

# **The Vale of Glamorgan Council**

## **Cabinet Meeting: 14th November 2016**

### **Report of the Leader**

### **Initial Revenue Budget Proposals 2017/18**

#### **Purpose of the Report**

1. To gain Cabinet's approval for the amended revenue budget for 2016/17 and to commence consultation on the initial revenue budget proposals for 2017/18.

#### **Recommendations**

It is recommended that:

1. The amended revenue budget for 2016/17 as set out in [Appendix 1](#) be approved.
2. The initial revenue budget proposals for 2017/18 be approved for consultation with the relevant Scrutiny Committees and other consultees.
3. The recommendations of Scrutiny Committees are passed to Corporate Performance and Resources Scrutiny Committee as the lead Scrutiny Committee in order for their views to be forwarded to Cabinet.
4. A sum of £3m be set aside in the Visible Services reserve and £1m be set aside in the Council Building Fund, funded by the projected underspend on revenue in 2016/17, with further details in the Initial Capital Programme Proposals 2017/18 report.
5. Cabinet note the £72k transfer between the Disabled Facilities reserve and the Temporary Empty Homes Officer reserve.

#### **Reasons for the Recommendations**

1. To incorporate changes to the 2016/17 budget.
2. In order to gain the views of Scrutiny Committees and other consultees.
3. In order that Cabinet be informed of the recommendations of Scrutiny Committees before making a final proposal on the budget.

4. To ensure that reserves are both adequate in purpose and level.
5. In order for Cabinet to be aware of transfers between reserves.

## **Background**

2. The Council's budget is determined largely by the Revenue Support Grant (RSG) settlement set by the Welsh Government (WG). The provisional RSG settlement was received from WG on the 19th October 2016. The final settlement is likely to be received in December 2016.
3. 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 revenue budget by the same date. To be in a position to meet the statutory deadlines and the requirements for consultation set out in the Council's Constitution, much of the work on quantifying the resource requirements of individual services needs to be carried out before the final RSG settlement is notified to the Council.

## **Revised Budget 2016/17**

4. [Appendix 1](#) to this report sets out the Amended Budget for 2016/17, together with the necessary adjustments to be made to the original budget.
5. Asset Rents, International Accounting Standard (IAS) 19, Transfers and Recharges - These adjustments have no overall effect on the net budget of the Council. These are accounting adjustments largely outside the control of services. They reflect charges for the use of capital assets, changes to inter-service recharges and transfers and pensions adjustments to comply with accounting standards. Also included are transfers of functions and responsibilities between Directorates. Cabinet on 6th June 2016 approved the transfer of £62k from Development Management to Resources as a result of the transfer of the Drawing Office.
6. Cabinet on 20th June 2016 agreed the senior management restructure of the Learning and Skills Directorate, which was implemented on 1st September 2016. In order to make efficiencies within senior management, a number of changes have been made to the structure of the directorate which needs to be reflected in the budget. As a result, the Learning and Skills budget will now be reported under the following headings:-
  - Schools
  - Strategy, Culture, Community Learning & Resources
  - Strategy and Regulation
  - Achievement for All
  - School Improvement
7. The following table compares the amended budget with the projected outturn for 2016/17. The Learning and Skills Directorate is projecting an adverse variance of £716k at year end and the Social Services Directorate is anticipated to outturn with an adverse variance of around £600k. It is proposed that reserves will be used to mitigate this position in 2016/17 as outlined later in this report.

	2016/17 Amended	2016/17 Projected	Variance (+)Favourable (-) Adverse
Directorate/Service	Budget £'000	Outturn £'000	£'000
<b>Learning and Skills</b>			
Schools	81,009	81,009	0
Strategy, Culture, Community Learning & Resources	13,233	13,029	+204
Strategy and Regulation	250	218	+32
Achievement for All	3,573	4,403	-830
Transfer from Reserves	0	-716	+716
School Improvement	1,241	1,363	-122
<b>Social Services</b>			
Children and Young People	14,913	14,513	+400
Adult Services	40,096	41,096	-1,000
Business Management and Innovation	276	276	0
Youth Offending Service	701	701	0
Transfer from Reserves	0	-600	+600
<b>Environment and Housing</b>			
Visible Services	20,335	20,405	-70
Transportation	4,836	4,766	+70
Building Services	0	0	0
Regulatory Services	2,218	2,218	0
Council Fund Housing	988	988	0
<b>Managing Director &amp; Resources</b>			
Resources	269	269	0
Regeneration	2,123	2,123	0
Development Management	962	962	0
Private Housing	11,021	11,021	0
General Policy	16,744	16,744	0
<b>Total</b>	<b>214,788</b>	<b>214,788</b>	<b>0</b>
Met from General Reserve	(1,500)	(1,500)	0
<b>Grand Total</b>	<b>213,288</b>	<b>213,288</b>	<b>0</b>

## Learning and Skills

8. The projected outturn for the Learning and Skills Directorate is an adverse variance of £716k when compared to the amended budget. The paragraphs below highlight variances within each service and details the proposed use of reserves to fund any adverse variance at year end.
9. Schools - The delegated budget relating to schools is expected to balance as any under/over spend is carried forward by schools.
10. Strategy, Culture, Community Learning & Resources - This service is projected to outturn with a favourable variance of £204k after a transfer from reserves of £446k. The net underspend is as a result of early implementation of 2017/18 savings, a reduction in the number of supported non-maintained nursery settings, a number of vacancies throughout the department, an increase in ICT support packages purchased by schools and a projected underspend on the catering service of £71k. This catering underspend is based on projected school meal take up which can change throughout the year. The transfer from reserves will be £251k from the Libraries reserve to cover any legal costs and costs relating to the implementation of the service review, £43k from the Adult Community Learning reserve to assist with the new Welsh for Adults contract and a previous years funding reduction in Schedule 2/Cardiff and Vale College Franchise and £152k from the Early Retirement and Voluntary Redundancy Reserve to fund redundancy and retirement costs in schools.
11. Strategy and Regulation - This service is currently projecting to outturn at a favourable variance of £32k due to salary underspends and reductions in office expenses for the Directorate.
12. Achievement for All - This service is projected to outturn with an adverse variance of £114k after a transfer from reserves of £716k. This is as a result of an adverse variance of £822k on the recoupment income budget and an adverse variance on pupil placements of £268k. This position can be partly offset by projected salary underspends of £260k which are due to vacant posts in the service as a result of early implementation of 2017/18 Reshaping Services savings. The service has a £2.4m recoupment income budget in respect of out of county pupil placements purchased at Ysgol y Deri. Over the last few years a trend has occurred where more out of county pupils have left Ysgol y Deri than new pupils have enrolled. In the current financial year it is anticipated that 15 out of county pupils will leave the school and only 4 new starters will enrol, in the previous financial year there were 17 leavers and 3 new out of county enrolments. The main reason for this reduction in out of county pupils is due to other local authorities seeking to educate their children within county and to source cheaper alternatives due to budget reductions. However the school is still operating near to capacity due to an increase in demand from Vale pupils requiring placements. Whilst the Directorate has been successful in identifying reshaping savings for the Inclusion Service, the Directorate has been unable, to date, to identify further savings to cover this gap on recoupment income. The pupil placements budget is a volatile budget that can be significantly impacted with changes to packages of one or two pupils. Therefore, as an initial measure £500k has already been set aside in a Schools Placements reserve. This sum will be used as a one off contribution in 2016/17 to mitigate part of the shortfall while further Reshaping Services work is undertaken by the Directorate. However, if this shortfall of £216k cannot be mitigated further in the year, other reserves could be utilised to

balance the shortfall made up of £93k from the Excluded Pupils reserve, £45k from the Youth Service reserve and £78k from the Adult Community Learning reserve.

13. School Improvement - This service is projected to overspend by £122k as a result of redundancy and pension strain costs as a result of restructuring.
14. Provision has been made within the budget to make unsupported borrowing debt repayments in relation to the Schools Investment Strategy of £698k per annum. Any favourable variance on debt repayments will be directed into the Schools Investment Strategy reserve.

### **Social Services**

15. The projected outturn for the Social Services Directorate is an adverse variance of £600k when compared to the amended budget. The paragraphs below highlight any variances within each service and details the proposed use of reserves to fund any adverse variance at year end.
16. Children and Young People's Services - It is projected that this service will outturn with an underspend of £400k. Work has been ongoing to ensure that children are placed in the most appropriate and cost effective placements. This has included our success in significantly reducing the number of children placed in residential care, from an average of 23 in 2014/15 to a current average of 10. It should however be noted that the number of looked after children has increased during the course of the year, placing considerable pressure on our in-house fostering resources and increasing our reliance on independent fostering placements. Given this pressure and the complexity of some of these children, the outturn position could fluctuate with a change in the number of looked after children and/or their need for independent fostering or residential placements.
17. Adult Services - It is projected that the Community Care Package budget could outturn with a variance of up to £1 million by year end. This budget is extremely volatile and has been adversely affected this year by the increase in the cost of packages commissioned as a result of the introduction of the National Living Wage, the continued pressure on the budget from demographic growth and clients having increasingly complex needs. The final outturn is, however, difficult to predict. Final negotiations regarding fee levels are being concluded with service providers but proposed increases are already above the level of inflation provided for within the budget.
18. The service will strive to manage growing demand and try to mitigate this position and some initiatives may be funded via regional grants in the current financial year. It is proposed that any shortfall at year end will be funded from the Social Services Legislative Changes fund

### **Environment and Housing**

19. The projected outturn for the Environment and Housing Directorate is a balanced budget when compared to the amended budget. The paragraphs below highlight any variances within each service.
20. Highways & Engineering – It is anticipated that this section will have a favourable variance of £230k at year end. It is projected that the employee's budget will be

£366k underspent due to vacant posts currently within the service. Due to the slight delay in rolling out the LED replacement programme there will be an overspend on Energy costs of around £80k. Vehicle costs are projected to be £100k over budget which is mainly due to the increased cost of the newer Winter Maintenance fleet. Due to the high number of schemes undertaken for other departments, the anticipated spend on subcontractors and materials are over budget by around £282k, however, this will be offset by higher than anticipated income of £326k.

21. Waste Management - It is projected that the Waste Management section will have an adverse variance of £300k at year end. This will however be covered by anticipated favourable variances within other sections in Visible & Transport services. As reported in previous months, there has been a slight delay in rolling out changes to waste collection routes and therefore it is anticipated that employee costs will be £255k higher than budget and transport costs £435k higher than budget. To offset this, an underspend of £295k is expected on waste disposal costs. Departmental support costs recharged to Waste Management are also around £50k lower than budgeted. Anticipated income for the department is also around £45k greater than estimated.
22. Leisure – It is anticipated that this service will achieve a breakeven position at year end. Employee costs within Grounds Maintenance are projected to be £114k under budget due to vacant posts, however, this has been offset by increased supplies and services costs which are £34k over budget. Transport costs are projected to be £80k over budget due to high repair costs early in the financial year, however, Grounds Maintenance are currently reviewing the level of vehicles they require and have identified those that are surplus to requirements. Within the Leisure & Play team employee costs are projected to be £74k higher than budget. £30k of this additional employee cost is for additional summer play schemes which will be funded from reserves. There is also a further £30k additional estimated income into the section for the Teenscheme project. Other grant income has also increased by approximately £32k. There has also been an increase in supplies and services costs of £18k mainly due to an increase in insurance costs.
23. Transportation - It is anticipated that there will be a favourable variance of £70k within this service. This is due to staff vacancies and additional income relating to concessionary fares.
24. Building Services – The Building Maintenance and Building Cleaning & Security Services are presently expected to outturn on target.
25. Regulatory Services - The allocation of £2.218m represents the Vale of Glamorgan's budget for its share of the Shared Regulatory Service (SRS). A separate set of accounts is maintained for the SRS and is periodically reported to the Shared Regulatory Service Joint Committee. At this stage in the year it is anticipated that the SRS will outturn on target.
26. Council Fund Housing - It is anticipated that this budget will outturn on target, however, this is after a planned transfer from reserves to fund specific posts and issues arising as a result of the introduction of the Housing Act.

## **Managing Director and Resources**

27. The projected outturn for the Managing Director and Resources is a balanced budget when compared to the amended budget. The paragraphs below highlight any variances within each service.
28. Resources - The service is anticipated to outturn within budget although there is a possibility of a shortfall on Council Tax court income. The service will manage any shortfall from within existing resources. There is also a pressure due to increased administration costs on the Electoral Services Division following the introduction of Individual Electoral Registration. The service is able to manage any shortfall from within existing resources this financial year.
29. Regeneration - This budget covers Economic Development, Countryside and Tourism & Events functions. The budget is anticipated to outturn on target. The income from the Vale Enterprise Centre workshops is under budget as it is proving difficult to let the persistently vacant units as they are in need of some refurbishment. To that end, a capital bid has been submitted, in order to invest in the fabric of the buildings with a view to achieving the income targets set. The service has elsewhere identified additional income streams which are anticipated to mitigate the loss of workshop income.
30. Private Housing - It is still anticipated that this service will outturn on target. There is currently a small favourable variance as a staff vacancy is aiding the adverse variance on Renewal Area fee income. Disabled Facility Grant fee income however remains above profile to assist the overall position.
31. Development Management - It is anticipated that this service will outturn on target. There is an adverse variance relating to the Local Development Plan (LDP) as expenditure was delayed from 2015/16, however, funding was set aside in reserves for this purpose in the last financial year and will therefore be drawn down to offset this position. Planning fee income is less than the anticipated profile for September. This is considered to be due to uncertainty in the construction market as a result of the referendum for the United Kingdom's exit from the European Union.

## **General Policy**

32. The projected outturn for Policy is a favourable variance of £4m when compared to the amended budget.
33. It is projected that there will be a favourable variance of £2m relating to capital charges and given that the collection of Council Tax continues to be effective, a positive variance of £2m is predicted. It is considered that the Council Tax collection rate should be reviewed for 2017/18, however the impact of new legislative changes, such as the reduction in the benefits cap, may have an adverse effect which will be difficult to quantify. Proposals will be outlined to Cabinet in a separate report in the coming weeks.
34. It is proposed that £3m is transferred into the Visible Services reserve. £1.927m will be used to fund the Gypsy/Traveller site scheme, £73k for the Dinas Powys Library Road Bridge scheme and £1m will be used to carry out additional road and pavement resurfacing works over the next 2 years. It is also proposed that £1m will be placed in the Council Building Fund to generally finance schemes included in the proposed

capital programme. Further details of the schemes are contained in the Initial Capital Programme Proposals 2017/18 report, elsewhere on this agenda.

### **Savings 2016/17**

35. As part of the Final Revenue Budget Proposals for 2016/17, a savings target of £9.289m was set for the Authority. Attached at [Appendix 2](#) is a statement detailing all savings targets for 2016/17 and the projected outturn. Services are working towards fully achieving their savings targets however at this stage of the year it is anticipated that not all the savings will be made and there could be a shortfall of £680k.
36. Learning and Skills - There is a saving target of £292k to be found from the Inclusion Service budget. It is anticipated that this level of saving can be achieved during the year, however, there are further pressures on the budget which will result in an overspend as already detailed above.
37. Social Services - Within Adult Services, £100k of the full year saving generated from the Hafod homes transfer has been offset against the £300k saving for Residential Services. Currently, there are no other formalised plans in place to find the remaining £200k of this saving. Further consideration will have to be given to the way in which this saving can be fully achieved during the year. With regard to the Care Package Budget Reduction, while there is significant pressure on this budget and it is anticipated to overspend, schemes have been put in place to deliver savings in this area by transferring domiciliary care clients to direct payments, by putting in place additional reablement capacity and by establishing a review team and therefore part of the saving is shown as being achieved.
38. Environment and Housing - While progress has been made towards achieving the savings, there has been a delay in commencing some of the schemes and therefore the full year target is not anticipated this financial year. £1.2m has been included in the capital programme for the installation of LED lighting. Installation will be undertaken this year however a full year saving will not be achieved until 2017/18. Also as previously stated, waste collection rounds have been revised from 1st August 2016 with the aim of reducing the resources required. However it is unlikely that the full saving will be made in 2016/17. The £50k saving relating to Public Conveniences will not be achieved this year as options are currently being explored, however, Prosiect Gwyrdd is anticipated to make a higher saving than required and this is partly offsetting the shortfall on other savings. As stated earlier in the report, Leisure Services are reviewing their vehicle requirements and are not anticipating the achievement of the full saving this year. Where savings will not be achieved in year, services will seek to cover the shortfall on a one off basis from other areas.
39. Managing Director and Resources - There has been a delay in the exit from the JobFit contract which has resulted in a predicted shortfall against the savings target for Regeneration. Savings required from the Vale Enterprise Centre workshops are not being realised as some units are difficult to let due to their poor condition and investment will be required in the building to achieve this saving in future years. As detailed earlier in this report, income from planning fees is lower than anticipated this year and as a result the Reshaping savings target under Development Management will not be achieved. Human Resources and Performance and Development currently have a small level of further savings to achieve however the shortfall will be accommodated from within other budgets this year.

## Budget Strategy

40. Cabinet approved the Budget Strategy on the 25th July 2016 min no. C3257.
41. The Budget Strategy for 2017/18 outlines that in order to establish a baseline, services should prepare initial revenue budgets based on the cost of providing the current level of service and approved policy decisions and including the existing savings target. This means the cost of price increases and any allowable pay awards should be included as advised by the Head of Finance.
42. Increases to budgets approved during the course of a financial year can restrict the freedom the Council has to allocate its resources to priorities during the following budget cycle when it is aware of all the competing demands. Consequently:
  - Supplementary estimates will only increase the base budget if Council has given specific approval to this effect. Increases met by virement within a year will not be treated as committed growth.
  - Directors should find the cost of increments and staff changes from their base budget unless the relevant specific approval has been given for additional funding.
  - The effect of replacing grant from outside bodies that has discontinued will not be treated as committed growth. In addition, before any project or initiative that is to be met either wholly or partly by way of grant may proceed, the exit strategy must be approved.
  - Certain items of unavoidable committed growth will continue and these include the effect of interest changes and the financing cost of the capital programme, increases in taxes, increases in levies and precepts charged by outside bodies and changes to housing benefits net expenditure.
  - Services will be expected to achieve savings already approved by Cabinet as part of the 2016/17 final budget proposals and Directors are asked to continue work on achieving their Reshaping Services savings targets.
  - It is envisaged that the costs of service development will need to be met from within the respective directorates.
43. Having regard to the above, it is therefore proposed in respect of the 2017/18 Budget Process that Directors be instructed to prepare initial revenue budgets in accordance with a timetable agreed by the Head of Finance. Preparation should be on the following basis:
  - Capital charges, central accommodation costs and central support costs to be estimated centrally.
  - Services to prepare baseline budgets on current service levels as set out in the 2016/17 Final Revenue Budget report.
  - Budgets to be broken down subjectively and objectively in as much detail as deemed appropriate by the Head of Finance.
  - Budget reports to include revised estimates for 2016/17.
  - Full account to be taken of the revenue costs, other than debt charges, of new capital schemes coming into use.

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

### **Medium Term Financial Plan**

44. The Medium Term Financial Plan (MTFP) 2016/17 to 2019/20 was presented to Cabinet on 26th September 2016 min no. C3330.
45. It assumed a reduction in WG funding of 3% for the years 2017/18, 2018/19 and 2019/20. This resulted in the requirement to find savings of £24.146m over this period, with £7.783m currently being identified. There was therefore further savings to be identified of £16.363m over the 3 year period.
46. The latest Plan factored in a managed level of cost pressures, a notional increase in council tax of 2% each year, price inflation of 1% and annual pay awards of 1% each year from 2017/18.
47. In 2016/17, the Minimum Funding Commitment (MFC) for schools, equivalent to 1% above the WG's block grant settlement was an increase of 1.8%. The Plan stated that if the Council's funding from WG reduced by 3% in 2017/18, it would expect the MFC to be at a lower level and included a figure similar to the 2015/16 MFC which was based on an increase of 0.6%.

### **Budget Consultation with Stakeholders**

48. To ensure that the budget set for 2017/18 continues to address the priorities of Vale residents and the Council's service users, the budget setting process will take into account the results of the Lets Talk consultation which is currently being undertaken. As part of this consultation, partners from the public and voluntary sectors in Cardiff and the Vale of Glamorgan are working together to find out more about what matters to residents and what affects their well-being and quality of life.
49. In addition, consultation with town and community councils, the voluntary sector and our Public Service Board partners will also take place, in order to inform the final budget proposals.

### **Provisional Settlement 2017/18**

50. The Council's provisional settlement was announced by WG on 19th October 2016.
51. WG has advised the Council that its provisional SSA (Standard Spending Assessment) for 2017/18 is £215.917m. SSA represents WG's view of the relative

resources needed to provide a standard level of service in each local authority in Wales and its primary use is to allocate RSG to these authorities.

52. The Council will receive from WG Revenue Support Grant of £109.193m and a share of the Non- Domestic Rates (NDR) of £40.976m. Together these figures constitute the Council's provisional Aggregate External Finance (AEF) of £150.169m. WG reports that this represents a cash reduction of 0.2% (£0.352m) for 2017/18. However, when taking into account new responsibilities, this actually represents a cash reduction of 0.35% (£0.53m). This is a smaller reduction than the 3% projected in the MTFP.
53. Additional funding was provided through the RSG for new responsibilities as follows:
  - Increasing Capital Limits for Residential Care (from £24k to £30k) - £167k
  - War Disablement Pension Disregard in financial assessments for social care charging - £11k
54. There are transfers into the RSG settlement for 2017/18 as follows:
  - Delivering Transformation Grant - £106k
  - Deprivation of Liberty Standards - £8k
  - Food Hygiene Rating Schemes - £2k
55. There is a transfer out of the RSG settlement for 2017/18 as follows:
  - Education Workforce Council Teachers Registration Fees - £43k
56. This year WG have not afforded protection to schools via the setting of a Minimum Funding Commitment.

### **2017/18 Initial Budget Proposals**

57. As part of these initial proposals, it has been necessary to revisit the cost pressures facing services in order to build up a complete and up to date picture of the financial position of the Council and an updated list is shown in [Appendix 3](#). These are not shown in any order of priority. The final proposal for the increase in the National Living Wage from 1st April 2017 has yet to be announced, however, it is considered that the 2017/18 pay rates used in these budget proposals for Vale of Glamorgan staff should cover the potential increase. Any further increase will have a significant affect on services the Council commissions from external organisations. The main area affected is Social Services and a cost pressure has been included to reflect this.
58. Details of the proposed areas for savings for 2017/18 to 2018/19 are attached at [Appendix 4](#). The savings do not include the cost of any potential redundancies. As part of the Budget Strategy 2017/18, Directors were requested to continue to progress the Reshaping Services Programme. As part of the 2016/17 budget setting process it was recommended that Tranche 3 of the Reshaping Services programme should commence. A review is being undertaken in order to identify future projects and the Council is currently developing proposals.
59. A summary of the overall base budget for 2017/18 is attached at [Appendix 5](#). This has been arrived at by adjusting the 2016/17 budget for items such as inflation and unavoidable growth, but does not include identified cost pressures or savings. These are shown as a note to the table and are further detailed in [Appendix 3](#) and [4](#) respectively. Adjustments shown include the following:

60. Asset Rents, International Accounting Standard (IAS) 19 - Relates to accounting items outside the control of services. They reflect charges to services for the use of capital assets and adjustments in respect of pensions to comply with accounting standards.
61. Recharges/Transfers - Relates to changes in inter-service and inter Directorate recharges. The budget transfers that relate to the reorganisation of the Learning and Skills Directorate are shown in a separate column.
62. Budget Adjustment - There is a £320k increase in budget due to the change in the use of the Social Services Fund in 2017/18.
63. Inflation - The total figure for inflation of £1.637m relates to general price increases (£844k) and a 1% allowance for pay awards (£793k). These figures do not include schools inflation which is included in [Appendix 3](#) as a cost pressure.
64. Committed Growth - This totals £1.751m and relates to the £1.5m reduction in use of the Council Fund. It also includes the net transfers into the RSG of £73k and WG funding provided for new responsibilities of £178k as previously detailed.
65. Once the base budget for 2017/18 has been established, it must then be compared to the funding available to identify the extent of any shortfall. With a projected AEF of £150.169m and Council Tax at a current level of £62.84m, total available funding would be £213.009m. When compared to a base budget of £216.996m, this would result in a funding deficit for 2017/18 of £3.987m. This deficit is mainly attributable to the allocation of committed growth and pay and price inflation.
66. If all identified cost pressures were funded, this would increase the shortfall to £11.447m. If all proposed savings were achieved, the shortfall would be reduced to £4.426m as shown in the table below.

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

\* This assumes no increase in Council Tax at this stage.

67. This shortfall is based on the assumption that the savings target set for 2017/18 will be achieved in full. However, a high proportion of these savings relate to Reshaping Services schemes which reflect a new way of working and therefore require a lengthy period of time to implement. While all services are working towards achieving their 2017/18 targets, not all savings may be achieved in full from 1st April 2017.
68. The above projections include an assumed pay award of 1% for 2017/18 and the possible impact of the National Living Wage. Any changes to the current assumptions will be assessed as part of the Final Budget Proposals report.
69. Further work will be undertaken by the Budget Working Group (BWG) in order to achieve a balanced budget for the final budget proposals for 2017/18. This will include a review of the use of reserves, a possible increase in council tax, a review of all cost pressures, possible changes to the approved saving targets, a review of the inflation assumptions and the current financial strategies. The BWG will also consider the results of the budget engagement process in determining priorities for future savings and service delivery. It will also ensure that budget proposals consider the requirements of the Well-being of Future Generations Act and the Council's 4 well-being outcomes as detailed in the Corporate Plan.
70. There will be difficulties in maintaining the quality and quantity of services in the future without exploring opportunities for collaboration and alternative forms of service delivery. The Council will continue to develop its Reshaping Services programme via Tranche 3 schemes.

### **Next Steps**

71. The next stage is for the estimates to be submitted to Scrutiny Committees for consultation. Committees are asked to review the level of cost pressures with a view to suggesting ways in which these could be managed downwards and/or mitigated. Corporate Performance and Resources Scrutiny Committee is the lead Scrutiny Committee and will consider both the Initial Revenue Budget Proposals and any recommendations that other Scrutiny Committees have made. The responses of Scrutiny Committee must be made no later than the 13th December 2016.
72. The BWG will hold a series of meetings in November 2016 with the relevant Cabinet Members and officers to consider the budget proposals and they will submit their recommendations so that the Cabinet may make its final budget proposal. Before making its recommendation, the BWG will consider the comments made by Scrutiny, together with the results of consultation. The final proposals to Cabinet will include a review of the financial strategies required to achieve a balanced budget, which is sustainable in future years. Currently, the approved timetable requires Cabinet to approve the final budget proposals by no later than the 20th February 2017 and that Cabinet's final budget proposals will be considered by Council at a meeting to be held on 1st March 2017 to enable the Council Tax to be set by 11th March 2017.

### **Resource Implications (Financial and Employment)**

73. Based on the assumption that all cost pressures will be funded in full, the estimated funding shortfall for 2017/18 will be £4.426m, assuming no increase in Council Tax.

74. WG has not issued details regarding the level of funding post 2017/18, however, it is anticipated that there will be further reductions in funding for Local Government going forward. It is therefore important that Directors achieve approved savings and look to mitigate further cost pressures through alternative means of service delivery and collaborative ventures.
75. Reserves are a way of setting aside funds from budgets in order to provide security against future levels of expenditure and to manage the burden across financial years. Funds no longer required may be transferred to the Council Fund and then set aside for other purposes or used to reduce council tax.
76. 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 Strategy Reserve, Project Fund. This is important as the Council has limited capacity to realise sufficient sums from the sale of assets for capital investment. Sums have also been set aside to assist in budget management, e.g. Early Retirement Fund. The Housing Revenue Account Reserve is ring-fenced to Housing and will be used to fund improvements to the Council's housing stock.
77. The Council Fund Reserve as at 31st March 2017 is projected to stand at £8.572m, with no further reduction approved. The Section 151 Officer currently believes that the minimum balance on the Council Fund Reserve should be no less than £7m. This is considered sufficient to cover unforeseen expenditure whilst, in the short term, maintaining a working balance. Unforeseen expenditure can be substantial and several instances can occur in a year. Whilst there is no set requirement for the minimum level for the Council Fund Reserve, some commentators use 5% of the net budget as a guide. For the Vale this is about £10.6m. However, in view of the prudent approach the Council takes with regard to specific reserves, £7m is considered a reasonable minimum.
78. The Council presently benefits from a reasonable level of reserves, however, they are not inexhaustible and have taken years of careful financial management to develop to their current level. As part of the usual Budget process, an examination of the level of reserves is undertaken to ascertain their adequacy and strategy for use. A view to their level (i.e. whether the amount held in the fund is sufficient to requirements) and purpose (i.e. whether the need to hold the fund is still relevant) has been taken. The requirement for each specific reserve has also been considered in light of the Council's priorities. The provision of Disabled Facilities Grants is a statutory duty for the Council, but also is a service that is a priority for both this Council and for Welsh Government. Several years ago, in order to improve the performance of the DFG service, a reserve was established to fund an Occupational Therapist (OT) who acts as a gateway into the service. This reserve has been used over the past 3 years and is nearing depletion and is now insufficient to fund the OT post beyond 2016/17. In order to protect the provision of this service, it is proposed that £72k of the reserve allocated for the provision of a Temporary Empty Homes Officer, can be reallocated to the Disabled Facilities reserve to extend the funding for the OT post. The provision of a proactive service to address empty homes is not a statutory provision and is therefore a lower priority. No other transfers between reserves are proposed at present.

79. [Appendix 6](#) sets out the Authority's actual reserves as at 31st March 2016 and shows the estimated reserves balance for each year up to 31st March 2020. The Council is forecasting the use of general and specific reserves, excluding HRA and schools, totalling around £38m from 1st April 2016 onwards, which represents approximately 50% of the balance as at 31st March 2016. These levels of reserves are still deemed to be adequate as known risks are largely covered and the Council Fund Reserve does not fall below £7m.
80. The Council is planning to use a considerable amount of its specific reserves over the coming years, however, as reserves are a non-recurring means of funding, they can only be used as part of a specific financial strategy. The use of all reserves will be reviewed further, by the BWG, as part of the final budget setting process.
81. Not all the identified savings relate to staffing, however, the impact on staffing levels could be a potential reduction of up to 200 Full Time Equivalents (FTE). Although the impact on individuals is likely to be mitigated as a result of natural wastage and the deletion of vacant posts, it is, nevertheless, expected that there will be a number of redundancies. The trade unions will be consulted on the details of any possible redundancies once known. This figure does not include the staffing implications relating to budget pressures within schools, as details need to be considered by individual governing bodies.

### **Sustainability and Climate Change Implications**

82. The promotion of sustainability and action to arrest climate change is central to the work of the Council and a key consideration when allocating scarce resources to meet the needs of the present without compromising the ability of future generations to meet their own needs.

### **Legal Implications (to Include Human Rights Implications)**

83. The Council is required under statute to fix its council tax by 11th March 2017 and in order to do so will have to agree a balanced revenue budget by the same date.

### **Crime and Disorder Implications**

84. The obligations of the Council with regard to Section 17 of the Crime and Disorder Act 1998 needs to be fully considered in the budget decision making process.

### **Equal Opportunities Implications (to include Welsh Language issues)**

85. These initial budget proposals have due regard to the requirements of the Council's Strategic Equality Plan including the Equalities Act 2010 and Public Sector Equality Duty for Wales. The subsequent development of individual strategies for achieving savings will require the completion of Equality Impact Assessments. This involves systematically assessing the likely (or actual) effects of policies on individuals who have a range of protected characteristics under the Act.

### **Corporate/Service Objectives**

86. Funds allocated in the budget contribute to the wide range of Corporate/Service Objectives as set out in the Corporate Plan.

## **Policy Framework and Budget**

87. This report is following the procedure laid down in the Constitution for the making of the budget and so does not need to be referred to Council. However, the final 2017/18 budget will require the approval of full Council.

## **Consultation (including Ward Member Consultation)**

88. The Corporate Management Team has been consulted on this report. The initial budget proposals will be the subject of consultation with Scrutiny Committees. The Trade Unions and Schools forum will also be consulted.

## **Relevant Scrutiny Committee**

89. The lead Scrutiny Committee is Corporate Performance and Resources.

## **Background Papers**

Medium Term Financial Plan 2016/17 to 2019/20  
Budget Strategy 2017/18

## **Contact Officer**

Carolyn Michael  
Operational Manager - Accountancy

## **Officers Consulted**

Corporate Management Team

## **Responsible Officer:**

Carys Lord  
Section 151 Officer