

Matter which the Chairman has decided is urgent by reason of need to inform Cabinet of the Scrutiny Committees' responses to the initial budget proposals

Agenda Item No.

THE VALE OF GLAMORGAN COUNCIL

CABINET: 9TH JANUARY, 2017

REFERENCE FROM CORPORATE PERFORMANCE AND RESOURCES
SCRUTINY COMMITTEE: 13TH DECEMBER, 2016

“ INITIAL REVENUE BUDGET PROPOSALS 2017/18 (MD) -

The Committee was informed that the Scrutiny Committees of the Council had previously considered the Initial Revenue Budget Proposals on the following dates:

- Environment and Regeneration - 6th December, 2016
- Homes and Safe Communities - 7th December, 2016
- Healthy Living and Social Care - 8th December, 2016
- Learning and Culture - 12th December, 2016.

Details of each of the Scrutiny Committees recommendations on the Initial Revenue Budget Proposals were tabled for consideration of the Committee. In particular, the Healthy Living and Social Care Scrutiny Committee had recommended

“(2) That the Corporate Performance and Resources Scrutiny Committee be made aware that it was the view of this Committee that all the cost pressures detailed in Appendix 3 should be fully funded.”

The Council is required under statute to fix the level of Council Tax for 2017/18 by 11th March, 2017 and in order to do so, would have to agree a balanced revenue budget by the same date. To be in a position to meet the statutory deadlines and the requirements for consultation set out in the Council's Constitution, much of the work on quantifying the resource requirements of individual services was required to be carried out before the final RSG settlement was notified to the Council.

Appendix 1 set out the Amended Budget for 2016/17, together with the necessary adjustments to be made to the original budget.

Asset Rents, International Accounting Standard (IAS) 19, Transfers and Recharges – These adjustments have no overall effect on the net budget of the Council. These were accounting adjustments largely outside the control of services. Also included were transfers of functions and responsibilities between Directorates. Cabinet on 6th June, 2016, approved the transfer of £62,000 from Development Management to Resources as a result of the transfer of the Drawing Office.

Cabinet on 20th June, 2016, agreed the senior management restructure of the Learning and Skills Directorate, which was implemented on 1st September, 2016. In order to make efficiencies within senior management, a number of changes had been made to the structure of the Directorate which needs to be reflected in the budget. As a result, the Learning and Skills budget will now be reported under the following headings:

- Schools
- Strategy, Culture, Community Learning and Resources
- Strategy and Regulation
- Achievement for All
- School Improvement.

The following table compared the amended budget with the projected outturn for 2016/17. The Learning and Skills Directorate is projecting an adverse variance of £716,000 at year end and the Social Services Directorate is anticipated to outturn with an adverse variance of around £600,000. It is proposed that reserves will be used to mitigate this position in 2016/17 as outlined later in this report.

Directorate/Service	2016/17 Amended Budget £'000	2016/17 Projected Outturn £'000	Variance (+) Favourable (-) Adverse £'000
Learning and Skills			
Schools	81,009	81,009	0
Strategy, Culture, Community Learning & Resources	13,233	13,029	+204
Strategy and Regulation	250	218	+32
Achievement for All	3,573	4,403	-830
Transfer from Reserves	0	-716	+716
School Improvement	1,241	1,363	-122
Social Services			
Children and Young People	14,913	14,513	+400
Adult Services	40,096	41,096	-1,000
Business Management and Innovation	276	276	0
Youth Offending Service	701	701	0
Transfer from Reserves	0	-600	+600
Environment and Housing			
Visible Services	20,335	20,405	-70

Transportation	4,836	4,766	+70
Building Services	0	0	0
Regulatory Services	2,218	2,218	0
Council Fund Housing	988	988	0

Managing Director & Resources

Resources	269	269	0
Regeneration	2,123	2,123	0
Development Management	962	962	0
Private Housing	11,021	11,021	0
General Policy	16,744	16,744	0
Total	214,788	214,788	0
Met from General Reserve	(1,500)	(1,500)	0
Grand Total	213,288	213,288	0

A detailed explanation was provided on the predicted outturn of each of the Directorates Service Budget headings, to allow the Committee to contextualise the reasons for the forecasted outturn, details of which were set out in paragraphs 8 - 34 of the report.

In regard to savings for the financial year 2016/17, the Committee noted that a savings target of £9.289m was set for the Council. Attached at Appendix 2 was a statement detailing all savings targets for the above period and the projected outturn. Services were working towards currently achieving these savings targets however, at this stage of the year it was anticipated that not all savings would be made and there could be shortfall of £580,000. Specific issues in regard to Learning and Skills, Social Services, Environment and Housing and the Managing Director and Resources saving targets were detailed in paragraphs 36 - 39 of the report.

Having regard to the above it was therefore, proposed in respect of the 2017/18 Budget Strategy that Directors be instructed to prepare Initial Revenue Budget Proposals for 2017/18 based on the cost of providing the current level of service and approved policy decisions, including, the existing savings targets. This meant the cost of price increases and any allowable pay awards should be included as advised by the Head of Finance and preparation would be on the following basis:

- Capital charges, central accommodation costs and central support costs to be estimated centrally.
- Services to prepare baseline budgets on current service levels as set out in the 2016/17 Final Revenue Budget report.
- Budgets to be broken down subjectively and objectively in as much detail as deemed appropriate by the Head of Finance.
- Budget reports to include revised estimates for 2016/17.
- Full account to be taken of the revenue costs, other than debt charges, of new capital schemes coming into use.

- Minimum savings targets to be met initially as detailed in the 2016/17 Final Revenue Budget report. Any savings made directly by services over and above individual service targets to count towards future saving targets or to meet unavoidable service cost pressures.
- Directors will continue to draw up Service Plans that set out the aims and objectives for the service and any possible future developments and efficiencies.
- As stated previously, it is expected that the revenue costs of service development will need to be met from within the respective services (in particular, from the savings made). As such, no revenue bids are initially to be made. However, services may still be asked to identify and prioritise any burgeoning revenue cost pressures for consideration.

In regard to the Medium Term Financial Plan (MTFP) for 2016/17 to 2019/20, this had been approved by the Cabinet at its meeting held on 26th September, 2016 and at that time, it assumed a reduction in Welsh Government (WG) funding of 3% for the years 2017/18, 2018/19 and 2019/20. This would result in the requirement to find savings of £24.146m over the period, with £7.783m currently being identified. There was therefore further savings to be identified of £16.363m over the three year period. The MTFP factored in a managed level of cost pressures, a notional increase in Council Tax of 2% each year, price inflation of 1%, and annual pay awards of 1% each year from 2017/18.

In 2016/17 the Minimum Funding Commitment for schools, equivalent to 1% above the WG's block grant settlement was an increase of 1.8%. The MTFP stated that if the Council's funding from WG reduced by 3% in 2017/18, it would expect the MFC to be at a lower level and included a figure similar to the 2015/16 MFC which was based on an increase of 0.6%.

The Council's provisional settlement was announced by WG on 19th October, 2016.

WG had advised the Council that its provisional SSA (Standard Spending Assessment) for 2017/18 is £215.917m.

The Council would receive from WG Revenue Support Grant of £109.193m and a share of the Non- Domestic Rates (NDR) of £40.976m. Together these figures constitute the Council's provisional Aggregate External Finance (AEF) of £150.169m. WG reported that this was a cash reduction of 0.2% (£0.352m) for 2017/18. However, when taking into account new responsibilities, this actually represents a cash reduction of 0.35% (£0.53m). This is a smaller reduction than the 3% projected in the MTFP.

Additional funding was provided through the RSG for new responsibilities were:

- Increasing Capital Limits for Residential Care (from £24,000 to £30,000) - £167,000
- War Disablement Pension Disregard in financial assessments for social care charging - £11,000.

There were transfers into the RSG settlement for 2017/18 as follows:

- Delivering Transformation Grant - £106,000
- Deprivation of Liberty Standards - £8,000
- Food Hygiene Rating Schemes - £2,000.

There was a transfer out of the RSG settlement for 2017/18 as follows:

- Education Workforce Council Teachers Registration Fees - £43,000.

This year WG have not afforded protection to schools via the setting of a Minimum Funding Commitment.

As part of these Initial Budget proposals, it had been necessary to revisit the cost pressures facing services in order to build up a complete and up to date picture of the financial position of the Council and an updated list as set out in Appendix 3. The final proposal for the increase in the National Living Wage from 1st April, 2017, had yet to be announced, however, it is considered that the 2017/18 pay rates used in these budget proposals for Vale of Glamorgan staff should cover the potential increase. Any further increase would have a significant effect on services the Council commissions from external organisations. The main area affected is Social Services and a cost pressure had been included to reflect this.

Details of the proposed areas for savings for 2017/18 to 2018/19 were attached at Appendix 4. The savings did not include the cost of any potential redundancies. As part of the Budget Strategy 2017/18, Directors were requested to continue to progress the Reshaping Services Programme. As part of the 2016/17 budget setting process it was recommended that Tranche 3 of the Reshaping Services programme should commence. A review is being undertaken in order to identify future projects and the Council is currently developing proposals.

A summary of the overall base budget for 2017/18 is attached at Appendix 5. This has been arrived at by adjusting the 2016/17 budget for items such as inflation and unavoidable growth, but did not include identified cost pressures or savings and related to the following:

Asset Rents, International Accounting Standard (IAS) 19 - Related to accounting items outside the control of services. These reflected charges to services for the use of capital assets and adjustments in respect of pensions to comply with accounting standards.

Recharges / Transfers – Related to changes in inter-service and inter Directorate recharges. The budget transfers that relate to the reorganisation of the Learning and Skills Directorate are shown in a separate column.

Budget Adjustment – There was a £320,000 increase in budget due to the change in the use of the Social Services Fund in 2017/18.

Inflation – The total figure for inflation of £1.637m related to general price increases (£844,000) and a 1% allowance for pay awards (£793,000). These figures did not include schools inflation which was included in Appendix 3 as a cost pressure.

Committed Growth – This totalled £1.751m and related to the £1.5m reduction in use of the Council Fund. It also included the net transfers into the RSG of £73,000 and WG funding provided for new responsibilities of £178,000 as previously detailed.

Once the base budget for 2017/18 had been established, it must then be compared to the funding available to identify the extent of any shortfall. With a projected AEF of £150.169m and Council Tax at a current level of £62.84m, total available funding would be £213.009m. When compared to a base budget of £216.996m, this would result in a funding deficit for 2017/18 of £3.987m. This deficit is mainly attributable to the allocation of committed growth and pay and price inflation.

If all identified cost pressures were funded, this would increase the shortfall to £11.447m. If all proposed savings were achieved, the shortfall would be reduced to £4.426m as shown in the table below.

Projected Budget Shortfall 2017/18	
	£000
Funding Available	
Provisional AEF	150,169
Council Tax (Assumes no increase)	62,840
Projected Funding Available	213,009
Base Budget	216,996
Projected Shortfall Against Base Budget	3,987
Assume all Cost Pressures Funded	7,460
Projected Shortfall with Cost Pressures funded	11,447
Assume all Savings Achieved	(7,021)
Projected Shortfall for 2017/18	4,426

This shortfall was based on the assumption that the savings target set for 2017/18 would be achieved in full. However, a high proportion of these savings relate to Reshaping Services schemes which reflected a new way of working and therefore require a lengthy period of time to implement. While all services are working towards achieving their 2017/18 targets, not all savings may be achieved in full from 1st April, 2017.

The above projections included an assumed pay award of 1% for 2017/18 and the possible impact of the National Living Wage. Any changes to the current assumptions would be assessed as part of the Final Budget Proposals report.

Further work will be undertaken by the Budget Working Group (BWG) in order to achieve a balanced budget for the final budget proposals for 2017/18. This would include a review of the use of reserves, a possible increase in Council Tax, a review of all cost pressures, possible changes to the approved saving targets, a review of the inflation assumptions and the current financial strategies. The BWG would also consider the results of the budget engagement process in determining priorities for future savings and service delivery. It would also ensure that budget proposals consider the requirements of the Well-being of Future Generations Act and the Council's 4 well-being outcomes as detailed in the Corporate Plan.

There would be difficulties in maintaining the quality and quantity of services in the future without exploring opportunities for collaboration and alternative forms of service delivery. The Council would continue to develop its Reshaping Services programme via Tranche 3 schemes.

The Head of Finance indicated that based on the assumption that all cost pressures would be funded in full, the estimated funding shortfall for 2017/18 would be £4.426m, assuming no increase in Council Tax. She also indicated that whilst WG had not issued details regarding the level of funding post 2017/18, it was anticipated that there would be further reductions in funding for local government going forward. Consequently, it was important that Directors achieved approved savings and looked to mitigate further cost pressures through alternative means of service delivery and collaborative ventures.

Her attention then turned to the Council Fund Reserve which as at 31st March, 2017 included a £4m in-year transfer as referred to in paragraph 34 of the report. Accordingly, the Head of Finance indicated that the Council Fund Reserve as at 31st March, 2017 would stand at £12.572m. She also indicated that set out at Appendix 6 of the report was the Authority's actual reserves as at 31st March, 2016 and showed the estimated reserve balance for each year up to 31st March, 2020. The Council was forecasting the use of general and specific reserves, excluding HRA and schools, totalling circa £38m from 1st April, 2016 onwards, which represented approximately 50% of the balance as at 31st March, 2016. These levels of reserves were still deemed to be adequate as known risks were largely covered and the Council Fund Reserve did not fall below £7m.

The Head of Finance's attention then turned to the total cost pressures as indicated in the report and updated Members that the total cost pressures in respect of Social Services had slightly reduced to £3.4m.

At this juncture, the Committee gave consideration to the recommendation of the Healthy Living and Social Care Scrutiny Committee, with the Chairman asking the Head of Finance to comment on the Scrutiny Committee's recommendation that all the cost pressures within that service should be fully funded. In response, the Head

of Service indicated that most of the Social Services cost pressures were linked to the Community Care budget. In addition, the service had been significantly impacted upon as a consequence of the introduction of the Living Wage. Separately, but also in addition to, the service had been met with significant legislative changes and the service was therefore working to manage these challenges. She acknowledged that the service area was unable to off-set pressures by increasing income and it would be of assistance if the WG raised the ceiling on the Community Care package cap and understood that WG were currently considering proposals to do such. In specifically commenting on the recommendation from the Healthy Living and Social Care Scrutiny Committee, she suggested that the Committee needed to be mindful not to agree budgetary amendments in the budget proposals that may have a knock-on effect in future years' budgets of the Council.

In addition to the above, the Council Leader, with the consent of the Committee, spoke on the matter indicating that he was aware of the future budgetary pressures impacting upon Social Services. He also indicated that Cabinet had agreed to set aside a sum of £4m to the Council Fund Reserve with future consideration being given as to how that allocation would be used to off-set the shortfall in the Revenue Budget and / or used for capital schemes.

Having regard to the above and having fully considered the report, the references and in light of the Council's budget situation, it was subsequently

RECOMMENDED -

- (1) T H A T the recommendation from the Healthy Living and Social Care Scrutiny Committee be noted.
- (2) T H A T the amended Revenue Budget for 2016/17 as set out in Appendix 1 be noted.
- (3) T H A T the Initial Revenue Budget Proposals for 2017/18 be noted.

Reasons for recommendations

- (1) In view of the overall cost pressures facing the Council.
- (2) In order that the changes to the 2016/17 budget can be incorporated.
- (3) To advise Cabinet.”