



VALE of GLAMORGAN COUNCIL
**MEDIUM TERM
FINANCIAL PLAN**
2017/18 - 2020/21



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2017/18 TO 2020/21

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1. INTRODUCTION AND CONTEXT

Internal Context

1.1 The Council has set out its vision for 2016-2020 in its Corporate Plan. This plan outlines the work that the Council will undertake towards achieving the 4 well-being outcomes, which are :

- An Inclusive and Safe Vale
- An Environmentally Responsible and Prosperous Vale
- An Aspirational and Culturally Vibrant Vale
- An Active and Healthy Vale

1.2 Delivery of the Council's priorities is reliant on having robust corporate governance arrangements. These arrangements are set out in the strategic planning framework. The framework describes how strategies, plans and processes work together and how they are monitored and scrutinised. Financial planning is one of the elements of this integrated approach to corporate planning. One of the actions in the Corporate Plan is to review and challenge the Council's approach to financial planning, including the capital programme, to ensure a long term view is balanced with the need to address immediate priorities.

1.3 The purpose of the Medium Term Financial Plan is to link the Council's strategic planning process with the budget process and to ensure consistency between them. It is a mechanism that attempts to match future predicted resources and expenditure, identify potential shortfalls and provide the financial framework for the next 3 years.

1.4 In developing the Corporate Plan, the Council has reflected on the way it works and has stated 5 principles it will follow. The Medium Term Financial Plan reflects this new approach to working and this is demonstrated throughout the Plan. The 5 ways of working are :-

- Looking to the long term - The Plan is a means of planning for the future and takes a strategic approach to ensure services are sustainable and that future need and demand for services is understood.
- Taking an integrated approach - The Plan highlights and encourages ways of working with partners as well as across service areas within the Council.
- Involving the population in decisions – The Plan recommends that engagement with residents, customers and partners takes place as part of the budget setting process, in addition to the engagement that takes place at a service specific level.
- Working in a collaborative way – The Plan recognises that, in certain cases, more can be achieved and better services can be provided by collaboration and it recommends this as a way of working in the future.
- Understanding the root cause of issues and preventing them – The Plan is proactive and allows an understanding of the financial position so that issues can be tackled at the source.

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1.5 A key element of ensuring the ways of working are embedded is through integrated planning actions contained in the Corporate Plan and delivered by the Council's Insight approach. This brings together all corporate business planning activity as a whole in order to monitor delivery and identify linkages.

External Context

1.6 There are a number of external factors that impact on the Council's financial position going forward. The results of the Westminster Government's 2010 Comprehensive Spending Review heralded a marked reduction in the level of funding to be provided by the Welsh Government (WG) to councils. As a consequence, between 2010/11 and 2016/17 the Council has identified savings of around £45m. It is not anticipated that austerity measures will discontinue in the near future and therefore further savings will need to be identified for the period of this Plan.

1.7 The result of the referendum for the United Kingdom's exit from the European Union in June 2016 provides further uncertainty and the specific implications on Wales are presently unknown.

1.8 No indication of the level of settlements, from 2018/19 onwards, has been received at this point. In this context, it is assumed that the current trends in Local Government funding will continue and that the Council should plan for a range of challenging settlements going forward. The outlook, therefore, has to be for a reduction in public sector funding for the foreseeable future. The failure to prepare for further reductions now could have far greater consequences for service delivery in the future. The provisional funding settlement from WG for 2018/19 is due in October 2017, with the final settlement being confirmed in December 2017. The outcome of the settlement for the coming year will be addressed as part of the Final Revenue Budget proposals for 2018/19.

1.9 The Local Government Reform White Paper was released in January 2017 with consultation running until April 2017. It sets out how local authorities and others can strengthen council services in the face of future challenges. The White Paper consultation sought the views on how councils could work with each other, on a regional and mandatory basis, to deliver a range of different services such as economic development, including certain planning functions and transport. It also suggested that Councils would be able to decide how they would work together on other services like education improvements, social services, additional learning needs, public protection, substance misuse and promotion of the Welsh language. Councils could have some flexibility over what footprint they use to share responsibilities for other mandated services. The full implications of the introduction of such changes will need to be considered when further details are announced.

1.10 In this financial environment and to meet the requirements of the Well-being of Future Generations Act, it is critical that the Council continues to plan for the future and embrace changes in the way it operates and provides services. It plans to achieve this by building on current knowledge and experience and by building strong relationships with all its partners being customers, local communities and other service providers and to utilise their knowledge and experience.

2. REVENUE POSITION

Sources of Funding

- 2.1 Each year, the Council is required under statute to fix the level of council tax by 11th March for the succeeding financial year and, in order to do so, will have to agree a balanced revenue budget by the same date.
- 2.2 The Council's annual revenue budget is determined largely by the Welsh Government. Standard Spending Assessments (SSA) are notional calculations of what each Council needs to spend to provide a standard level of service. These assessments are an important part of the formula for distributing the Revenue Support Grant to local authorities and are calculated to take account of the differing costs of providing services in each authority area because of their different demographic, physical, economic and social characteristics.
- 2.3 The Revenue Support Grant (RSG) together with the Council's share of the National Non Domestic Rate (NNDR) Pool constitutes the Aggregate External Finance (AEF) and are un-hypothecated amounts paid by WG in general support of the services provided by local authorities, therefore these sums are not earmarked for particular services and it is for the Council to determine its own service priorities. The funding is supplemented by specific and special hypothecated grants which are given by WG to support specific services and developments. For 2017/18, the Council's share of RSG and NNDR was £108.578m and £40.976m respectively, giving a total AEF of £149.554m.
- 2.4 In recent years Welsh Government has encouraged collaborative working and has made additional funding available in the form of the Intermediate Care Fund (ICF). This fund is being used to build effective working practices across health, social services and housing, to take forward schemes which demonstrate an effectiveness across community and acute environments and linking out-of-hospital care and social care to strengthen the resilience of the unscheduled care system. The partners in the ICF collaboration are Cardiff and Vale University Health Board, Cardiff Council and the Vale of Glamorgan Council. The Council is also the host authority for two collaborative services; the Shared Regulatory Service and the Vale, Valleys and Cardiff Regional Adoption Service.
- 2.5 The Council can generate income from fees and charges. Through the Reshaping Services Programme, the Council is continuing to review areas where charges can be made for services, in order to contribute towards its savings targets. In addition, and in line with a national study by Wales Audit Office, consideration is currently being given to an Income Generation Policy.
- 2.6 The Council also holds reserves. Reserves are a way of setting aside funds from budgets in order to provide security against future risks and to allocate funding for future priorities. The Council holds reserves for a range of purposes which can be used to fund either revenue or capital expenditure and can be general or for specific purposes. The Housing Revenue Account Reserve is ring-fenced and will be used to fund improvements to the Council's housing stock.
- 2.7 When determining its Budget Requirement, the Council must, therefore, consider carefully its spending plans in the light of not only its AEF but also, grant income

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generally, income from fees and charges and any contributions from reserves, as any remaining balance will have to be met via the council tax. This is the main source of local taxation available to local authorities and is levied on households within the Vale of Glamorgan by the Council as the billing authority. At £66.166m for 2017/18 (excluding town and community council precepts), the council tax contributes a relatively small proportion of the Council's overall funding. As the whole of any difference between the Council's net budget and its external funding falls on the council tax, even marginal changes in spending can have a significant impact on council tax levels. Based upon both the 2017/18 budget and council tax position, a 1% increase in net Council expenditure would equate to around £2.2m. In comparison a 1% increase in council tax would raise circa £662k and as a consequence an increase in expenditure of 1% is equivalent to just over a 3% increase in council tax.

Predicting Resources

- 2.8 WG has not yet advised the potential reduction in the level of funding it will provide for 2018/19 onwards. Thus, there is considerable uncertainty as to the future level of funding and this situation does not provide any comfort as to the level of resources that the Council will eventually receive for 2018/19 onwards. It is difficult to predict the extent of any reduction as this depends on many factors, including the level of protection provided by WG to various services. Possible decisions by WG to hypothecate (earmark) higher percentage sums to individual services (e.g. Education or Social Services) would have a major impact upon the ability of the Council to resource its other local priorities.
- 2.9 The level of reduction in AEF for 2017/18 for this Council was 0.88%. However, it is considered that the period of austerity is not over and that there could be at least another 5 years of reduction in budgets and therefore we have to prepare for tough times ahead. There is uncertainty surrounding the economic climate leading up to the exit from the European Union and possible protection for health services. It is therefore felt that a prudent approach should be taken and it is appropriate to continue to project a reduction of 3% for 2018/19 and a further 3% reduction per annum for both 2019/20 and 2020/21. It must be emphasised that these are predictions and any deviation from this could have a further significant financial impact as each 1% reduction in WG funding costs the Council approximately £1.5m.
- 2.10 Similarly, many Council activities are dependent upon grant funding to maintain existing service delivery levels. Aside from the general uncertainty as to whether certain grants will continue in future years or be absorbed into the RSG, there continues to be a real possibility of a significant reduction in the quantum available for distribution. It has been assumed in preparing this Plan that specific grants will either continue or that any decrease will be offset by a corresponding curtailment in the initiatives funded.
- 2.11 The following table shows the overall assumed change in Revenue Support Grant and share of the NNDR Pool during the period of this Plan.

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Predicted WG Revenue Funding 2018/19 to 2020/21

	£000	£000	£000
Revenue Support Grant	108,578		
NNDR Pool	<u>40,976</u>		
2017/18 Actual		149,554	
2018/19 Assumed Decrease (3%)		145,068	(4,486)
2019/20 Assumed Decrease (3%)		140,716	(4,352)
2020/21 Assumed Decrease (3%)		136,494	(4,222)
Overall Decrease in Cash Terms			(13,060)

2.12 In order to calculate any real terms percentage change in funding, it is necessary to adjust for the inflationary elements contained within the Council's existing base budget i.e. pay awards and price increases.

2.13 There is increasing pressure on pay budgets. The National Living Wage (NLW) was introduced in April 2016 at £7.20 per hour for workers over the age of 25. The current rate for 2017/18 is £7.50 per hour, with further increases anticipated to April 2020 when the rate could be around £9.10. It is anticipated that these increases will put significant pressure on the lower part of the NJC payscale. Pay awards from 1st April 2018 are currently being negotiated however it is anticipated that in order to maintain the NLW the average increase will be above the 1% included in previous projections. It is estimated that such changes could equate to an average increase across all staff of around 1.6% in 2018/19. Increases at this level have also been included for 2019/20 and 2020/21. This assumption will continue to be reviewed as further information becomes available.

2.14 Price inflation has previously been included in the Plan at the rate of 1% per annum. While the Consumer Prices Index (CPI) increased by 2.6% in the year to July 2017, it is considered with the current projected reduction in funding this level of provision can no longer be maintained going forward. It is therefore proposed that a figure equating to 0.5% is included, which will be allocated to specific budgets which have large contractual commitments. Other price inflation will need to be managed by services.

2.15 Although no final decision will be made on the increase in the level of council tax until the 2018/19 budget is set in March 2018, for the purposes of this Plan, an increase of 2.6% has been included for each year in line with the current level of CPI. This would yield around £1.7 million per annum.

2.16 Applying these inflationary increases against the projected cash change in revenue funding from WG, the real term change in resources indicates a decrease for the Council over three years of £17.844m as shown in the following table.

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Estimated Real Term Change in Council Resources

	2018/19	2019/20	2020/21	TOTAL
	£000	£000	£000	£000
AEF – Projected Decrease	4,486	4,352	4,222	13,060
Pay/Price Inflation	3,098	3,143	3,189	9,430
Adjustment*	320	330	0	650
Assumed Council Tax 2.6%	(1,720)	(1,765)	(1,811)	(5,296)
Decrease in Resources	6,184	6,060	5,600	17,844

* The adjustment relates to reductions in the use of the Social Services Fund.

Predicting Expenditure

2.17 As part of the forward planning process, it is necessary to make predictions of expenditure to 2020/21.

2.18 The Corporate Plan will both inform and be informed by the budget decision-making process and sets out the activities to be undertaken to ensure the best possible outlook for the Council's citizens and communities. In developing the actions contained in the Corporate Plan, consideration has been given to the ability to fund each commitment. Actions, will in the main, be funded from within existing budgets or where possible through the use of external grant funding or working with external partners. However, the budget setting process and this Plan needs to be developed in parallel with the well-being outcomes and will look to align sources of funding to the Council's commitments. The well-being outcomes are outlined below, with some examples of how they will be delivered from a range of funding sources and which also shows ways of innovative working with partners and the benefits of accessing grant funding.

- An Inclusive and Safe Vale – The Council will be undertaking a wide range of activities to tackle poverty. From its existing resources it will provide information and support to residents affected by Welfare Reform. It will work with partners such as the Creative Rural Communities partnership and the Police and Crime Commissioner to deliver specific initiatives. It will use WG grant funding to help reduce child poverty via and by aligning the Flying Start and Families First programmes.
- An Environmentally Responsible and Prosperous Vale – The Council will work with a range of partners to implement programmes of regeneration, economic growth and employment. Use of existing resources provides support to local businesses. Work to increase the number of visitors to the Vale of Glamorgan is promoted through the implementation of the Tourist Destination Management Plan as well as through an annual programme of events and festivals. Work is also being undertaken in partnership as part of the Cardiff Capital Region, which has delivered transport improvements from WG Metro funding. Energy management schemes are also supported via Salix funding and the introduction of the Refit programme.
- An Aspirational and Culturally Vibrant Vale – The Council seeks to support the diverse needs of children and young people so that they can reach their full potential. From its existing resources the Council will drive upwards standards

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of achievement for pupils through sharing excellence between schools and targeting of resources. It will work with community partners to deliver a sustainable Library Service.

- An Active and Healthy Vale – The Council recognises the importance of prevention and early intervention to improve and maintain well-being and to help tackle health inequalities. From its existing resources it will provide and promote a range of early years services including information and support for parents. It will work in partnership to deliver a range of leisure activities and community facilities and to progress the integration of adult social care and community health services.

2.19 The Council is committed to delivering sustainable, cost-effective, services that meet people's needs and maximise the use of its resources. To enable this, the Corporate Plan identifies a number of actions to improve integrated planning and these actions have been considered as part of this Plan.

2.20 Due to the uncertainty of future levels of funding, the financial viability of actions will be monitored throughout the duration of the Corporate Plan. Future expenditure patterns and the availability of resources to pursue corporate priorities will undoubtedly be heavily influenced by external factors such as those resulting from legislative, demographic or grant related changes.

2.21 In addition to inflationary increases, the major cost pressures affecting services over the period of the plan have been identified to 2020/21. Where possible, service departments are encouraged to mitigate known cost pressures from within their existing budgets.

2.22 In the Chancellor's 2016 Budget, it was announced that there would be a change in the discount rate to be used in the valuations of unfunded public service pension schemes with effect from 2019/20. The Teachers Pensions is classed as such a scheme. This proposed change would increase employers contributions from 16.48% to 18%. Further clarification on this proposal is being sought but it could result in an additional cost to schools of around £450k per annum.

2.23 It is recognised that the increase in an aging population will place significant pressure on Adult Social Care budgets, as clients become frailer and have more complex needs.

2.24 The introduction of the National Living Wage has also had a significant financial impact on the cost of externally commissioned services. The main area affected being Social Services and therefore in negotiating fees going forward, a better understanding of provider's costs and pricing for both state supported packages of care and self-funders and their capacity to absorb the NLW needs to be understood. It is not yet clear what the hourly rate will be for 2018/19 onwards. It is anticipated that there will be some indication in the Autumn Statement and it will be based on advice from the Low Pay Commission. Even with this uncertainty, it is considered prudent to include an estimation of possible additional costs over the coming 3 years for commissioned services, although this will need to be reviewed when further information becomes available.

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2.25 A summary of the major known cost pressures is shown in the following table. Any further cost pressures will need to be managed and mitigated by Services themselves.

PREDICTED REVENUE COST PRESSURES

	2018/19 £000	2019/20 £000	2020/21 £000	TOTAL £000
<u>LEARNING & SKILLS</u>				
Employers Contribution for Teachers	0	450	0	450
DIRECTORATE TOTAL	0	450	0	450
<u>SOCIAL SERVICES</u>				
Adult Services - Demographic Growth	715	715	715	2,145
DIRECTORATE TOTAL	715	715	715	2,145
<u>GENERAL POLICY & COUNCIL WIDE</u>				
National Living Wage Commissioned Services	650	650	650	1,950
Cost of Funding Capital Programme	100	100	100	300
Reduction in Use of General Reserve	700	0	0	700
TOTAL	1,450	750	750	2,950
TOTAL COST PRESSURES	2,165	1,915	1,465	5,545

2.26 Other significant cost pressures are forecast across services, although the impact is not yet known. The major areas are summarised below.

- Social Services and Well-Being (Wales) Act 2014** - These changes came into force in April 2016. There are many implications of this Act some of which still remains difficulty to assess. The Act enables health boards and local authorities to develop an integrated approach to the commissioning and provision of services from care homes. Work is currently being undertaken on the ways and possible impact of such a change, with implementation from 1st April 2018.
- The Waste Agenda** - The European Union (EU) Landfill Directive introduced a timetable for reductions in land filling Biodegradable Municipal Waste (BMW). The Landfill Allowance Scheme (LAS) represents the maximum amount of biodegradable municipal waste that the Council can landfill. Exceeding the allowance will result in potentially significant fines being levied @ £200 per tonne for all waste exceeding the allowance. WG have also introduced the power to levy financial penalties on Local Authorities that fail to reach their statutory recycling targets. These would also be £200 per tonne below the statutory target. In addition to these penalties, landfill tax is due to increase by inflation.

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The Council has demonstrated its commitment to the waste agenda by continuing its collaboration with four neighbouring local authorities for a residual waste disposal solution as part of Prosiect Gwyrdd which became fully operational from April 2016. This provides the Council with a sustainable long term solution for responsible waste disposal (Energy Recovery) and has reduced the risks associated with the Landfill Allowance Scheme. In 2016/17 the Council only used 9.8% of their landfill allowance which was the lowest for an authority in Wales. Since the Council has changed to a co-mingling method of collecting dry recycling, significant increases have been seen in the amount of recycling collected. Prosiect Gwyrdd will also contribute slightly to our recycling targets, however, there could still be significant costs in the future associated with achieving a recycling rate of 70% by 2024/25 in order to avoid the punitive fines mentioned above. A recycling rate of 65% was achieved for 2015/16 and early indications suggest that this has been maintained in 2016/17.

A further pressure is the potential future reduction of grant funding by Welsh Government for recycling. The grant sum was reduced for 2016/17 and further reductions are anticipated in 2017/18 at around £300k.

Article 11 of the Revised Framework Directive also has the potential to increase waste costs for recycling by requiring separate collections of paper, metals, glass and plastics or banning recyclable or compostable wastes from both landfill and Energy from Waste facilities from 2016/17 under Chapter 4: Waste Issues of Welsh Government's proposed Environment Bill which are yet to be enforced. Waste Resource Action Programme (WRAP) consultants have completed a review of the methods of waste collection within the Vale of Glamorgan Council to ascertain whether they comply with the Technically, Environmentally & Economically Practical (TEEP) assessment. WRAP are also assessing alternative forms of waste collection that could be implemented within the Vale of Glamorgan Council. Most of the alternative options would however require the use of a waste transfer station. Funding of £1.5m has been set aside for this purpose however a business case is required prior to the release of the funding. Whilst the waste disposal costs to 2018/19 have been taken into account as part of this Plan, costs past this date have not been included and no costs have been included for potential projects that may be required to increase recycling rates. The requirement to increase recycling rates will however need to be carefully monitored and the on-going financial impact on the Council will be fed into future budget processes. For information WRAP are due to informally present their initial findings to members in September 2017 and the Council will consider its future waste strategy by the end of 2017.

- **Welfare Reforms** - Parliament enacted the Welfare Reform Act in March 2012. The Act made provision for the introduction of Universal Credit. The Universal Credit will bring together various welfare benefits into a single payment. There are a number of significant issues associated with Welfare Reforms that have and will impact upon the Council and its services. These could include a potential increase in homelessness, poverty, additional pressure on Social Services, a reduction in income levels for the Housing Revenue Account through increased rent arrears and an increase in council tax arrears. There could also be increased costs from implementing the Welfare Reform changes and the potential impact on staff and job losses over the life of the process, as the changes are fully implemented. Universal Credit was introduced in the Vale

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of Glamorgan for single Job Seekers Allowance (JSA) claimants from February 2016 and the number of claimants is steadily rising with full implementation by 2021. The Government introduced the Welfare Reform and Work Act 2016 which further extended the Welfare Reform regime in April 2017 to exclude 18-21 year old claimants from receiving housing costs when qualifying for Universal Credit (with some exceptions) and also reduced the threshold of the Benefit Cap in late 2016. With the slow pace of the roll out of Universal Credit, it is still too early to fully assess the impact of the Welfare Reforms. However, the potential costs to the Council, particularly post 2017/18 could still be significant. The Council is currently holding a reserve of £756k to support the impact of Welfare Reforms and continues to monitor the impact of implementation across services.

- **Cardiff Capital Region City Deal** - The City Deal, brings together ten local authorities and financial support from Welsh and UK Governments to generate significant economic growth and to improve transport and other infrastructure within the Cardiff Capital Region over the next 20 years. The total cost of the Deal is estimated to be £210.8 million. The Vale of Glamorgan's share of the estimated total costs is projected to be in the order of £17.9 million and will be funded by unsupported borrowing with a 25 year repayment period. The contribution to be made by the Council will be substantial over the coming years however the specific timing of these contributions are yet to be determined and will depend on the final terms of any 'deal'. The total cost will be smaller in the early years of the deal (years 1 to 5 estimated to be a total of £903k) and will peak in Year 11 at £1.1 million for that year. The Council is currently holding a reserve of £1.25m to support the implications of the City Deal, however, further funding will need to be identified for future years as the Vale's contribution to the Deal progresses.

Existing Financial Strategy

- 2.27 The 2017/18 budget setting process reassessed the financial strategies that were established as a result of the budget review which was carried out and approved as part of the 2013/14 final budget proposals. The continued appropriateness of these strategies were reviewed given the significant level of savings that are to be found and the relative size of the Education & Schools and Social Services budgets as a proportion of the Council's net budget requirement.
- 2.28 **Education & Schools Financial Strategy** – The new Welsh Government elected in 2016 no longer require the provision of a Minimum Funding Commitment (MFC) for schools, which had previously been equivalent to 1% above the block grant settlement that WG received from the Treasury. While the Council was committed to providing the MFC for schools, this allocation did not fund all cost pressures and some pressures had to be met by schools themselves. As it is anticipated that the Council's funding from WG will continue to reduce into 2018/19 and onwards, it is inevitable that this position will have to continue and it will not be possible to fund all of the School's cost pressures. The Plan has therefore been based upon Schools meeting their costs pressures to the value of 1% of their current budget for each year of the Plan. This figure is similar to previous years. It is also thought to be reasonable in the context of the remainder of the Council which is projecting a 3% reduction in costs. Changes in pupil numbers are not yet known and will be considered as part of the 2018/19 budget setting process. The Council will however be minded of the current financial strategy which states that changes to Education should at least match the overall percentage shift in the Council's

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budget as amended for adjustments to the council tax reduction scheme (CTRS) and the council tax base and that it will strive to ensure that the budget for Education will be the same proportion of the Council's total budget as the Education SSA is to the total SSA, where it is feasible.

- 2.29 **Social Services Financial Strategy** –The Council will also strive to continue the principles which have been applied to Education & Schools for the percentage shift in Council budget and proportion of SSA to also stand for Social Services, however, again this will have to be considered in the light of future settlements.
- 2.30 **All Other Services Financial Strategy** - The financial strategies agreed for Education and Schools and Social Services were not something that could be extended to all services Council-wide. For the remaining services, they will need to continue to manage downwards or meet the bulk of their cost pressures through additional savings as well as taking their share of any budget reductions as a result of reduced funding. The Council is, however, mindful of its corporate priorities. Where practical, the Council will strive to maintain those Other Services that also contribute to this corporate agenda.

Matching Predicted Resources and Expenditure

- 2.31 As part of the 2017/18 budget setting process it was predicted that there would be a shortfall in funding of £2.553m in 2018/19. This was after the approved of savings of £5.226m.
- 2.32 In order to fund part of this shortfall, initial work has been undertaken to review the calculation of the Minimum Revenue Provision (MRP). The MRP is the method by which local authorities charge their revenue accounts over time with the cost of their capital expenditure that was originally funded by debt. Before the 2007/08 financial year, the method of calculating MRP was specified in legislation. But from 2007/08 onwards, local authorities have been free to set their own policy on calculating MRP, with the sole legislative proviso being that the amount calculated must be one that the Council considers to be “prudent”. At a time of increasing pressure on the revenue budget, a decrease in the annual cost of MRP may reduce the need for savings to be made in front line services. Currently, the Council charges MRP at the rate of 2% per annum to revenue. WG has issued guidance on the calculation of MRP, including a number of methods which it considers to be prudent. Initial work suggests that around £1.5m per annum could be saved by the review of the MRP calculation. Further work on the methodology will be undertaken during 2017/18 with a view to achieving this saving from April 2018 and therefore this additional saving has been included in Appendix 1 which outlines the currently identified savings.
- 2.33 The following table provides a summary of the predicted shortfall in funding to 2020/21, taking into account the projected change in resources available and a list of major cost pressures and currently identified savings. It also includes the assumption that not all of the Schools cost pressures will be funded in full as in previous years.

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Matching Predicted Resources to Expenditure 2018/19 to 2020/21

	2018/19 £000	2019/20 £000	2020/21 £000
Predicted Change in AEF (Inc.)/Dec.	4,486	4,352	4,222
Add			
Pay & Price inflation – Schools	1,391	1,413	1,436
Cost Pressures - Schools	0	450	0
Less			
To be met by Schools	(824)	(816)	(808)
Net Pressures – Schools	567	1,047	628
Pay & Price inflation – Other Services	1,707	1,730	1,753
Cost Pressures – Other Services	2,165	1,465	1,465
Less			
Savings Identified	(6,726)	(2,600)	0
Net Pressures– Other Services	(2,854)	595	3,218
Less			
Notional Council Tax Increase 2.6%	(1,720)	(1,765)	(1,811)
Adjustment for One Off Items	320	330	0
Potential Revenue Shortfall in Year for Services	799	4,559	6,257
TOTAL FUNDING SHORTFALL OVER 3 YEAR PERIOD			11,615

2.34 The matching exercise indicates that there remains £11.615m of savings to be identified for the 3 years of the Plan and this is after already planning for £9.326m of savings for the same period. The achievement of the identified savings will be extremely challenging in the context of historical savings already delivered, but failure to deliver this level of savings will significantly impact on the Council achieving its required financial strategy which will now be based on an estimated reduction of £20.941m by 2020/21 excluding schools. Whilst savings from efficiencies will continue to be pursued, realistically, a substantial proportion of the balance will need to be found through the reshaping of Council services, which in itself will require a lead in time of at least one year and will require the Council to seek alternative forms of service delivery and consider the long term viability of some functions.

2.35 There is still uncertainty as to the reliability of available information upon which future resources have been predicted and the assumptions that have had to be made. The results of the matching exercise assume all identified savings options are achieved. It should also be noted that, if anything, cost pressures for years beyond 2019 are likely to be understated because of the sparsity of information available and the as yet unknown changes in legislation.

2.36 Such is the sensitivity of the resource predictions that a 1% change in assumed funding for RSG/NNDR would have a significant effect on these figures, reducing or increasing the predicted available revenue resources at the end of each year by an average of around £1.5m. Similarly a 1% shift in pay and price inflation, excluding schools, approximates to £1.6m each year. It should be noted that there

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is no collective consensus as to the levels of future settlements and inflation trends, therefore, the deficit could increase with the consequent need to find further savings.

2.37 The effect of increasing council tax by 1% year-on-year over the period of the Plan raises a little over £2 million in total.

3. CAPITAL POSITION

Sources of Funding

- 3.1 In addition to its day-to-day revenue expenditure, the Council also has a Capital Programme for the acquisition or enhancement of assets such as land, buildings, roads and vehicles/plant. As part of the Council's integrated corporate planning arrangements, the Capital Programme is closely aligned to the Corporate Asset Management Plan which outlines the Council's need to acquire or enhance assets such as land, buildings, roads, vehicles and plant.
- 3.2 WG issues General Capital Funding (GCF) for each authority on an annual basis. Along with the General Capital Grant, the Authority is advised of a level of borrowing that WG is prepared to support via Supported Borrowing. If the Council wishes to borrow in excess of this level to increase its capital expenditure, then it can, however, it will either have to find the additional cost of borrowing through savings in services or increases in council tax (known as unsupported or 'Prudential' Borrowing). Presently, the largest scheme that will be financed by undertaking unsupported borrowing is the 21st Century Schools programme and it is estimated that £4.6m will be required. In addition, WG also issues capital grants for specific capital projects.
- 3.3 The Council sets funds aside in reserves to fund future capital projects. Currently, £36m is set aside in specific reserves which are earmarked to fund the capital programme between 2017/18 and 2021/22. The largest reserve of £9.7m is being held in the School Investment Strategy reserve and will be used as the Council's contribution towards the 21st Century Schools capital investment programme.
- 3.4 The sale of council assets will generate capital receipts which can be used to fund future capital expenditure. When assets are sold, capital receipts are usually held in a general pool, however if approved by Cabinet, receipts from certain sales can be ringfenced for specific purposes.
- 3.5 Other means of financing capital expenditure are available through direct contributions from revenue and grants from other organisations e.g. Lottery. Developer contributions through S106 agreements have also been used and will continue to be used for a variety of capital schemes, either in part or in full.
- 3.6 Resources within the Housing Revenue Account (HRA) are ring fenced and should only be applied for HRA purposes. Any capital receipts from the sale of council houses can be used solely for HRA purposes. The latest 30 year Housing Business Plan was approved by Cabinet on 3rd April 2017 (Minute No. C3527).

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Predicting Resources

3.7 The General Capital Funding (GCF) for 2017/18 received from WG was £5.405m, which consisted of a General Capital Grant of £2.045m and Supported Borrowing of £3.36m. Overall, this represented a small reduction of £14k (0.26%) on the previous year. In previous years, a 10% year on year reduction had been used to set the capital programme, however, as part of the 2017/18 final capital proposals, due to the Council's capital funding being flatlined for the past two financial years and after reviewing the assumptions adopted by a number of other authorities across Wales, a reduction of 5% year on year was assumed for future years.

3.8 Part of the Capital Programme is funded from the Council's capital receipts. Based upon the approved Capital Programme for future years, the table below shows the anticipated change in capital receipts. HRA capital receipts are ring fenced for use within the HRA and are, therefore, not included in the table. In addition, there are also capital receipts which have been specifically ringfenced for Schools and Social Services.

Effect on Useable Capital Receipts 2017/18 to 2019/20	Council Fund
	£000
Balance as at 31st March 2017	7,187
Anticipated Requirements – 2017/18	-6,100
Anticipated Receipts – 2017/18	106
Balance as at 31st March 2018	1,193
Anticipated Requirements – 2018/19	-101
Anticipated Receipts – 2018/19	0
Balance as at 31st March 2019	1,092
Anticipated Requirements – 2019/20	-127
Anticipated Receipts – 2019/20	0
Balance as at 31st March 2020	965
Anticipated Requirements – 2020/21	-313
Anticipated Receipts – 2020/21	0
Balance as at 31st March 2021	652

Predicting Expenditure

3.9 The capital programme is set on a rolling basis spanning a 5 year period. Underpinning this is the consideration of the direction of travel that the Council wishes to pursue in respect of its Capital Programme over the next 5 years (and beyond) and the objectives that it sets as part of the Corporate Plan.

3.10 Clearly, limited resources will allow only those schemes of higher corporate priority and/or risk being pursued over the next 5 years. As part of the annual review of the capital programme, any capital bids that are received are prioritised and only those schemes assessed as corporate priority 1 or higher and medium risk or higher are included. Schemes should also contribute to at least three Wellbeing and Future Generations outcome and the 5 ways of working.

3.11 It is also important to maximise grant funding which aligns with corporate priorities to enable the delivery of priority schemes. Some examples of currently approved capital schemes that contribute to the Council's well-being outcomes are highlighted

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in the following table and it can be seen that funding from WG is contributing to their achievement.

Well-Being Outcome	Capital Schemes	WG Funding Available
An Inclusive and Safe Vale	- Council Housing Improvement Programme	- Yes
	- Building new Council houses	- No
An Environmentally Responsible and Prosperous Vale	- Five Mile Lane	- Yes
	- LED Street Lighting	- No
	- Flood Alleviation Schemes	- Yes
An Aspirational and Culturally Vibrant Vale	- 21 st Century School Programme	- Yes
An Active and Healthy Vale	- Upgrading of Leisure Centre changing rooms	- No
	- Implementation of single integrated ICT system for Social Care and Health	- Yes

3.12 The most significant scheme listed above is the 21st Century Schools Programme which is the Welsh Government's funding initiative for investment in schools. The first tranche of schemes under Band A is being delivered between 2013/14 and 2018/19 and the funding from WG for this tranche is confirmed. Band B schemes are expected to commence in 2019/20. WG will provide funding for the schemes which will be partly grant funding and partly borrowing, with loan charges being included as part of the Council's RSG. The level of WG funding for Band B is yet to be confirmed. The current total funding envelope is now £31.2m.

Matching Predicted Resources and Expenditure

3.13 Unlike revenue reductions, where the impact is felt on existing service provision, decreases in capital funding essentially means that capital projects are not commenced or progressed. However, many projects and schemes involve the renewal of existing assets and the importance of maintaining existing infrastructure assets at their current levels must be weighed against other competing demands.

3.14 In assessing the effects of reduced funding on the Capital Programme, regard must be given to the development of the Council's Corporate Asset Management Plan (AMP) for Council property stock and housing and the Capital Investment Strategy. The current plan covers 2015 to 2018. The Capital Investment Strategy outlines the Council's need to acquire or enhance assets such as land, buildings, roads, vehicles and plant and forms the framework from which the Corporate Asset Management Plan is developed. As resources available to meet these needs are limited, the Strategy explains how priorities are set, establishes protocols and outlines ways in which the Council can seek to obtain additional funding.

3.15 The budget setting process must therefore give consideration as to how the Council could seek to mitigate the deteriorating situation in so far as it is able by :

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- Reappraising all schemes and looking to progress only those which are deemed to be a key corporate priority, whilst also seeking to gain assurance that such schemes are delivered on time and within budget;
- Developing partnerships with the public and private sector, the third sector and communities as a means of unlocking additional resources e.g. Rural Development Partnership;
- Maximising the receipts and use of S106 financial contributions to deliver a range of smaller scale capital schemes for transport, public open space enhancements, community facilities and contributions towards school investment;
- Maximising grant-funding opportunities for capital schemes, where such schemes are compatible with Council objectives;
- Prioritising the identification and sale of surplus land and properties as a means of generating capital receipts to fund capital schemes;
- Reviewing and strengthening the Council's project management methodology (including appropriate training for project managers and the use of business cases) as a means of ensuring that capital schemes are delivered within prescribed timescales and on budget;
- Reviewing the options for unsupported borrowing under the Prudential Code in the light of future financial projections on capital funding and expenditure; and
- Use of the Project Fund, Carbon Management Fund and other reserves as appropriate.

3.16 The majority of the above are not one-off actions and will be on-going over the coming years. As such, they will need to be continually monitored and assessed.

4 **RESERVES**

- 4.1 Reserves are a way of setting aside funds from budgets in order to provide security against future risks and to allocate funding for future priorities. The Council holds reserves for a range of purposes which can be used to fund either revenue or capital expenditure. The Council has always taken a prudent approach with regard to Specific Reserves and uses them to mitigate known risks (financial and service) and contingent items, e.g. Insurance Fund. Other reserves have been established to fund Council priorities, e.g. Visible Services and in particular the Capital Programme, e.g. School Investment Reserve, Project Fund, Building Fund.
- 4.2 The Council's strategy for the level and use of its reserves is reviewed and reported to Cabinet throughout the year via the Initial Budget Proposals report in November, the Final Budget Proposals report in February, the Closure of Accounts report in July and as part of the MTFP during September. Each report will examine the reserves to ascertain their strategy for use (i.e. whether the need to hold the fund is still relevant) and their level (i.e. whether the amount held in the fund is sufficient for requirements). These reports also include details of any new transfers into reserves and new commitments for their use. Each individual reserve and their intended use is shown, together with the current balance and the projected movement over the coming years.
- 4.3 After several years of real term reductions in funding and with the continuation of austerity measures into the foreseeable future, there is reducing contingency in the normal operational council budgets and the management and use of reserves will become increasingly important to be able to continue to provide services and to mitigate risks, while still trying to deliver corporate priorities.
- 4.4 The Council Fund reserve is held for general purposes and as at 1st April 2017 had a balance of £9.3m. £700k of the Council Fund is being used to fund revenue expenditure during 2017/18 which will leave a balance of £8.6m. No further use is currently planned during the period of this Plan. Whilst there is no set requirement for the minimum level of the Council Fund, some commentators use 5% of the net budget as a guide. For the Council this is currently about £10.8m, however, in view of the prudent approach the Council takes with regard to Specific Reserves, £7m is considered a reasonable minimum.
- 4.5 In addition, the Council has a range of earmarked reserves where funding has been ringfenced for a specific purpose. As at 1st April 2017 these earmarked reserves totalled £65m. £36m of these earmarked reserves, some of which are not specifically held for capital, will be used to finance the approved capital programme between 2017/18 and 2021/22. The largest reserve is the School Investment Strategy reserve which stood at £9.7m on 1st April 2017. It will be used as the Council's contribution towards the 21st Century Schools capital investment programme. At the end of 2016/17 £1.25m was set aside to contribute towards the Cardiff Capital Region City Deal.
- 4.6 The Housing Revenue Account Reserve has a balance of £958k as at 1st April 2017 and is ring-fenced for the development and improvement of the Council's housing assets. The level of this reserve is reviewed on an annual basis as part of the updating of the 30 year Housing Business Plan.

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4.7 The commitments against reserves have been assessed and attached at Appendix 2 is a schedule showing the reserves and the anticipated balances over the period of this MTFP, 31st March 2017 to 31st March 2021. A summary of the position is set out in the following table.

Summary of Estimated Reserves Projected to 2020/21	Est. Bal. 31/3/2017 £'000	Net Movement £'000	Est. Bal. 31/3/2021 £'000
Council Fund	9,309	(700)	8,609
Specific Reserves :			
- Insurance Fund	2,545	0	2,545
- Capital Reserves	30,673	(20,897)	9,776
- Other Specific Reserves	31,446	(16,790)	14,656
Total Reserves (exc Schools & Housing Revenue Account)	73,973	(38,387)	35,586

4.8 It is projected that there will be a large fall (51.9%) in the level of reserves over the period of this Plan as substantial calls on funds are made. The Council Fund is at a reasonable level and is not expected to fall below £7m. As part of this Plan, no specific use of the Council Fund is proposed, however, in light of the projected shortfall in funding for 2018/19, a further use of the fund will need to be considered as part of the budget setting process for 2018/19 once the final settlement figures are received from WG. It is considered that earmarked reserves are adequate to cover future commitments and risks but will need to be carefully monitored in future years.

5 RISKS TO PLANNING

- 5.1 An important factor affecting the Plan is the risks the Council is facing. As part of the Council's integrated planning framework, the Council's Risk Strategy states that effective Risk Management allows the Council to make the most of its opportunities, make the right decisions and achieve its objectives once those decisions are made. The Council's policy is one of embedding risk management in every aspect of the organisation. A knowledge and awareness of risks creates an environment in which continuous improvement can be achieved and where the Council takes informed decisions. Corporate Risks need to be taken into account in judgements about the medium to long-term goals and objectives of the Council.
- 5.2 When deciding how to manage risks, officers will consider the possible costs of relevant options, including the option of maintaining the status quo. The cost of managing risk will be allocated from within existing resources or through revenue cost pressures and capital bids as required.
- 5.3 There are risks inherent in medium to long term planning and these are now outlined with possible mitigations.

Resource Risks

- 5.4 In addition to the uncertainty regarding the percentage reduction to be applied by WG, there is also uncertainty in respect of data changes in the funding formulae and changes to the composition of the formulae themselves. For example, any potential transfer of specific grants into the formula may be at a different level to that which was previously provided via grant.
- 5.5 Pay and price inflation levels for the coming years have been included in the Plan as 1.6% and 0.5% respectively. Excluding schools, a 1% difference from the pay assumption included in the Plan would result in a change of £800k.
- 5.6 While the Council is formalising its fees and charges strategy, the continuing uncertainty in the economic climate could result in a reduction in income e.g. planning fees.
- 5.7 Capital schemes which are reliant on capital receipts for funding need to be carefully profiled as the timing and value of receipts could vary significantly particularly with the affect that the uncertainty created by the exit from the European Union is having on the development sector.

Expenditure Risks

- 5.8 As part of the 2017/18 budget setting process, Cabinet approved £11.513m of savings between 2017/18 and 2019/20. There is great pressure on services to deliver these existing savings. The additional savings target in this Plan assumes that all existing savings will be achieved and within the required timeframe. Non-achievement of these savings will put additional pressure on services and will make the ability to find the additional level of savings, highlighted in this Plan, increasingly difficult. The £4.017m approved savings for 2017/18 will therefore be closely monitored in-year and the impact of any non-achievement will be assessed as part of the 2018/19 budget setting process and will also impact on future Medium Term Financial Plans.
- 5.9 A further implication of the ongoing level of savings is that there will be a reducing base of staff, tasked to deliver services in an increasingly efficient way. This brings

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with it a significant risk that there may have to be a reduction in the level of service provided.

5.10 There are certain services in the Council that are currently under financial pressure and represent specific risks to the Plan.

- **Education** – There has been increased demand from Vale of Glamorgan pupils requiring placements in Ysgol Y Deri and fewer places are being purchased by other authorities, as they themselves seek to reduce their costs. This brings a resultant reduction in income. Also there has been an increase in the number of pupils with significant needs that are unable to be met at Ysgol Y Deri and therefore have to be placed in independent schools and with other authorities. As a result a review of the service is being undertaken in an attempt to mitigate this position.
- **Social Services** - There are ongoing pressures as a result of the changes in demographics, people are living longer and have more complex needs and the increase in charges from service providers due to the introduction of the National Living Wage. Again the service will need to undertake work to try to mitigate this position.

A proportion of savings to be achieved by Social Services relies on collaborative work with the Health service. Similar to Councils, the Health service faces financial pressure and this could impact detrimentally on the Council either through the passporting of costs to the Council or the possible impact on collaborative work currently being undertaken. In addition, any decision by WG to further top slice funding to support Health's overspend will have a major impact on Local Government.

- **Visible Services** – Looking to the longer term there are risks associated with the charge for energy. In addition, the waste agenda, despite the commencement of the Prosiect Gwyrdd residual waste facility, is subject to possible legislative changes which could dramatically increase the costs of recycling and disposal.
- **Housing/Council Tax** - The impact of changes to welfare reforms are at present not clear. The changes are at the early stages of implementation and while the Council has not as yet been adversely affected, future implications are difficult to predict.

5.11 There is currently uncertainty over the increases per year following the introduction of the National Living Wage which could be over £9 per hour by 2020. Any other changes in legislation over the coming years could also affect the projections in the Plan.

5.12 Capital schemes can pose risks as projects could outturn at a higher cost than planned and the effect of adverse weather conditions are increasing the cost of maintaining the Council's infrastructure and increasing the risk of natural disasters such as flooding. The Council is also at this time preparing for large scale capital investment in the 21st Century Schools Band B projects and also through the Cardiff Capital Region City Deal. These capital schemes will require significant investment and the Council needs to ensure that it allocates and has access to sufficient funding.

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Mitigation of Risks

- 5.13 An inevitable consequence of these levels of savings is that there will be a reduction in staff numbers. The Council has set aside funds to cover potential early retirement and redundancy costs. These funds are considered to be sufficient so the risk of meeting severance costs has been mitigated. The Council's Workforce Plans should also help to mitigate the risk by ensuring that it anticipates and plans for the workforce needs of the future in order to meet changing services requirements.
- 5.14 In the past, the Council has taken a prudent view with regard to unsupported borrowing. It is therefore considered that the Council will be able to maintain the currently approved levels of borrowing which serves to mitigate this risk.
- 5.15 The Reshaping Services Programme is a proactive change programme which seeks to mitigate financial risks by fundamentally reviewing services which includes the use of technology to drive change.
- 5.16 Savings will need to be closely monitored and scrutinised to ensure they are delivered on target and within the approved timeframe.
- 5.17 The Council holds a reasonable level of reserves and this funding source could be used on a one off basis or could be used as a support while further plans are developed and implemented.
- 5.18 The Council continues to implement energy efficiency schemes which helps to reduce energy usage.
- 5.19 In mitigating risks, it is necessary to identify both the likelihood and impact on Council services, which result from external pressures and decisions to reduce local government funding. However, the sparsity of information on which to base these decisions and in particular those impacting on local government funding, do not in any way assist the risk management process. As such, it will be necessary to revisit the assumptions made in the light of changing and evolving circumstances as part of the 2018/19 budget setting process.
- 5.20 If capital projects overspend then this will mean that the capital programme will be reviewed to identify other schemes that could be postponed or cancelled until further funding is identified. It is therefore important the capital projects are adequately planned and are effectively project managed and the Council needs to prudently reflect the future capital funding that will be available.

6 THE STRATEGY

- 6.1 In considering the position, it should be noted that, the rolling nature of the Medium Term Financial Plan will necessitate it changing and developing as a budgeting and forward planning tool as the factors upon which it is based become clearer and more certain. In particular, predictions of likely future pay and price inflation funding and annual revenue settlements from WG are still extremely uncertain. The Council's Corporate Plan contains actions aligned to well-being outcomes which are to be delivered through a range of funding sources which are also subject to change and therefore could be affected by future reductions in funding. One of the Council's ways of working is to understand the root cause of issues. Through projecting and understanding the financial position of the Council, issues can be identified and the necessary actions required can be taken in a timely manner. Key to ensuring that the financial position is monitored in the context of other corporate planning activities is the establishment of the Insight Board, which has streamlined arrangements and amalgamated existing groups into one Board. A priority of the Insight Board is to review corporate plans and strategies.
- 6.2 As the strategy contained within this Section is based upon projected inflation and cash changes in WG funding of RSG/NNDR (based upon the assumed settlement figures), even a small percentage change could have a significant impact.
- 6.3 Involving the population in decisions is embedded in the way the Council works. To ensure that the budget set for 2018/19 and for future years continues to address the priorities of Vale residents and the Council's service users, the budget setting process will incorporate engagement with a range of stakeholders. This engagement will be facilitated by Council officers and conducted in line with the corporate standards set out in the Vale of Glamorgan Council Public Engagement Framework. To ensure that all stakeholders are able to make a meaningful contribution to the process, they will be provided with sufficient information to enable them to make informed comments. Also the Council will work with the Public Service Board to link their well-being priorities and this will have an impact on the way in which the Council's funding is used and will inform future collaborative arrangements.
- 6.4 There will be a programme of engagement with elected members of the Vale of Glamorgan Council through the scrutiny process. The input of elected members will provide another channel through which residents can have an input into the budget setting process.

Projected Shortfall

- 6.5 The 2017/18 Final Revenue Budget Proposals set savings targets for 2018/19 and 2019/20 of £14.755m. Based upon the revised projected funding reductions, this Plan indicates total savings of £20.941m excluding Schools. It is therefore imperative that savings already identified are achieved, as there still remains an estimated revenue shortfall of some £11.615m to be identified by 2020/21. This is shown by year in the table below.

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Shortfall in Revenue Funding 2018/19 to 2020/21 (Excluding Schools)

<u>Additional Savings Targets</u>	Total Savings	Identified Savings	Shortfall
	£000	£000	£000
Predicted Shortfall 2018/19	7,525	6,726	799
Predicted Shortfall 2019/20	7,159	2,600	4,559
Predicted Shortfall 2020/21	6,257	0	6,257
Total Predicted Shortfall	20,941	9,326	11,615

6.6 It should be noted that in arriving at the calculated £11.615m shortfall, certain assumptions have had to be made and there will inevitably be additional cost pressures arising from 2018/19 onwards which are as yet unknown and no provision has been made for service development. Any targets set will be extremely challenging for services, as they are also required to meet other growth items from existing resources, e.g. staff increments.

6.7 With such a high level of savings already allocated as part of the 2017/18 budget setting process, careful consideration must be given to how additional savings are allocated to service areas, while there are areas of the Council where there are fixed costs that cannot change e.g. debt costs. The following issues will be considered.

Transformational Change

6.8 The scale of the challenge that now faces the Council means that a "business as usual" approach, however well managed will not be enough. The challenge is therefore to consider alternative delivery models for services across the Council. In November 2014, Cabinet agreed a Reshaping Services strategy and change programme. The aim of the strategy is to reshape the Council to enable it to meet the future needs of citizens of the Vale of Glamorgan within the context of unprecedented financial challenges. Savings identified in Tranche 1 and 2 of the programme are nearing completion. Some examples of such change are the introduction of a new target operating model for service delivery for Visible Services which was approved by Cabinet on 24th April 2017 and the creation of a Local Authority Trading Company for Catering which was approved by Cabinet on 24th April 2017.

6.9 As part of the 2016/17 budget setting process it was recommended that Tranche 3 of the programme should commence and the 2017/18 Final Revenue Proposals provided targets for Tranche 3 savings totalling £4m over the period 2018/19 to 2019/20. Further projects are being considered and the Council is currently developing proposals for how these will be taken forward. When identifying areas of savings, the Council will need to take into consideration the level of savings that has been identified as part of this Plan in individual services areas and give consideration to corporate/cross-cutting opportunities to generate savings.

6.10 Services are asked to prioritise the consideration of alternative and collaborative methods of service delivery as opposed to a reduction in service level even though service reduction in the future is now inevitable. Actions to support such new approaches include collaborative working and such initiatives are already included in the Corporate Plan and support one of the Council's ways of working, namely to work in a collaborative way. Some examples include working with the Police and Crime Commissioner to pilot a new approach to supporting victims of domestic

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abuse and implementation of a single integrated IT system and integrated budgets across the Cardiff and Vale region for social care and health.

- 6.11 Another way of delivering savings is to charge for certain services and facilities. As part of Reshaping Services programme, opportunities for charging are being considered and a target of £1.050m over the 2 years commencing 2018/19 has been set. This will include extending current service provision and recovering the costs through income. Opportunities relating to advertising, filming and the recoupment of finance charges have been the focus of work to date and it is considered that the potential for income generation should be pursued further. A corporate policy on charging and income is in the process of being produced.
- 6.12 Services may also be able to identify additional sources of income from grant funding from Welsh Government and other grant making bodies as well as contributions from partner organisations for the delivery of initiatives. Grant funding is already being used to help achieve the Wellbeing Outcomes set as part of the Council's Corporate Plan. It is considered that grant funding from a variety of sources should be pursued and that the use of grant is reviewed to ensure that it is efficiently used.
- 6.13 The Council sees ICT and digital technology as a key means of reshaping services and a savings target of £750k has been set for the 2 years commencing 2018/19. The Council's Digital Strategy 2017-2020 was approved by Cabinet on 31st July 2017. The strategy identifies 4 themes which will enable the Council to achieve its vision. They are Digital Customer Service, Digital Workforce, Digital Place and Digital Collaboration.

Traditional Savings

- 6.14 In addition to undertaking transformational change, the Council will also need to review and assess its expenditure to ensure efficiencies can be achieved through more traditional methods. The Council can drive out savings through the procurement process. It is essential that the Council ensures value for money from the contracts it enters into. It is therefore important that services continue to renegotiate contracts to deliver increased flexibility and efficiency gains and therefore controlling price inflation and maximising the use of collaborative arrangements such as through the National Procurement Service where it is advantageous to do so. As part of the Reshaping Services programme, savings through more efficient procurement has been set a target of £2m over the 2 years commencing 2018/19.

Reserves

- 6.15 Whatever initiatives are put in place to deliver the required savings it may still be necessary to use reserves to support the future delivery of key priority actions. As such, a key part of the Budget Process has and will continue to be the re-examination, redefinition and reclassification of all earmarked reserves in order to ensure a sustainable level of Council Fund reserve is maintained. The 2017/18 final budget proposals assumed a £0.7m use of the Council Fund Reserve in that year with no further use of the reserve approved. The reserve will not fall below a level considered to be a reasonable minimum by the Section 151 Officer. This position will be reviewed by the Budget Working Group as part of the future financial strategy from 2018/19. However, it must be emphasised that the use of reserves to fund recurring expenditure can only be considered as part of a specific strategy to achieve a balanced budget in future years. The consequence of such actions will be to increase the level of savings required in future years.

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Council Tax

6.16 For 2017/18, the Council's net budget requirement, after adjusting for discretionary rate relief and Council Tax Support Grant, is some £1.287m below its SSA of £216.807m. When comparing the Council's current Band D council tax with that of the other Welsh local authorities, the Vale of Glamorgan has the 10th (out of 22) lowest Band D charge in Wales at £1,142.37 and is 1.7% below the Welsh average. Based upon the Welsh average of £1,161.65 and an estimated Band D equivalent of 57,920 Council properties for 2017/18, a move to the Welsh average could provide an annual increase in base budget resources for the Council of around £1.1m. A 1% rise in council tax would have the potential to generate approximately £662k per annum. While this Plan is based on a 2.6% increase in council tax, in order to reduce the funding shortfall a higher percentage increase in council tax could be considered. It should however be noted that the potential to increase council tax may be limited given WG's ability to cap rises.

Current Service Pressures

6.17 The Council needs to continually review its estimation of all existing pressures, especially inflation, key demographic demands and levels of contingency to minimise any unexpected impacts. Currently the major areas of financial pressure for the Council are in Social Service from the Adults Services Community Care packages and in Learning and Skills from the Additional Learning Needs service. Further work will need to be conducted by the directorates in assessing the future needs for the services and options for addressing the demand.

Capital

6.18 There is an expected decrease in the Council's General Capital Funding allocation from WG. This coupled with limited capital receipts, gives the Council little room for manoeuvre in progressing its priorities in this area and little funding to cover overspends.

6.19 As such the Council will have to look to mitigate this situation in so far as it is able and will have to focus its limited resources on its well-being outcomes as detailed in the Corporate Plan. These include the completion of the Council House Improvement Programme and the instigation of a new council house building programme and the development of a new school modernisation programme which will be funded partly by WG grant and Council funding which has been set aside over several years.

6.20 The strategy adopted by the Council must also be to maximise the resources available to it from other sources and use available grant funding to meet its corporate priorities. The Council has been successful in achieving this in the past and must continue to pursue grant funding as a means of funding priority capital schemes. The Council is also pursuing the effective and efficient use of Section 106 funding.

6.21 The Council must also rationalise its assets as both a means of raising capital funding and reducing costs. One of the Council's ways of working is taking an integrated approach. The Council recognises the value of the contribution of the Town and Community Councils and its other partners and as part of the Reshaping Services programme is developing these relationships through specific projects such as community asset transfers.

7 CONCLUSION AND RECOMMENDATIONS

7.1 This Medium Term Financial Plan has illustrated the continued reliance that the Council has to place upon WG and other government-linked organisations for its funding, not only in terms of RSG and NNDR, but also in respect of the special and specific grant funding and subsidy it receives. Given the latest indications of continued reduction in funding levels for local government, it is now even more difficult to perceive how the amounts forthcoming would be sufficient to match the aspirations of the Council.

7.2 It must be emphasised that the savings targets and options identified will not be easy to achieve particularly after already having several years of large scale reductions in funding, however, it is imperative that they are achieved. The Plan has identified the need to find £20.941m of savings over the next 3 years, excluding schools, of which £7.525m relates to 2018/19 alone. Furthermore there are inherent risks associated with many of these savings which could be adversely affected by changes in economic circumstances. It will therefore be necessary to ensure that there is a close system of monitoring and scrutiny of the savings to ensure their delivery. Details of individual savings targets and an assessment of their progress is reported to Cabinet and Scrutiny Committee on a quarterly basis. As reported to Cabinet on 3rd July 2017 it is anticipated that the Transport Review savings for Visible Services will not be achieved in full this year, however, some funding has been ringfenced in the Visible Service Fund to cover this projected shortfall. While the saving may be funded in the short term from another source, plans need to be made for their delivery in the longer term or alternative proposals for making the savings need to be identified.

7.3 Looking to the long term is one of the Council's ways of working. The provision by WG of a year by year funding allocation with no firm indication of funding changes in future years does not help the planning process, not only in the long term but even in the short term. A 1% change in the reduction of predicted WG funding equates to around £1.5m and this can significantly alter the level of savings required. The level of savings identified in this Plan is therefore only an indication. Action will need to be taken now as the way in which services will deliver savings in the future, through alternative service delivery, will require a long lead in time in order to be able to assess the best way of delivering the service and also to allow for the consultation process.

7.4 While the actual shortfall in funding for 2018/19 will not be known until December 2017, it is proposed that the following areas are considered as a means of reducing the projected £799k funding gap if the reduction in funding from WG is 3% as included in this Plan:-

- No provision for prices inflation which equates to £455k;
- The impact of the change to the Council Tax base; and
- A further use of the Council Fund to fund any remaining shortfall.

7.5 In view of the shortfall identified across the 3 years, actions need to be taken to prepare for future reductions in funding. It is proposed that once the 2018/19 indicative allocations are received from WG and as part of the budget setting

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process for 2018/19, the Budget Working Group will consider the options for funding the shortfall as outlined in this Plan and identify further savings targets for future years, while ensuring that the limited resources focus on priorities as outlined in the Corporate Plan. At that stage the assumptions made in this Plan will also need to be reviewed for their appropriateness. The options to be considered should at least include the following :-

- Considering the results of the budget engagement process in determining priorities for future savings and service delivery;
- Reviewing the appropriateness of financial strategies for services;
- Reviewing the feasibility of any change in the use of the Council Fund Reserve and other reserves as part of the financial strategy;
- A further review of the level of cost pressures with a view to services managing and reducing demand and mitigating pressures;
- Services funding their own residual cost pressures through reviewing their existing budgets and revised/alternative means of service provision;
- Services meeting their own pay inflation through reviewing their staffing structure in line with changes to service delivery and workforce planning requirements;
- Further consideration of the level of price inflation provided;
- Reviewing the priorities for funding statutory and non-statutory services, including establishing minimum levels of services provision;
- Considering the latest position regarding the Council's Reshaping Services programme and identifying further area for savings;
- Collaborative working in line with the Welsh Government reform agenda;
- Develop a strategic approach to income generation;
- Finalise the MRP review;
- Consider the increase in Council Tax;
- Reviewing the achievement of the 2017/18 savings targets; and
- Considering the possibility of a reduction in the level of service and determining what services the Council needs to deliver in the future.

PROPOSED SAVINGS 2018/19 TO 2019/20

Title of Saving	Description of Saving	2018/19 £000	2019/20 £000
LEARNING AND SKILLS			
<u>Strategy, Culture, Community Learning & Resources</u>			
Reshaping Services - Tranche 2	Staffing reorganisation and efficiencies through procurement	50	0
Total Strategy, Culture, Community Learning and Resources		50	0
<u>Achievement for All</u>			
Reshaping Services - Tranche 1	Continuation of Additional Learning Needs review Reshaping Project. Report due in Autumn 2017 to set out further detail	166	0
Total Achievement for All		166	0
TOTAL LEARNING & SKILLS		216	0
SOCIAL SERVICES			
<u>Adult Services</u>			
Reshaping Services	Review of management of adult care packages and day services to be realised through a variety of delivery options	320	330
Total Adult Services		320	330
TOTAL SOCIAL SERVICES		320	330
ENVIRONMENT AND HOUSING			
<u>Visible Services</u>			
Public Convenience	Review of the provision of Public Conveniences across the Vale of Glamorgan to consider different methods of service delivery	50	0
Waste Collection	Review the option to centralise collection prior to final transfer to include a full assessment of the new waste transfer facilities in the Vale	62	63
Reshaping Services	Completion of the implementation of the new target operating model for service delivery for Visible Services - currently being implemented	1,375	0
Total Visible Services		1,487	63
<u>Building Maintenance</u>			
Reshaping Services - Tranche 2	Continuation of changes to service provided by Building Cleaning & Security Service to deliver further efficiencies and savings	100	0
Total Building Maintenance		100	0
TOTAL ENVIRONMENT AND HOUSING		1,587	63

PROPOSED SAVINGS 2018/19 TO 2019/20

Title of Saving	Description of Saving	2018/19 £000	2019/20 £000
MANAGING DIRECTOR & RESOURCES			
<u>Financial Services</u>			
Restructure/ Rationalisation of Financial Services Division	The merger of certain functions and the transfer of Housing Benefit function to DWP. Further review of working practices and staffing to be undertaken	0	207
Total Financial Services		0	207
<u>ICT</u>			
Reshaping Services - Tranche 2	ICT - Review service and maintenance contracts. Currently underway	150	0
Total ICT		150	0
<u>Property Services</u>			
Property Costs	Savings to be achieved through the Space Project, which is currently underway and due for completion in early 2018	303	0
Total Property Services		303	0
Reshaping Services - Tranche 2	Review of services within Corporate Resources which will involve a mixed approach including reviewing structures and driving further efficiencies in working practices	600	0
TOTAL MANAGING DIRECTOR AND RESOURCES		1,053	207
<u>GENERAL POLICY AND COUNCIL WIDE</u>			
Reshaping Tranche 3 - Procurement	More efficient and effective procurement of goods and services to include review of contracting and authorisation procedures	1,000	1,000
Reshaping Tranche 3 - Commercial Opportunities	Savings resulting from a review of charging and income management. A policy dealing with all aspects of income generation and charging will be reported to Cabinet in Autumn 2017	550	500
Reshaping Tranche 3 - Digital Strategy	Implementation of savings as a result of the Digital Strategy approved by Cabinet in July 2017	250	500
Reshaping Tranche 3 - Establishment Review	Greater emphasis on issues regarding agency provision, overtime payments and call of arrangements	250	0
Minimum Revenue Provision (MRP)	Review of the methodology for calculating MRP	1,500	0
TOTAL GENERAL POLICY/COUNCIL WIDE		3,550	2,000
COUNCIL TOTAL		6,726	2,600

ANALYSIS OF RESERVES

Name	Bal	In	Out	Est	Comments	Est	Est	Est
	31/03/17			Bal		31/03/19	31/03/20	31/03/21
	£,000	£,000	£,000	£,000		£,000	£,000	£,000
<u>Housing Revenue Account</u>	958	0	-128	830	The fund is ring fenced by statute for use by the Housing Revenue Account (HRA). As well as acting as a working balance for the HRA, it is also used to fund repairs and the capital programme.	852	868	884
<u>General Reserves</u>								
Council Fund	9,309	0	-700	8,609	The working balance of the Authority can be used to support Council Fund expenditure or to reduce the Council Tax. The current financial strategy assumes use of the fund to support the revenue budget in 2017/18. The minimum recommended level in the view of the S151 Officer is £7m.	8,609	8,609	8,609
<u>Specific Reserves</u>								
<u>Learning and Skills</u>								
Excluded Pupils	37	0	-37	0	Relates to funding transferred from the schools formula in relation to pupils that have been excluded. The reserve will fund alternative curriculum placements for pupils that are based at the pupil referral unit.	0	0	0
School Invest to Save	114	0	-114	0	The reserve is used to support costs of staffing restructures and redundancies in schools	0	0	0
School Placement	200	0	-200	0	This reserve is to be used to fund any overspend in the Schools Placement budget pending the implementation of the Reshaping Service programme	0	0	0
Schools Rationalisation and Improvements	733	59	-250	542	This reserve will meet the costs of school restructuring and reorganisation and support schools in the improvement of their teaching and learning facilities.	273	143	143
Sports Facilities	31	0	0	31	Funding transferred from Pen y Garth Primary School in order to provide a budget to fund ad hoc repairs and maintenance required to sports hall.	31	31	31
Library Fund	303	0	-20	283	The fund will be used to fund costs in relation to the implementation of the Library review.	283	283	283
Adult Community Learning	91	0	-15	76	To finance future funding deficits as a result of Welsh Government reductions.	40	0	0
Youth Service	149	0	-25	124	To assist with the implementation of the Youth Engagement & Provision Framework in schools.	75	0	0
Repairs and Renewals Catering	254	0	-254	0	The primary use is to fund enhancements to premises and the replacement of Catering equipment, ensuring Environmental Health Officer requirements and Health & Safety obligations within school Catering premises are met.	0	0	0

ANALYSIS OF RESERVES

Name	Bal 31/03/17 £,000	In £,000	Out £,000	Est Bal 31/03/18 £,000	Comments	Est Bal 31/03/19 £,000	Est Bal 31/03/20 £,000	Est Bal 31/03/21 £,000
Social Services								
Legislative Changes	3,476	0	0	3,476	To cover additional burdens on the authority due to changes in legislation eg Social Services and Well-being (Wales) Act 2014 , Deprivation of Liberties Standards.	3,476	3,476	3,476
Social Services Plan	980	0	-650	330	To support the approved Social Services Budget Reduction Programme.	0	0	0
Social Services Pressures	1,913	0	0	1,913	To cover short term childrens placements which have a high cost e.g. remand, that cannot be accommodated within the current operational budget.	1,913	1,913	1,913
Social Services Development	350	0	0	350	To cover costs of implementing service development and contingency for premises maintenance	350	350	350
Grant Exit Strategy	460	0	0	460	To pay potential redundancy costs if Welsh Government grants were discontinued.	460	460	460
Youth Offending Service	174	0	0	174	To assist with potential reductions in grant funding in future years and to carry out works at YOS building	174	174	174
Environment and Housing								
Visible Services	7,544	0	-5,796	1,748	To be used for initiatives to improve Visible Services, including Parks and Highway services plus any potential costs of waste disposal initiatives.	897	450	111
Waste Transfer Station	1,500	0	0	1,500	Establishment of a Waste Transfer Station.	500	0	0
Jenner Park	335	0	-335	0	To provide funds for improvements at Jenner Park Stadium and for Colcot pitches	0	0	0
Bad Weather Reserve	431	0	-100	331	To fund necessary works during periods of severe weather conditions.	231	131	31
Building Services Improvement	304	0	-80	224	Monies set aside for improvements to the Building Services department.	124	74	24
Rural Housing Needs	64	0	-12	52	To be used to fund Rural Enabler post.	39	26	13
Homelessness and Housing	501	0	-94	407	This sum will be used to support homelessness prevention work, including staff costs and to support the Community Safety service	184	0	0
Gypsy Traveller Study	1,060	0	0	1,060	Provision of Gypsy/Traveller site and Gypsy Liaison officer	1,060	1,060	1,060
Regulatory Improvements	282	0	0	282	Monies set aside for Regulatory Services issues and to be used for any future issues arising from the shared services collaboration.	282	282	282

ANALYSIS OF RESERVES

Name	Bal 31/03/17 £,000	In £,000	Out £,000	Est Bal 31/03/18 £,000	Comments	Est Bal 31/03/19 £,000	Est Bal 31/03/20 £,000	Est Bal 31/03/21 £,000
Managing Director and Resources								
Regeneration and Planning								
Disabled Facilities	80	0	-48	32	To fund an Occupational Therapist within Disabled Facilities Grant team	0	0	0
Temporary Empty Homes Officer	18	0	-18	0	To be used to fund an Empty Homes Officer.	0	0	0
Private Sector Housing	284	0	-30	254	To fund initiatives for Private Sector Housing, including an Occupational Therapist within the DFG team	208	129	49
Local Development Plan	155	0	0	155	Set aside for costs relating to the production of the Local Development Plan.	155	155	55
Regeneration & Planning	408	0	-246	162	Monies set aside to cover various commitments within the service.	104	85	85
Planning Fees	100	0	0	100	To provide for reduction in planning fees income	100	100	100
Building Control	175	0	0	175	Reserve set aside to fund future deficits on the ringfenced Building Control Trading Account.	120	100	70
Regeneration Fund	850	0	-438	412	To fund various regeneration schemes in the Vale, including committed capital schemes	287	0	0
Donations	26	25	-20	31	Income received from visitors which is used to fund general projects and to match-fund expenditure incurred by the Friends of the Heritage Coast.	31	31	31
Employment Training	60	0	0	60	To assist with costs associated with the ending of the Employment and Training Services contract (Work Programme).	0	0	0
Resources								
Welfare Reforms	756	0	0	756	To fund pressures on the Authority resulting from changes to the Welfare Benefit System. The balance required in this reserve will be assessed when more information becomes available. This reserve could be used to finance any Department for Work and Pensions projects.	756	756	756
Legal	727	0	-180	547	To provide for external counsel fees and additional legal capacity required for one off schemes and major projects.	362	262	160
Trainee Appointments	721	0	-50	671	To fund the appointment of trainees and interns to support services and the Reshaping Service programme .	621	571	521
Legal Claims	1,920	0	0	1,920	To fund future legal cases and judicial reviews.	1,920	1,920	1,920

ANALYSIS OF RESERVES

Name	Bal 31/03/17 £,000	In £,000	Out £,000	Est Bal 31/03/18 £,000	Comments	Est Bal 31/03/19 £,000	Est Bal 31/03/20 £,000	Est Bal 31/03/21 £,000
Human Resources	197	0	-70	127	To fund transitional costs associated with the move to the new HR operating model/HR service centre, for spend to save projects i.e. reduce recruitment spend, reduce sickness absence etc and for a part time temporary post for work associated with the 16-24 agenda	72	32	0
Performance and Development	403	0	-138	265	To fund the purchase of hardware, software and equipment and to fund the appointment of trainees and interns to support the service.	165	105	60
Democratic & Freedom of Information	48	0	-48	0	To be used to fund IT and other equipment required to support department	0	0	0
Corporate								
Election Expenses	368	0	0	368	Set aside for the Council and other elections costs.	368	368	368
Corporate Governance	338	0	0	338	This reserve has been set aside in respect of local government governance and development issues e.g. collaboration, mergers. The fund is also a useful contingency provision for improvements required urgently e.g. as a result of an inspection report.	338	338	338
Early Retirement/Redundancy	973	0	0	973	Used to finance the cost of early retirement and redundancy as a result of restructuring, budget savings and the Reshaping Service Programme.	973	973	973
Events	368	0	-150	218	To provide funds to promote the Vale of Glamorgan particularly in respect of tourism and economic development.	88	0	0
Insurance Fund	2,545	0	0	2,545	To fund potential future claims on the Authority based upon historical evidence. This is reviewed annually. No prediction for future use has been included at present and claims can have a long lead time.	2,545	2,545	2,545
Energy Management Fund	292	99	-180	211	Energy saving schemes initially funded from this reserve and services make repayments to the fund once savings are achieved.	310	388	440
Reshaping Services	669	0	-97	572	To fund one off costs that will be incurred during the implementation of the Council's Reshaping Services programme	475	378	281
Interpretation Services for Asylum Seekers	98	0	0	98	To provide support and interpretation services for asylum seekers	98	98	98
Stronger Communities Fund	126	0	0	126	To enable community groups, the voluntary sector and town and community councils to apply for revenue and capital funding that promotes initiatives within the Vale of Glamorgan consistent with the Council's vision of "Strong communities with a bright future"	84	42	0

ANALYSIS OF RESERVES

Name	Bal	In	Out	Est	Comments	Est	Est	Est
	31/03/17			Bal		31/03/19	31/03/20	31/03/21
	£,000	£,000	£,000	£,000		£,000	£,000	£,000
Capital								
City Deal	1,250	0	0	1,250	To be used to contribute towards the City Deal which will generate significant economic growth and to improve transport and other infrastructure within the Cardiff Capital Region	1,214	1,141	1,026
Coastal Works	680	0	-110	570	To assist in funding the ongoing liabilities that will arise following the coastal developments in the Vale, maintaining the impact of the significant investment made.	460	350	240
Computer Renewal Fund	4,163	134	-1,528	2,769	Set aside to meet the costs of replacement and renewal of computer hardware and software, telecommunication systems and infrastructure. Also to fund IT purchases in schools, with repayment back into the fund	2,681	2,389	1,308
Capital Scheme Commitments	34	139	-143	30	Set aside to top up Barry Regeneration schemes	30	0	0
School Investment Strategy	9,734	37	-2,164	7,607	To be used to fund schemes identified as part of the Schools Investment Programme. The Fund is expected to be fully utilised after consideration of Band B 21st Century School schemes after 2019/20.	7,452	5,241	3,193
Capital Fund	288	0	-288	0	To assist in funding future capital commitments.	0	0	0
Project Fund	3,591	0	-1,361	2,230	This fund is to be used to finance capital and revenue projects, with repayment of such advances being credited back to the fund where appropriate.	2,208	2,146	1,996
Council Building Fund	7,309	0	-3,721	3,588	The fund is available in respect of repairs and maintenance of Council Buildings.	3,588	1,422	814
Repairs and Renewals Vehicle	2,275	900	-2,300	875	This fund is primarily for the replacement of plant and vehicles. Vehicles are purchased from the fund with an equivalent "rental" amount reimbursing the fund.	19	300	300
Social Services Buildings	500	0	0	500	To fund the update of Social Services premises to meet the future demands of the service	500	500	500
Telecare	399	0	0	399	Replacement fund for Telecare equipment and other service costs	399	399	399
Disabled Facilities Grant Capital	450	0	-450	0	To fund additional expenditure in the Capital Programme for Disabled Facilities Grants	0	0	0
TOTAL SPECIFIC RESERVES (excl HRA)	64,664	1,393	-21,760	44,297		39,123	32,117	26,977