

The Vale of Glamorgan Council

Cabinet Meeting: 26 September, 2016

Report of the Leader

Medium Term Financial Plan 2016/17 to 2019/20

Purpose of the Report

1. To submit the draft Medium Term Financial Plan 2016/17 to 2019/20 for consideration and approval.

Recommendation

That Cabinet be requested to:

1. Endorse the contents of the draft Medium Term Financial Plan for 2016/17 to 2019/20.

Reason for the Recommendation

1. To facilitate the integration of medium term financial planning into the corporate planning and budget process.

Background

2. The Budget Strategy for 2017/18 was approved by Cabinet on 25th July 2016, min no. C3257. This established a baseline for services to prepare initial revenue budgets for 2017/18 based on the cost of providing the current level of service and approved policy decisions and including any net savings targets set. It also set out the timetable to be followed and requested Directors to continue to progress the Reshaping Services Programme.
3. The draft Medium Term Financial Plan 2016/17 to 2019/20 is attached at [Appendix 1](#). 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. It is not the budget setting process that allocates detailed budgets for services. Its

purpose is to inform members and to suggest a way of dealing with the future financial pressures facing the Council.

4. Delivery of the Council's priorities is reliant on having robust corporate governance arrangements. These arrangements are set out in the strategic planning framework and financial planning is one of the elements of this integrated approach to corporate planning. The Corporate Plan outlines the work that the Council will undertake towards achieving the 4 well-being outcomes. 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.
5. 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.
6. This iteration of the Plan builds upon the work carried out as part of the 2016/17 budget process as detailed in the Final Revenue Budget Proposals report approved by Council on 2nd March 2016 (Minute No. 885 refers).
7. This Medium Term Financial Plan, therefore, attempts to:
 - Identify the main financial implications resulting from the increased pressure falling upon Council services, including pay and price inflation, legislative and demographic changes;
 - Estimate the reduced financial resources that will be available to the Council to meet these demands;
 - Match the predicted expenditure and resources and provide a framework to develop a financial strategy towards achieving a balanced budget for the next 3 financial years.

Relevant Issues and Options

8. The draft Medium Term Financial Plan is attached covering the period 2016/17 to 2019/20. Welsh Government has not provided indications of local government funding levels for 2017/18 to 2019/20 and therefore assumptions have had to be made. Due to the considerable uncertainty, it has been assumed that for 2017/18 the decrease will be at a similar level to 2016/17 and therefore a reduction of 3% has been used. With regard to future years, with a threat of further decreases being reported and the economic uncertainty as a result of the United Kingdom's exit from the European Union, it is considered prudent that further reductions of 3% for both 2018/19 and 2019/20 should be planned for.
9. It should be noted that the use of the above information does not provide the level of certainty required for forward planning. The basis of these latest assumptions, therefore, can in no way be guaranteed and any changes to the figures used could have a significant financial impact. However, every indication is that restrictions in public sector funding will continue for the foreseeable future and the failure to prepare for further reductions now could have far greater consequences for service delivery in the future.
10. Initial estimates present the following picture showing a projected savings target between 2017/18 and 2019/20 of £24.1m, comprising of £7.8m of savings already identified and £16.3m yet to be allocated.

Matching Predicted Resources to Expenditure	2017/18 £000	2018/19 £000	2019/20 £000
Real Term Decrease in Resources	5,205	5,061	4,930
Cost Pressures	4,064	2,642	2,244
Identified Savings	(7,021)	(762)	(0)
Additional Shortfall	2,248	6,941	7,174

11. The achievement of the identified savings is by no means guaranteed, 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 £24.1m by 2019/20.
12. It should be noted that in arriving at this shortfall, there will inevitably be additional cost pressures arising between now and 2019/20 which are as yet unknown and little provision has been made for service development. Clearly, although savings will continue to remain a major expectation of future budgets, it is unlikely that the Council will seek to or be able to fund all cost pressures.
13. As a result of the high level of savings required, there will be difficulties in maintaining the quality and quantity of services without exploring opportunities for collaboration and alternative forms of service delivery. The only realistic option facing the Council in future years is the successful delivery of its Reshaping Services programme.
14. To ensure that the budget set for 2017/18 continues to address the priorities of the Vale of Glamorgan residents and the Council's service users, the budget setting process will incorporate engagement with a range of key stakeholders.
15. Options which are recommended within the Plan for exploration as part of the 2017/18 budget process are:
 - Considering the results of the budget engagement process in determining priorities for future savings and service delivery;
 - Review the appropriateness of the current financial strategies for Education and Schools, Social Services and Other Services;
 - Review feasibility of increasing the use of the Council Fund Reserve as part of the financial strategy;
 - Reviewing 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;
 - Considering the level of price inflation provided which could be restricted to covering the contractual commitments on larger contracts;
 - Reviewing the priorities for funding statutory and non-statutory services, including establishing minimum levels of service provision; and

- Considering the latest position regarding the Council's Reshaping Services programme and the results of the process in order to identifying further area for savings;
 - Reviewing the achievement of the 2016/17 savings targets; and
 - Considering the possibility of a reduction in the level of service.
16. It is clear, however, that whatever strategy is taken forward it will involve the use of the Council Fund and other reserves to allow the specific savings required to be developed, consulted upon and implemented. The current strategy has approved the use of £1.5m of the Council Fund in 2016/17. However, this Medium Term Financial Plan has identified a significant increase in the level of savings required. As such, it may be necessary to increase the use of reserves in the short term subject to the Council Fund reserve balance not falling below a figure which the Section 151 Officer deems to be a reasonable minimum.
17. From a Capital Programme perspective, an expected decrease in the Council's General Capital Funding allocation in 2017/18 and specific capital grants from WG, coupled with limited capital receipts, continues to give the Council little room for manoeuvre in progressing its priorities in this area.
18. A Capital Programme has been agreed for the period 2016/17 to 2020/21. Any amendments will be dependent on future funding levels and for the most part are expected to relate to changes in phasing of the existing approved programme.

Resource Implications (Financial and Employment)

19. Although the figures contained within the Medium Term Financial Plan must be treated with caution, particularly due to the uncertainty surrounding the predictions of expected resources, the Plan is currently indicating a significant shortfall of available funding to 2019/20 and requires £24.1m of savings to be found between 2017/18 and 2019/20.
20. The savings targets will have an impact on staffing levels, however, the eventual impact on job numbers is not known. It will be important to ensure that appropriate consultation takes place with the trades unions in relation to the staffing implications of this report. The level of consultation may increase over the coming months as the more detailed change proposals within service areas emerge. Such consultation will help to explore ways of reducing any adverse implications for staff.

Sustainability and Climate Change Implications

21. None as a direct consequence of this report.

Legal Implications (to Include Human Rights Implications)

22. The Council is required under statute to fix the level of council tax for 2017/18 by 11th March 2017 and in order to do so will have to agree a balanced budget by the same date.

Crime and Disorder Implications

23. None as a direct consequence of this report.

Equal Opportunities Implications (to include Welsh Language issues)

24. None as a direct consequence of this report.

Corporate/Service Objectives

25. The Medium Term Financial Plan is produced in support of all the Council's objectives as set out in the Corporate Plan.

Policy Framework and Budget

26. This report is a matter for Executive decision by the Cabinet. However, Council must approve the final 2017/18 budget proposals.

Consultation (including Ward Member Consultation)

27. The Medium Term Financial Plan has been drawn up following consultation with all chief officers.

Relevant Scrutiny Committee

28. Corporate Resources

Background Papers

Corporate Plan 2016 – 2020

Contact Officer

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Officers Consulted

All Chief Officers

Responsible Officer:

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Section 151 Officer