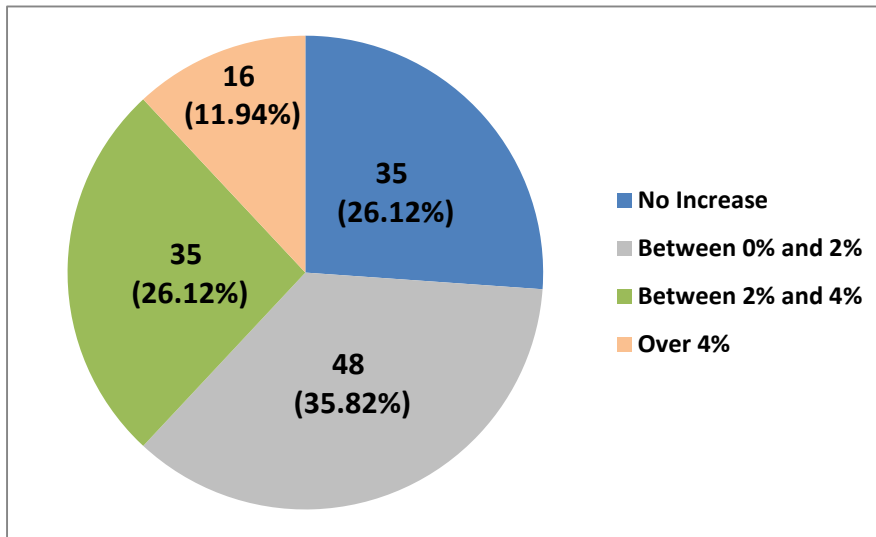
This updated Revenue Settlement results in an AEF reduction of 0.73% for Merthyr Tydfil, equating to £659,608.

- 3.6 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.

4.0 COUNCIL TAX 2016/17

- 4.1 Merthyr Tydfil's original MTFP, approved by Council 25th March 2015, reflects a Council Tax increase of 4.5% per annum, as set for 2015/16. In responding to the Minister for Public Services' expectation for lower Council Tax increases, in return for a better than anticipated revenue settlement for 2016/17, Cabinet of 24th February 2016 recommended to this Council of 2nd March 2016 a Council Tax increase of 3.5% for 2016/17. This results in a 'Band D' Council Tax of £1,400.07 for 2016/17, and equates to an additional requirement of £47.35 for 2016/17 (equivalent to 91 pence per week), and is outlined in Appendix 2.
- 4.2 As 85% of the properties within the County Borough are valued at Bands A to C, a significant proportion of council tax payers will be liable to payments less than £1,400.07.
- 4.3 The outcome of the 'Council Priorities and Budget Consultation 2016/17' exercise concluded that 73.88% of the 134 respondents were in favour of a Council Tax increase for 2016/17 if in return Council services would be maintained at current levels where possible. Figure 1 highlights the respondents' preferred Council Tax increases.

Figure 1 – Preferred Council Tax Increase for 2016/17



- 4.4 For the purpose of the MTFP projections, a 3.5% Council Tax increase per annum is maintained for the period 2017/18 to 2019/20.

5.0 BUDGET REQUIREMENT 2016/17

- 5.1 A Council Tax increase of 3.5% results in a Revenue Budget Requirement of £114.245 million for the financial year ending 31st March 2017 and is summarised in Appendix 2. The Budget Requirement represents the Council's spending power ('finance available'), consisting of the updated provisional revenue settlement's Aggregate External Finance together with monies resulting from the council tax levy, as indicated in Table 1.

Table 1 – Budget Requirement 2016/17

Funding Source	£'000
<u>Aggregate External Finance</u>	
Revenue Support Grant	71,629
Re-distributed Non Domestic Rates	17,560
<u>Council Tax Levy</u>	25,056
Budget Requirement	114,245

- 5.2 Cabinet of 24th February 2016 recommended to this Council of 2nd March 2016 a Budget Requirement of £114.245 million for 2016/17.

6.0 MEDIUM TERM FINANCIAL PLAN (MTFP)

- 6.1 As indicated in paragraph 3.2 the MTFP will be considered in detail at Council of 23rd March 2016. It is important however that in determining a Council Tax Increase and Budget Requirement for 2016/17, the implications to the MTFP are recognised and understood.
- 6.2 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 2.

Table 2 – 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

- 6.3 It is evident from Table 2 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.
- 6.4 A MTFP is a rolling programme, continually evolving as further information and changing circumstances become known. Identified changes to the MTFP were considered and approved by Cabinet on 27th January 2016 and noted by the Joint Scrutiny / Audit Committee on 27th January 2016. This followed Budget Board and Corporate Management Team consideration on 16th December 2015 and 21st December 2015 respectively. The Cabinet approved changes are as follows:
- Cabinet / Council approved adjustments
 - Adjustments from updated information
 - Additional pension contributions
 - Implications of provisional settlement (including impact of proposed Council Tax increase)
 - Schools' cash protection
 - Corporate Risk Fund

- 6.5 In addition the changes resulting from the updated Provisional Settlement were considered and approved by Cabinet on 24th February 2016 and noted by the Joint Scrutiny / Audit Committee on 24th February 2016.
- 6.6 The financial impact of the changes (from paragraphs 6.4 and 6.5) to the reported budget deficits for 2016/17 to 2017/18 are outlined in Table 3 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 3 – 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	-2,742	-2,297	-1,922	-1,521
Schools' Cash Protection	1,003	1,003	1,003	1,003
Corporate Risk Fund	600	600	600	600
Final Revised Budget Deficit	4,079	10,017	15,303	20,302

Notes

- (1) **** included in 'Updated Budget Deficit' line
- (2) 'Implications of Provisional Settlement' line reflects proposed Council Tax Increase of 3.5% per annum together with the updated provisional settlement

- 6.7 It is evident from Table 3 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 £4.079 million for 2016/17, a projected £10.017 million for the 2 year period 2016/17 to 2017/18 and a projected £20.302 million for the 4 year period 2016/17 to 2019/20.
- 6.8 Sections 7 to 12 consider in further detail the required revisions to the MTFP 2016/17 to 2019/20, recommended to Council for approval by Cabinet of 27th January 2016 and reflecting the updated provisional settlement.

7.0 CABINET / COUNCIL APPROVED ADJUSTMENTS

7.1 Revisions to the MTFP resulting from Cabinet and Council approved adjustments are outlined in Table 4 followed by detailed explanations.

Table 4 – 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

7.2 Contribution from Employees

7.2.1 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.

7.2.2 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.

7.2.3 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*").

7.2.4 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.

7.2.5 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.

7.3 Nursery Education Provision

7.3.1 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.

7.3.2 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.

7.3.3 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.

7.3.4 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.

7.3.5 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.

7.4 Service Prioritisation

7.4.1 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”*).

7.4.2 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.

7.4.3 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.

8.0 ADJUSTMENTS FROM UPDATED INFORMATION

8.1 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

8.2 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 3.

8.3 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.

9.0 ADDITIONAL PENSION CONTRIBUTIONS

9.1 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.

- 9.2 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
- 9.3 Aon Hewitt's outlook in respect of employer's contributions to the Rhondda Cynon Taf Pension Fund is outlined in Table 5 and demonstrates an increase in the past service pension deficit for all employers contributing to the Fund.

Table 5 – 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

- 9.4 It is evident from Table 5 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).
- 9.5 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

- 9.6 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.

10.0 IMPLICATIONS OF UPDATED PROVISIONAL SETTLEMENT

- 10.1 The Welsh Government's updated Provisional Local Government Settlement was announced on 10th February 2016 and resulted in a reduction in Aggregate External Finance (AEF) for 2016/17 of 0.73% for Merthyr Tydfil County Borough Council (0.74% provisional settlement). No indications were provided in respect of indicative future year settlements thus inhibiting Local Authorities' ability to effectively plan over the medium term.
- 10.2 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*").
- 10.3 The MTFP impact from the updated provisional settlement is outlined in Table 6 and demonstrates increased spending power of £2.742 million for 2016/17.

Table 6 – Implications of Updated 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	86,547	83,457	80,061	76,458
Updated Provisional Settlement	89,189	86,005	82,504	78,792
Increase in AEF	-2,642	-2,548	-2,443	-2,334
<u>Council Tax Levy</u>				
Original Council Tax Base	25,056	26,184	27,362	28,593
Final Council Tax Base	25,056	25,933	26,841	27,780
Decrease in Council Tax Levy	0	251	521	813
Biffa Profit Share Contribution	-100	0	0	0
Net Impact of Provisional Settlement	-2,742	-2,297	-1,922	-1,521

10.4 Aggregate External Finance (AEF)

- 10.4.1 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.

10.4.2 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	-0.73	-3.57	-4.07	-4.50

10.4.3 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
- 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

10.5 Council Tax Levy – the 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 3.5% per annum
- Council Tax collection rate of 96%
- Council Tax base of 17,896.23 (17,725.11 for 2015/16)

10.6 Biffa Profit Share Contribution – 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.

11.0 SCHOOLS' CASH PROTECTION

11.1 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.

11.2 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%

- 11.3 From Table 8 it is evident that the schools' cash protection for 2016/17 is 1.85% and when applied to Merthyr Tydfil results in a financial commitment of £1.003 million (including the Individual Schools Budget (ISB) surplus prior year adjustment).
- 11.4 The schools' growth requirement for 2016/17, reflecting pay awards, increased national insurance contributions and pension costs, salary incremental progressions and increased pupil numbers, equates to £1.299 million. Even after allowing for the financial commitment of £1.003 million, this still leaves a deficit of £296,000.
- 11.5 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.

12.0 CORPORATE RISK FUND

- 12.1 As indicated in paragraph 10.4.1 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.
- 12.2 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.
- 12.3 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

- 12.4 Cabinet of 27th January 2016 supported the proposal for the creation of a 'Corporate Risk Fund' with an annual budget commitment of £600,000 for the period 2016/17 to 2019/20.

13.0 COUNCIL BUDGET STRATEGY

- 13.1 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.

- 13.2 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.

- 13.3 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 13.4 to 13.8.

- 13.4 The Customer Offering 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.

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.

13.5 The Back Office Administrative and Strategic Support Services work streams have 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

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

13.6 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 was approved by 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.

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. A separate

exercise has been commissioned, with PwC currently undertaking a comprehensive review of Social Care strategic commissioning and contracting.

13.7 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.

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). 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. In addition, an Income Management and Cost Recovery Policy has been developed, supported by defined principles.

13.8 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 circa £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.

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. 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 2016/17.

13.9 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.

14.0 FLEXIBLE USE OF CAPITAL RECEIPTS

14.1 Cabinet 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.

- 14.2 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.
- 14.3 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”

- 14.4 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.
- 14.5 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.

15.0 ANNUAL MINIMUM REVENUE PROVISION (MRP) STATEMENT

- 15.1 Under the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003, Local Authorities are required to charge to their revenue account for each financial year a Minimum Revenue Provision (MRP) to account for the cost of their debt in that financial year. Regulation 21 set out the method Authorities were required to follow in calculating MRP.
- 15.2 For the financial year 2007/08 and subsequent financial years, under the Local Authorities (Capital Finance and Accounting) (Amendment) (Wales) Regulations 2008, the detailed calculation has been replaced with a requirement that local authorities calculate an amount of MRP which they consider to be prudent. The broad aim of prudent provision is to ensure that debt is repaid over a period

reasonably commensurate with that over which the capital expenditure provides benefits.

15.3 The options for prudent provision are as follows:

- Regulatory Method – MRP is equal to the amount determined in accordance with the former 2003 Regulations as if it had not been revoked by the 2008 Regulations.
- Capital Financing Requirement (CFR) Method – MRP is equal to 4% of the non-housing CFR at the end of the preceding financial year.
- Asset Life Method – where capital expenditure on an asset is financed wholly or partly by borrowing, MRP is to be made in equal annual instalments over the life of the asset. Where capital expenditure is not incurred in the creation of an asset, MRP is to be made in equal annual instalments over a period reasonably reflecting the benefit arising from the expenditure.
- Depreciation Method – MRP is to be equal to the depreciation of that proportion of the asset on which expenditure has been financed by borrowing.

15.4 The conditions under which the prudent provision options can be used are as follows:

- The 'Regulatory' and 'CFR' methods should only be used in relation to capital expenditure incurred before 1st April 2008, and capital expenditure incurred on or after that date which the Authority is satisfied forms part of its Supported Capital Expenditure.
- The 'Asset Life' and 'Depreciation' Methods should be used in relation to capital expenditure incurred on or after 1st April 2008 which is to be financed by borrowing and which does not form part of the Authority's Supported Capital Expenditure.
- The 'Asset Life' Method should be used in relation to capital expenditure, allowable through a capitalisation direction, incurred on or after 1st April 2008 which is to be financed by borrowing.
- The 'Asset Life' and 'Depreciation' methods can be used in relation to capital expenditure, whenever incurred, which is to be financed by borrowing, whether or not part of the Authority's Supported Capital Expenditure.

15.5 The 2008 Regulations recommend that prior to the commencement of each financial year a local authority prepares a statement of its policy on making MRP (Annual MRP Statement) and submits it to full Council. The following MRP Policy Statement is proposed for 2016/17:

- The major proportion of the MRP for 2015/16 will relate to historic debt liability at 31st March 2007 that will continue to be charged to revenue at 4% in accordance with the 'Regulatory' Method.
- It is considered prudent that all capital expenditure financed by borrowing from 1st April 2007 be liable to a MRP charge to revenue governed by the 'Asset Life' method. This will allow a charge to revenue over a period reasonably commensurate with the estimated useful life applicable to the nature of the expenditure, using the equal annual instalment method.

- 15.6 The Chief Finance Officer is currently in discussions with the Wales Audit Office (WAO) in reviewing the Council's current MRP Policy in determining whether the current provision is still considered prudent. The basis of the proposal is for the 'Asset Life' method to be applied to all expenditure including the historic debt liability at 31st March 2007, and for current economic useful lives to be reviewed. If agreement is reached with the WAO, Council will be requested to approve a revised MRP Policy during 2016/17.

16.0 ROBUSTNESS OF ESTIMATES AND ADEQUACY OF FINANCIAL RESERVES

- 16.1 Under Part II of the Local Government Act 2003, the Chief Finance Officer is required to report upon the robustness of the estimates made for the purposes of the budget and council tax setting calculations and the adequacy of the proposed financial reserves.

- 16.2 The Chief Finance Officer confirms the robustness of the 2016/17 budget setting process with reference to the consideration of the following components:

- Price increases – potential pay awards, pension increases, interest rate assumptions and major contracts due for re-tendering
- Fees and charges reviews
- Changes in the demand for services – local demand changes and changes resulting from national legislation
- History of budgetary control – identification of highest risk budgets
- Council Tax base and recovery rate
- Specific grants available and compliance with terms and conditions
- Clear timetable with allocated roles and responsibilities
- Budget strategy and guidelines – beginning with Corporate Management Team support and instruction February 2015 in respect of the necessity for budget savings
- Clear political priorities – through Cabinet Budget Workshops linked to Corporate Priority Outcomes
- Assessment of financial risks included in the budget
- Good working relationships with all Departments with clear support from Corporate Management Team
- Member challenge – through Cabinet, Audit Committee and Scrutiny Committees
- Budget public consultation responses

- 16.3 As at 1st April 2016, total General Reserves is estimated to be £4.676 million (£4.525 million at 1st April 2015) which is in line with the Budget Board's overarching aim, included within its Terms of Reference, as follows:

“To maintain an adequate, healthy General Reserves balance of between 3.5% and 4% of the Council's annual budgeted Net Revenue Expenditure in ensuring the Council continues to remain financially viable.”

General Reserves of £4.676 million is considered adequate for Merthyr Tydfil County Borough Council, equating to 4% of the net revenue budget.

- 16.4 There is no planned utilisation of either General Reserves or Earmarked Reserves for the period of the Medium Term Financial Plan 2016/17 to 2019/20. Earmarked Reserves, including Schools Balances and the Insurance Fund, are subject to continuous review and scrutiny through the Budget Board and Cabinet.

17.0 FINANCIAL IMPLICATION(S)

- 17.1 The proposed Council Tax increase for 2016/17 is 3.5%, equivalent to a 'Band D' Council Tax of £1,400.07.
- 17.2 At a proposed Council Tax increase of 3.5%, the Budget Requirement for 2016/17 totals £114.245 million.
- 17.3 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.
- 17.4 Anticipated budget reductions arising from the Council approved change management work streams are summarised in Table 9, and indicate 2016/17 minimum savings of £4.259 million.

Table 9 – 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

- 17.5 The Council has an estimated £750,000 new capital receipts per annum for the 3 year period 2016/17 to 2018/19 to finance revenue costs attributable to service reform.

18.0 SINGLE INTEGRATED PLAN AND SUSTAINABILITY IMPACT SUMMARY

- 18.1 The Single Integrated Plan and Sustainability Impact Assessment has been completed and the proposals positively impact on the Financial Sustainability of Public Services.

19.0 EQUALITY IMPACT ASSESSMENT

- 19.1 An Equality Impact Assessment (EqIA) form has been prepared for the purpose of this report. It has concluded that the proposals have a non-discriminatory impact for all protected characteristics. The form can be accessed on the Council's website/intranet via the 'Equality Impact Assessment' link.
- 19.2 EqIA's will be prepared for all budget reduction opportunities emanating from the Change Management Programme's work streams and will be reflected in subsequent reports to Cabinet, Joint Scrutiny Committee, Audit Committee and Council.

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
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 and minutes / Finance Department
Budget Requirement 2016/17 to 2019/20 - Update	24 th February 2016	Joint Scrutiny/Audit Committee 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

Consultation has been undertaken with the Corporate Management Team in respect of each proposal(s) and recommendation(s) set out in this report.

Budget Requirement 2016/17**Council 02 March 2016****Table 1: Updated 2016-17 Provisional Settlement - Comparison of 2015-16 AEF and 2016-17 Update**

£000s

<u>Unitary authority</u>	<u>2015-16 Adjusted¹ AEF</u>	<u>2016-17 Provisional AEF</u>	<u>Amendments</u>	<u>Additional Top- Up Funding</u>	<u>2016-17 Updated² Provisional AEF plus top-up</u>	<u>% change on 2015-16</u>	<u>Rank</u>
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.

Budget Requirement 2016/17**Council 02 March 2016****Corporate Summary**

Revised Budget 2015/16	Description	Gross Expenditure 2016/17	Gross Income 2016/17	Net Budget 2016/17	Variance	
£		£	£	£	£	%
71,020,000	People and Performance Directorate	86,663,000	-12,802,000	73,861,000	2,841,000	4.00
21,806,000	Place and Transformation Directorate	32,629,000	-10,678,000	21,951,000	145,000	0.66
22,063,601	Corporate Costs	43,975,000	-21,429,000	22,546,000	482,399	2.19
755,000	Net Employee Severance Costs/Slippage	1,222,000	0	1,222,000	467,000	61.85
-1,341,460	Non General Fund Allocations	-976,000	0	-976,000	365,460	27.24
20,000	Discretionary Non Domestic Rate Relief	20,000	0	20,000	0	0.00
-600,000	Collection Fund Surplus	0	-600,000	-600,000	0	0.00
-200,000	Corporate Vacancy Factor	-200,000	0	-200,000	0	0.00
-312,000	Net Contribution to/(from) Earmarked Reserves	0	0	0	312,000	100.00
614,294	Outcome Agreement Grant /Corporate Risk Fund	600,000	0	600,000	-14,294	2.33
0	Contribution from Biffa Profit Sharing Scheme	0	-100,000	-100,000	-100,000	n/a
0	Change Management Programme	-3,579,300	-500,000	-4,079,300	-4,079,300	n/a
113,825,435	Net Expenditure	160,353,700	-46,109,000	114,244,700	419,265	0.37
-89,848,254	Aggregate External Finance	n/a	n/a	-89,188,646	659,608	0.73
23,977,181	Net Expenditure Met From Council Tax	n/a	n/a	25,056,054	1,078,873	4.50
17,725.11	Council Tax Base	n/a	n/a	17,896.23	171.12	0.97
1,352.72	Merthyr Tydfil CBC Council Tax Band D	n/a	n/a	1,400.07	47.35	3.50

Budget Requirement 2016/17
Council 02 March 2016
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

Budget Requirement 2016/17
Council 02 March 2016
Service Prioritisation Exercise

Ref.	Service	Proposal	Budget Reduction 2016/17 £'000	Budget Reduction 2017/18 £'000
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
Council 02 March 2016
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 the application of the "real" living wage of £8.25 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

Budget Requirement 2016/17
Council 02 March 2016
Adjustments from Updated Information

Ref.	Description	Budget Reduction 2016/17 £'000	Budget Reduction 2017/18 £'000	Comments
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.

Budget Requirement 2016/17
Council 02 March 2016
Adjustments from Updated Information

Ref.	Description	Budget Reduction 2016/17 £'000	Budget Reduction 2017/18 £'000	Comments
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	