

The Vale of Glamorgan Council

Cabinet Meeting 20th February 2017

Report of the Leader

Final Proposals for the Revenue Budget 2017/18

Purpose of the Report

1. The purpose of this report is to set out final proposals for Cabinet members to consider, before making their recommendations to Council, in respect of the final revenue budget for the financial year 2017/18.

Recommendations

That Cabinet recommend to Council the following:

1. Fix the budget for 2017/18 at £215.72 million including a provision of £200k for discretionary rate relief to rural shops and post offices and charitable organisations.
2. Approve the budgets for 2017/18 as set out in [Appendix C](#), the totals as follows:

	£'000
Schools	82,437
Strategy, Culture, Community Learning & Resources	11,797
Strategy and Regulation	243
Achievement for All	4,290
School Improvement	1,122
Children & Young People	15,124
Adult Services	41,910
Business Management & Innovation	267
Youth Offending Service	701
Visible Services	19,914
Transportation	4,841
Building Services	0
Regulatory Services	2,166

Council Fund Housing	1,126
Resource	728
Regeneration	2,091
Development Management	968
Private Housing	11,003
General Policy	15,692
Council Fund Reserve	(700)
Grand Total	215,720

3. Approve the recommendations regarding Net Growth for 2017/18 as set out in [Appendix D](#) and Savings for 2017/18 as set out in [Appendix E](#).
4. Set the Council Tax for 2017/18 for its own purposes (excluding Police and town and community council precepts) at the following levels:

Band	Council Tax £
A	761.58
B	888.51
C	1,015.44
D	1,142.37
E	1,396.23
F	1,650.09
G	1,903.95
H	2,284.74
I	2,665.53

5. The proposed draft report on Education Budget and Indicator Based Assessment (IBA) at [Appendix A](#) be endorsed and the Interim Director of Learning and Skills make arrangements for it to be forwarded to the School Budget Forum.

That Cabinet approve the following:

6. The initial savings targets for 2018/19 and 2019/20 as set out in [Appendix F](#) be approved.
7. The Interim Director of Learning and Skills be given delegated powers to determine the amount of money to be allocated to the schools' delegated budgets after consultation with the Schools Budget Forum.
8. The Director of Social Services continues to review the Social Services Budget Plan and takes the necessary actions in order to manage future service demand.
9. The Vale of Glamorgan Council continues to act as host and works in collaboration with Cardiff Council in efficiently utilising the Delivering Transformation funding transferred into the Revenue Support Grant in 2017/18.
10. The reclassification of reserves as set out at [Appendix H](#) be approved.

Reasons for the Recommendations

1. To set the 2017/18 budget in line with statutory requirements.
2. To allocate budgets to services.
3. To reduce risk to services and balance the budget.
4. To set Council Tax levels for 2017/18.
5. So that the report can be presented to the Schools Budget Forum.
6. To set minimum targets for achieving savings.
7. To set out delegated authority in relation to the allocation of the Education and Schools budget.
8. To ensure that the Social Services Budget Plan is achieved and future demand is managed.
9. To allow collaborative working between the Vale of Glamorgan Council and Cardiff Council.
10. To ensure that reserves are both adequate in purpose and level.

Background

2. The Council is required under statute to fix the level of Council Tax for 2017/18 by 11th March 2017. The final decision on the budget cannot be delegated and must be made at a meeting of Council. This is scheduled to be held on 1st March 2017.

Relevant Issues and Options

Medium Term Financial Plan

3. The Medium Term Financial Plan (MTFP) 2016/17 to 2019/20 was presented to Cabinet on 26th September 2016 min no. C3300. It assumed a reduction in Welsh Government (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.
4. 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. An allocation of £489k was included for the Minimum Funding Commitment (MFC) for schools.

Anticipated Outturn 2016/17

5. As reported to Cabinet on 14th November 2016, minute number C3362, the Initial Revenue Budget Proposals report for 2017/18, advised that an underspend of £4m is projected for 2016/17.

Revenue Settlement 2017/18

6. WG has provided the Council with final figures for next year's settlement and for this Council shows a total Standard Spending Assessment (SSA) of £216.807m, which represents an adjusted increase of £2.487m over 2016/17.
7. Additional funding will be 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
 - Homelessness Prevention - £186k
8. 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
9. There is a transfer out of the RSG settlement for 2017/18 as follows :
 - Education Workforce Council Teachers Registration Fees - £43k
10. The Council compares its total budget for Education to its IBA (Indicator Based Assessment). This report will need to be made available for consideration by the Council's Schools Budget Forum and full Council. A proposed draft of this report is attached at [Appendix A](#).
11. The Council's final figures from WG for the Revenue Support Grant (RSG) was £108.578m and for Non-Domestic Rates £40.976m. These amounts together total a final Aggregate External Finance (AEF) of £149.554m for the Council.
12. When taking into account the adjustments above, the effective reduction in AEF for the Council is £1.331m (0.88%).
13. Final notification of the level of all 2017/18 WG grants has not yet been received. However, WG has advised that the Council's Post 16 grant allocation, used to fund sixth form provision, is to be reduced by £342k from April 2017. This is as a result of the update in pupil numbers and the major impact of this change will be at Barry Comprehensive School and Bryn Hafren. WG has advised that the Environment and Sustainable Development grant will reduce by £113k in 2017/18. This grant is used in part to contribute towards the Council's recycling programme.
14. In total, these confirmed reductions in funding from WG of £1.786m equate to a 2.8% change in Council Tax.

Budget Strategy 2017/18

15. Cabinet approved the Budget Strategy on the 25th July 2016 (min no. C3257). As part of this strategy, Directors were requested to continue to progress the Reshaping Services Programme.
16. The 2017/18 initial revenue budget proposals showed a provisional shortfall against base budget of £3.987m rising to a possible £11.447m if all cost pressures were to be funded. If all assumed savings of £7.021m were achieved, this would leave a shortfall in 2017/18 of £4.426m. Since November 2016, the Budget Working Group (BWG) has undertaken further work to formulate the final revenue budget proposals contained in this report.
17. In particular, the BWG has had regard to the need to achieve a balanced budget both for 2017/18 and in future years. This included:
 - The results of consultation with the Schools Budget Forum, scrutiny committees and external stakeholders;
 - Ways in which cost pressures can be reasonably reduced or mitigated;
 - A further review of the proposed savings for 2017/18 onwards;
 - The progression of the Reshaping Services programme;
 - The existing financial strategies in place for Education & Schools, Social Services and Other Services;
 - Possible increases in council tax;
 - The projected funding position for 2018/19 and 2019/20; and
 - The potential to use reserves as part of a defined financial strategy and to allow a more thorough review of options for savings and their implications, alternative methods of service delivery and collaborative ventures.
18. During 2017/18, additional pressure will be placed on staffing budgets as a result of various legislative changes and these pressures have been considered by the BWG. The National Living Wage will provide for a minimum hourly rate of £7.50 for workers aged 25 and above. There will be further pressure in future years when the rate continues to increase to at least £9.00 per hour by 2020. The 2017/18 pay rates used in these budget proposals for Vale of Glamorgan Council staff cover this increase. This change will however have a significant effect on services the Council commissions from external organisations, in particular for Social Services. The Apprenticeship Levy will be introduced from 1st April 2017 and the estimated cost to the Council is £500k, split equally between Schools and non schools budgets. It is therefore proposed that funding is provided for 50% of this cost pressure and £125k has been included in the schools budget and £125k has been included in other service budgets. The remaining £250k will need to be found from within current budgets, £125k by schools and £125k for non schools.
19. In addition, the level of the pension fund is reviewed every 5 years. Following a recent review by the fund actuaries, they have recommended that the employers contribution should be increased. From 1st April 2017, it will increase from the current level of

22.7% to 23.1%. This will require additional funding of £193k for the Council, including schools. It is proposed that this pressure is fully funding for all services including schools.

Consultation with Scrutiny Committees

20. The 2017/18 Initial Revenue Budget Proposals were considered by Cabinet on 14th November 2016 and by each Scrutiny Committee during December 2016. In addition to noting the initial revenue proposals, the following recommendation was made by Scrutiny Committees :

- Scrutiny Committee (Social Care and Health) – 8th December 2016 :

(2) T H A T the Corporate Performance and Resources Scrutiny Committee, be made aware that it is the view of this Committee that all the cost pressures detailed in Appendix 3 should be fully funded.

21. The recommendations of Scrutiny Committees were referred to the Corporate Performance and Resources Scrutiny Committee, which is the lead Scrutiny Committee on the budget. On 13th December 2016 this Committee made the following recommendation :

(1) T H A T the recommendation from the Healthy Living and Social Care Scrutiny Committee be noted.

22. Corporate Performance and Resources Committee's recommendation was referred to Cabinet on 9th January 2017, minute number C3422. The BWG have noted Scrutiny Committees recommendations.

Consultation with External Stakeholders

23. In 2016 it was decided to take a different approach to engaging with residents to inform the 2017/18 budget process. The main reason for this approach was to draw on feedback from a variety of engagement exercises, which would provide more information than a stand-alone budget consultation exercise. The exercises that have been considered are the 'Let's Talk about Well-being' engagement programme which was undertaken to inform the Public Service Board's draft Well-being Assessment, the 2016 Public Opinion Survey and an online Q&A with the Managing Director. This allowed engagement with over 2,000 residents regarding Council services and the budget. The full results of the consultation process are attached in the report at [Appendix B](#).

24. The BWG has had regard to all of the above consultation results when formulating the final budget proposals for 2017/18 and beyond. Proposals in respect of certain of the issues raised are detailed in the appropriate service headings under the Proposed

Budget section of this report. In particular, the condition of roads and pavements was raised throughout the various consultation exercises, as well as public transport and services for older people.

25. Reducing inequality continues to be a core theme. Every saving which has been put forward under these final budget proposals will be subject to an equalities scoping exercise and, where relevant, a full impact assessment will be carried out prior to implementation. The BWG is aware of the pressure on both the health service and its own services due to the increase in the older people's population and supports the Council's commitment to continue working together with Health and other agencies in order to establish collaborative approaches to managing the issues that affect us.
26. The BWG acknowledges that alternative forms of service delivery are an important way of achieving savings and various options are being assessed as part of the Council's Reshaping Services Programme. The consultation demonstrated that there was support for the Reshaping Service Programme as a way of working and a large % of respondents were in agreement that income generation is an approach the Council should take forward as a way of meeting the budget shortfall.

Proposed Budget 2017/18

27. The proposed budget for 2017/18 has been set in line with the current financial strategy and a summary of the overall position is attached at [Appendix C](#).
28. Asset rentals are accounting adjustments reflecting charges to services for the use of assets. They do not constitute "real" expenditure and are reversed out and replaced by the cost of capital within Policy. Similarly IAS 19 changes are technical accounting adjustments to the costs of pension contributions, which are reversed out in Policy. Neither of these adjustments are therefore a part of the total expenditure of the Council.
29. Recharges/Transfers relate to movements in charges between internal Council Services and the transfer of functions. Overall there is a neutral impact on the budget.
30. Budget Adjustments relate to the £320k reduction in the use of the Social Services Fund in 2017/18.
31. Inflation (excluding schools) totals £1.637m of which £844k relates to general price increases and a 1% allowance for pay awards amounts to £793k.
32. The BWG has reviewed and updated the cost pressures. Those which cannot be mitigated or reduced are included within the Net Growth figure of £5.192m. The breakdown of this sum is shown at [Appendix D](#).
33. The savings have also been reviewed by the BWG. It will not be possible to implement some of the larger Reshaping Services savings in full during 2017/18 as they will require further time to be implemented and therefore the targets of some of the savings have been reprofiled over the 3 year period. For 2017/18 proposed savings total £4.017m and details are included at [Appendix E](#).
34. As part of the Initial Revenue Proposals report presented to Cabinet on 14th November 2016 it was projected that the outturn for Policy for 2016/17 would be a favourable variance of £4m. Cabinet resolved "That the sum of £4 million be set aside to the General Fund and consideration be given for that allocation to be used to offset the shortfall in the revenue budget and/or used for capital schemes, the details of

which will be considered by the budget working group before the final revenue proposals are presented to Cabinet and Council for approval".

35. Options for this funding have been considered by the BWG. In light of the results of the consultation, £1m will be transferred into the Visible Services fund and used to carry out additional road and pavement resurfacing works over the next 2 years. The consultation exercise also demonstrated the value placed on Visible Services by residents and therefore £500k will be transferred into the Visible Services fund to support capital projects. Under the Local Development Plan, site provision must be made for Gypsy Travellers. Further work will need to be undertaken as to the final requirements however it is proposed that £1m will be set aside in a fund for a Gypsy/Traveller site scheme. It is also proposed that £500k 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 Final Capital Programme Proposals 2017/18 report, elsewhere on this agenda. There is pressure on the Education recoupment income budget and while the base budget will be increased in 2017/18 this will not be by the full cost pressure requested. However, it is proposed that £200k is transferred into the Schools Placements reserve to cover any potential shortfall while further Reshaping work and assessment is undertaken.
36. During the year it has been reported that the planning fee income budget is unlikely to meet its target. 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 and a cost pressure was submitted by the department. It is very difficult to forecast the level of Planning fee income in the near future and therefore in order to cover a possible shortfall, £100k has been transferred into a Planning Fee reserve.
37. As already stated, it will not be possible to implement some of the larger Reshaping Services savings in full during 2017/18 as they will require further time to be implemented and therefore the targets of some of the savings have been reprofiled. This results in a shortfall in the revenue budget for 2017/18. As recommended by Cabinet at the initial budget proposal stage, part of the 2016/17 projected underspend will be set aside to the General Fund to be used to offset a shortfall in 2017/18. A sum of £700k will be held in the General Fund and will be used to fund the revenue budget in 2017/18.

Services

Learning and Skills

	Schools	Strategy, Culture, Comm Learning & Resources	Achieve- ment for All	School Improve- ment	Strategy & Reg	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Budget 2016/17						99,359
Recharges/Tfrs						(496)
Changes in Asset Rentals/IAS 19 Inflation						168
Restructure	81,684	12,135	3,982	1,162	243	99,206
Net Growth	831	19	473	0	0	1,323
Savings	(78)	(357)	(165)	(40)	0	(640)
Budget 2017/18	82,437	11,797	4,290	1,122	243	99,889

38. WG no longer require Councils to provide a Minimum Funding Commitment for school funding, which had been equivalent to 1% above the change in the Assembly's block grant funding allocation from the UK Government.
39. A breakdown of the net growth is shown in [Appendix D](#). Eventhough the Education SSA has decreased by £696k from 2016/17, additional funding has been allocated to this service. The BWG has decided to fund the one off additional pay cost pressures for schools on the same basis as the rest of the Council i.e. full funding for the increase in non-teaching staff employers superannuation contributions and 50% of the Apprenticeship Levy. £689k has also been provided to contribute towards other cost pressures.
40. During the year it has been reported that there has been pressure on the inter authority recoupmnt budget and the out of county placements budget with projected overspends of £793k and £268k respectively. Part of this overspend is being offset by some budget underspends within the Directorate and as part of the 2015/16 closing report, £500k was set aside in a Schools Placements reserve which will be fully utilised during 2016/17. The BWG acknowledges the pressures in this area and have allocated recurring funding of £450k and has transferred £200k into the Schools Placements reserve. The BWG request that further work should be undertaken in this area through the Reshaping Service programme to mitigate this position.
41. A breakdown of the savings target is shown in [Appendix E](#). Reshaping savings targets are included in 2017/18 to be achieved from the Additional Needs and the Strategy and Resources services. Work is ongoing, not only to achieve this saving, but to reduce the pressure in the services. It is acknowledged by the BWG that further

time is needed to implement changes and therefore the savings targets have been reprofiled over a 2 year period.

42. It is suggested that the Schools Budget Forum be consulted before any final decision is made on the split of the funding between Central Education and the Schools. It is recommended that delegated authority be given to the Interim Director of Learning & Skills to determine the split in the light of that consultation. It is also planned that as part of the 2017/18 budget setting process the budget for Catering Services will be delegated to Schools.
43. After the changes above the Education budget will be substantially above the IBA.

Social Services

	Children & Young People	Adult Services	Business Mgmt. & Innovation	YOS	Total
	£'000	£'000	£'000	£'000	£'000
Budget 2016/17	14,858	39,906	295	696	55,755
Recharges/Tfr	(4)	4	(68)	(6)	(74)
Adjustments	115	205	0	0	320
Inflation	133	529	30	11	703
Net Growth	19	1,606	10	0	1,635
Savings	0	(335)	0	0	(335)
Changes in Asset Rentals/IAS 19	3	(5)	0	0	(2)
Budget 2017/18	15,124	41,910	267	701	58,002

44. The latest projected outturn for Social Services in the current financial year indicates an overspend of £600k. There remains continuing pressures on the service, particularly in relation to the cost of adult care packages which could outturn this year up to £1m over budget and the full year effect of this year's commitments will further increase this figure. This overspend relates mainly to domiciliary care packages provided for frail elderly clients.
45. A breakdown of the net growth is shown in [Appendix D](#). Having regard to the current financial pressures and the results of the budget consultation, where concerns were raised by the Social Care and Health Scrutiny Committee and residents over the support for older people, the BWG acknowledges that there are significant issues in this area. Not only is there an increase in the population, but clients are increasingly frail with complex needs. There is a 'knock on' effect from pressures within Health and work is being undertaken to ensure integration between the two services. However, this is an ongoing process. There are also pressures on the service from changes in legislation such as the Social Services and Well-being (Wales) Act 2014 which came into force on 1st April 2016. Fees paid to residential and domiciliary providers during 2016/17 were increased by above the level of inflation to allow for the introduction of the National Living Wage. Providers have also requested an above inflation increase in 2017/18, due to the continuing impact of the National Living

Wage. However, the Social Services SSA for 2017/18 has decreased by £262k from 2016/17. The BWG has taken all these factors into account and it is proposed that an additional £1.25m should be included in the budget for Adult Services. In addition, it has been announced by WG that the maximum weekly charge for non-residential care is due to increase from £60 to £70 per week and this should generate up to £250k of additional income for the service.

46. The Council for the past 3 years has received Delivering Transformation Grant from WG. The grant has been used to implement the introduction of the Social Services and Well-being (Wales) Act 2014. This funding will be transferred into the RSG in 2017/18 to enable the continuation of work required to fully implement the Act. Previously the Council has worked in collaboration with Cardiff Council to implement the changes required, with the Vale of Glamorgan Council acting as host authority and receiving grant funding for both authorities. It is proposed that the collaborative working between the authorities continues in 2017/18 with the Vale of Glamorgan Council continuing to act as the host.
47. The Intermediate Care Fund (ICF) grant will continue to be provided to Health by WG and the Service will work with Health to ensure the monies are spent in the most cost effective way.
48. On 5th January 2017 the Minister for Social Services and Public Health announced an additional £10m funding for Social Care. The new investment is to form part of a three-way agreement to be established between the Welsh Government, local government and social care employers to work together to create a more stable social care workforce. The funding is to help to meet the extra costs associated with the introduction of the National Living Wage. How this funding will be transferred to local authorities is not yet known, however, if it is allocated on the basis of the Older Persons Residential and Domiciliary Care SSA formula then the Council could receive around £370k.
49. A breakdown of the savings target is shown in [Appendix E](#). There had previously been a saving included of £270k to be achieved from a review of the way in which domiciliary care is procured, however, the BWG understands the pressure on this service and while the service needs to continue to review and implement alternative ways of working and managing demand, the saving has been removed.
50. During 2012/13, the Social Services Budget Programme was established which outlined a series of savings for future years and provided the required funding for the managed reduction of the budget, via the setting up of the Social Service Fund. The following table shows the continued use of the Social Services Fund.

Financial Year	Use of Fund £'000
2017/18	650
2018/19	330
TOTAL	980

51. The Director of Social Services should continue to review the Social Services Budget Plan and take the necessary action to achieve the level of savings required in accordance with the above timeframe. It is also essential that tight control over expenditure is achieved.

Environment and Housing

	Visible	Transport	Building	Regulatory	Council Fund Housing	Total
	£'000	£'000	£'000	£'000	£'000	£000
Budget 2016/17	20,068	4,834	0	2,056	744	27,702
Recharges/Tfr	338	(20)	(9)	84	182	575
Adjustments	0	0	0	0	0	0
Inflation	265	46	9	19	10	349
Net Growth	308	3	0	8	190	509
Savings	(819)	(22)	0	0	0	(841)
Changes in Asset Rentals/IAS 19	(246)	0	0	(1)	0	(247)
Budget 2017/18	19,914	4,841	0	2,166	1,126	28,047

52. A breakdown of the net growth is shown in [Appendix D](#). As part of the consultation process, residents commented on the Waste Collection service and, therefore, the BWG thought it appropriate to support some of the increased costs and pressures on the Waste Collection and Recycling services.
53. A breakdown of the savings target is shown in [Appendix E](#). A Reshaping Services savings target of £1.9m had been included for 2017/18. A report also on this agenda outlines proposals for the way in which part of this saving will be achieved, however, it will not be possible to implement the full level of this saving during 2017/18. The saving target has therefore been reprofiled over 2 years.

Managing Director & Resources

	Resources	Regen	Develop Mgt	Private Hsing	General Policy	Total
	£'000	£'000	£'000	£'000	£'000	£000
Budget 2016/17	920	2,172	958	11,262	16,660	31,972
Recharges/Tfr	1,296	(101)	(9)	(428)	(763)	(5)
Adjustments	0	0	0	0	0	0
Inflation	227	20	16	107	40	410
Net Growth	59	8	5	62	91	225
Savings	(1,769)	0	(2)	0	(430)	(2,201)
Changes in Asset Rentals/IAS 19	(5)	(8)	0	0	94	81
Budget 2017/18	728	2,091	968	11,003	15,692	30,482

54. A breakdown of the net growth is shown in [Appendix D](#). The implementation of the Cardiff Capital Region City Deal is beginning to progress. A sum of £50k has been included in the 2017/18 budget to contribute towards regional working in this area. A budget of £60k has been included for staff costs as part of the Renewal Area budget, which is required to support the capital bid which has been included as part of the final capital programme proposals.
55. A breakdown of the savings target is shown in [Appendix E](#). Included as part of the Tranche 2 Reshaping Services programme was £1.4m which was to be achieved from the Corporate Workstream in 2017/18. The implementation of this review has already commenced however a full saving will not be achieved in 2017/18 and therefore the saving has been reprofiled over the next 2 years.

Delivering Well Being

56. In setting the revenue budget, the Council needs to consider its corporate priorities as set out in the Corporate Plan 2016-2020 through the 4 well-being outcomes which are shown below with examples of how the Council is providing support through the 2017/18 revenue budget.
- An Inclusive and Safe Vale - Funding has been allocated to support the continuation of the Renewal Area which improves the quality of housing;
 - An Environmentally Responsible and Prosperous Vale - Funding has been allocated for the commencement of the Cardiff Capital Region City Deal which will maximise opportunities for economic development and job creation and through the provision of additional funding for waste recycling ;
 - An Aspirational and Culturally Vibrant Vale – Funding has been provided for schools; and

- An Active and Health Vale – Funding has been provided to support Social Services and collaborative work will continue with Health as part of the ICF grant funding.
57. These outcomes demonstrate the Council’s commitment to the Well-being of Future Generations Act which aims to improve the social, economic, environmental and cultural well-being of Wales and ensures that the needs of the present are met without compromising the ability of future generations to meet their own need. Even with reductions in funding, where practical, the Council will strive to maintain services which contribute to this agenda.
58. In developing the Corporate Plan, the Council has reflected on the way it works and has stated 5 principles it will follow. These budget proposals reflect this new approach to working. The 5 ways of working are:-
- Looking to the long term - The budget proposals are a means of planning for the future and take a strategic approach to ensure services are sustainable and that future need and demand for services is understood.
 - Taking an integrated approach - The budget proposals highlight and encourages ways of working with partners.
 - Involving the population in decisions – As part of the budget proposal process there has been engagement with residents, customers and partners.
 - Working in a collaborative way – The budget proposals recognises that more can be achieved and better services can be provided by collaboration and it encourages this as a way of working in the future.
 - Understanding the root cause of issues and preventing them – The budget process is proactive and allows an understanding of the financial position so that issues can be tackled at the source.

Financial Strategy for 2018/19 to 2019/20

59. The 2014/15 final budget proposals were informed by a budget review exercise that included the reappraisal of the Council’s financial strategy. Consequently, separate strategies were put in place for Education & Schools, Social Services and all Other Services.
60. The BWG has continued to have regard to the continued appropriateness of these strategies given the significant level of savings that now have to be found, the relative size of the Education & Schools and Social Services budgets as a proportion of the Council’s net budget requirement and the pressures on the services.
61. Education & Schools increases should at least match the overall percentage change in the Council’s budget as amended for adjustments to the council tax reduction scheme (CTRS) and the council tax base. The Council will continue to 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 to do so. This will be dependent on future settlements.

62. The BWG considers that the principles applied above to Education & Schools also continue to apply to Social Services. It is proposed that the financial strategy for all Other Services remains in place. This will require services to manage downwards or meet the bulk of their cost pressures through additional savings. For the purpose of these projections, it has been assumed that the financial strategies set out in this report for Education & Schools and Social Services will continue to be applied.
63. WG has not provided the Council with indicative settlement figures for 2018/19 onwards. The MTFP was based upon a cash reduction of 3% in both 2018/19 and 2019/20. Each 1% change in AEF affects the Council by approximately £1.5m. It is assumed that the same levels of reduction are used for these projections.
64. Pay and price inflation (excluding schools) is estimated at £3.323m over the two years based upon a 1% per annum uplift for both areas. This assumption will be reviewed again when the next iteration of the MTFP is produced.
65. In November 2014, Cabinet agreed to commence a Reshaping Services strategy and change programme. This programme is the Council's proactive response to central government's austerity drive that has created a period of unprecedented financial pressure in the public sector. The savings targets set as part of this programme are large and challenging, and require substantial input for their achievement. As detailed by service area above, some of the targets have been reprofiled over a number of years to ensure their successful and considered implementation.
66. Cabinet as part of the initial budget setting process for 2016/17 agreed to the commencement of Tranche 3 of its Reshaping Services programme. As part of the work recently completed with Price Waterhouse Cooper, areas of savings for 2018/19 onwards have been identified. They are currently not allocated to individual services but identified for the Council as a whole. [Appendix F](#) includes the proposed savings for 2018/19 and 2019/20, including the Tranche 3 Reshaping Services programme.
67. Cost pressures for future years have been considered and assessed by the BWG and total £4.616m for 2018/19 and 2019/20. Details are attached at [Appendix G](#). This includes a possible level of funding for schools which is estimated at £986k over the 2 years and potential pressures on Social Services as a result of increased demographic growth and further increases in the National Living Wage. Any further cost pressures will need to be managed down or mitigated by Services in order to avoid further savings targets being required. An allocation has been included for Housing as recognition of the possible reduction in transition grant funding and in order to support homelessness prevention services.
68. Previously there were no plans to use the Council Fund reserve in future years after 2016/17, however, this budget proposal recommends the use of £700k to support the 2017/18 budget on a one off basis, leaving a balance of £8.572m in the fund as at 31st March 2018. However, there is considerable uncertainty on the effects of Britain's exit from the Europe Union and there is a distinct possibility that inflation will increase in the coming years. Coupled with that, the Reshaping Services savings may not be achieved in the short term. That being the case, it must be assumed that the Council Fund could be used to support the budget in the coming years, while at the

same time, being mindful that the Section 151 Officer requires a balance of £7m to be maintained as a minimum balance for this particular fund.

69. Assuming a council tax increase in each of the two years of 2% and adjustments for 'one-off' items flowing from the 2017/18 budget, the table below shows the projected shortfall for the period. It must however be emphasised that these projections are based upon information available at the current time and they will be subject to change e.g. changes in AEF. The projection is also based upon the assumed achievement of a high level of savings. The position will be reassessed as part of the MTFP and future year budget setting processes, to identify if these savings are not achieved or are not implemented in the year required, or additional cost pressures are not mitigated.

Financial Projections to 2019/20	2018/19	2019/20	Total
	£'000	£'000	£'000
Assumed Decrease in AEF (3% and 3%)	4,487	4,352	8,839
Cost Pressures (inc Schools)	2,642	1,974	4,616
1% Pay and 1% Price Inflation (excl. schools)	1,653	1,670	3,323
Net Savings Targets	(5,226)	(2,270)	(7,496)
Assumed 2% Gross Council Tax Increase	(1,323)	(1,350)	(2,673)
Adjustment for 'One Off' Items *	320	330	650
(Surplus)/Shortfall in Savings Required	2,553	4,706	7,259

* "One off" items relate to the change in the use of the Social Services fund

Reserves

70. 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.
71. 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. 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. The Housing Revenue Account Reserve is ring-fenced to Housing and the majority will be used to fund improvements to the Council's housing stock.
72. 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 position. 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.

73. The level of reserves must be considered in the context of the financial risk facing the Council over the coming years.
74. One of the main risks to the Council's financial planning is the uncertainty as to the level of funding to be received from WG in future years. No indication has been provided by WG after 2017/18. Projections have been based on the assumed cash reduction in AEF of 3% in both 2018/19 and 2019/20. Each 1% change in AEF affects the Council by approximately £1.5m.
75. Projecting forward on this basis, there is a gap in funding in the coming years that will need to be identified. Savings of £18.772m need to be achieved over the next 3 years, of which £11.513m have been identified. This figure is extremely challenging and there is significant pressure on services to deliver these existing savings in full and on time. There is a risk of non-achievement of these savings and the ability to identify and implement further savings given the already high level of savings previously delivered by services. Reserves have been set up where possible to facilitate this process e.g. Early Retirement Fund, Reshaping Services Fund.
76. There are risks in the budget and the most significant of these are set out in this report. Social Services care packages budget is currently overspending. Even though additional funding has been proposed for 2017/18, further action will need to be undertaken by the Director of Social Services to achieve a balanced budget. The budget recovery plan for Social Services requires an estimated £980k from the Social Services Fund to cover revenue expenditure over the next 2 years to give the Service time to plan and implement remedial action, in order to bring their expenditure within their base budget.
77. Pay and price inflation is a further risk. From 2017/18 onwards, provision has been made in the budget at a rate of 1% for each element. The Consumer Price Index has been gradually increasing and for the 12 months to December 2016 it rose by 1.6%. Services will need to manage spending as costs rises about the 1% included in their budgets.
78. Details of all specific grants have not yet been finalised and there is a risk that should grants be cut and it is not possible to reduce expenditure correspondingly, the Council could overspend. This risk should be mitigated by the fact that Services should have in place "exit" plans for any specific grant ceasing and are usually aware of likely developments in the level of grant. In the first place each Service would be expected to fund any shortfall from its revenue budget. There are however some reserves held to cover future grant reductions but these can only be seen as a contingency in the short term e.g. Adult Community Learning and Youth Offending reserves. The payment of redundancy costs, when a grant ceases, is not normally allowed as eligible expenditure to be set against the grant and therefore it is for the Council to set aside funds to cover this eventuality. A Grant Exit Strategy reserve is being held under the Social Services heading to fund such costs if they arise and in the main relates to the Flying Start grant.
79. Legislative changes provide a major risk to the Council. The impact of the introduction of the Social Services and Well-being (Wales) Act 2014 is continuing to be assessed and the Social Services Legislative Changes reserve can be used to mitigate issues in the short term. Any increase in the National Living Wage will put further pressure on staffing budgets. There is uncertainty for future recycling costs as a result of Article 11 of the Revised Framework Directive which are yet to be confirmed. In addition, the

impact of changes to welfare reforms are at present not clear and a reserve is held for this purpose. With the introduction of the new Housing (Wales) Act in April 2016 Welsh Government secured transitional funding for all local authorities to help mitigate the potential significant challenges of the Act and the number of additional statutory duties within the Act. As the funding was transitional and is likely to reduce in the future, the authority needs to ensure that it can fund its new duties from within its future resources.

80. There are risks associated with climate change, in particular energy costs and the Council holds an Energy Fund to implement energy saving initiatives. The effect of adverse weather conditions increase the cost of running and maintaining the Council's infrastructure and provision needs to continue to be set aside to fund works over and above that held in the normal operational revenue budget, as covered for instance by the Bad Weather reserve.
81. Whilst covered by a separate report on the agenda, it is important to point out that a large proportion of the reserves are held for capital expenditure as well as for revenue purposes. There is a large commitment required for the future development of local schools and for the risks in maintaining aging premises. Also, the Council relies heavily on its IT infrastructure and the Wales Audit Office has recommended that a corporate technology development fund should be held.
82. The Council also holds funds to enable it to fulfil its priorities set out in the Corporate Plan through the 4 well-being outcomes. The Council must demonstrate its commitment to the Well-being of Future Generations Act and ensure that the needs of the present are met without compromising the ability of future generations to meet their own need, thus ensuring that funding is available in the long term through sound financial planning.
83. As part of the usual Budget process, an examination of the level of reserves was undertaken to ascertain their adequacy and strategy for use. The reserves were examined with 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).
84. The requirement for each specific reserve has also been considered in light of the Council's priorities and it has been deemed necessary to move funding from lower priority areas to higher priority areas.
85. The Regulatory Improvements reserve was set up several years ago and covered the previous Public Protection service which included Private Housing. Part of this reserve related to Private Housing and therefore the allocation of £284k now needs to be transferred to a separately identifiable reserve for that service. Also the reserve currently includes the repayment to the Council of its proportion of the underspend achieved by the Shared Regulatory Service in 2016/17 which was £142k. It is proposed that the Regulatory Improvements reserve is set at the level of the repayment from the Shared Regulatory Service and that the remaining balance is transferred into the Visible Services fund.
86. The estimated level of the Council Fund Reserve at 1st April 2017 is £9.272m, with £700k being used to fund the revenue budget in 2017/18. This leaves a balance as at 31st March 2018 of £8.572m.
87. The Section 151 Officer's view is that the minimum level for the Council Fund Reserve is £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 of Glamorgan 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.

88. The Schools Balances are unspent budgets delegated to individual schools. It is projected that the aggregate nursery, primary and secondary balances will be £705k in surplus at 31st March 2017.
89. Attached at [Appendix H](#) is a schedule showing the reserves and the anticipated balances at the 31st March 2017, 2018, 2019 and 2020. The Appendix sets out the title of the reserve together with its purpose. A summary of the position is set out below:

	Est. Bal. 31/3/2017	Net Movement	Est. Bal. 31/3/2020
Summary of Estimated Reserves Projected to 2019/20			
	£'000	£'000	£'000
General Reserves	9,272	(700)	8,572
Specific Reserves :			
- Insurance Fund	1,743	0	1,743
- Capital Reserves	26,483	(14,851)	11,632
- Other Specific Reserves	23,566	(11,071)	12,495
Total Council Fund Reserves(excl. Schools)	61,064	(26,622)	34,442

90. It is projected that there will be a large fall (44%) in the level of reserves over the 3 year period as substantial calls on funds are made. However, these are still deemed to be adequate as known risks are largely covered and the Council Fund Reserve is at a reasonable level, not expected to fall below £7m.

Resource Implications (Financial and Employment)

91. The total budget shown at [Appendix C](#) is £215.72m. After adjusting for discretionary rate relief of £200k, it is £1.287m below the Council's SSA of £216.807m. The 2016/17 budget was £0.79m below the SSA.
92. The Council's SSA (IBA) is an indication of the relative resources needed to provide a standard level of service. It is based on statistical data and formulae, any of which can be flawed in assessing need. It is used primarily as a method of distributing AEF. It is not an absolute indicator of a required spending level for a particular service in a particular area. It is for local councils to best determine their own spending priorities in light of local circumstances.
93. If the Council decides to budget at £215.72m, deducting from this Revenue Support Grant of £108.578m, redistributed non-domestic rates of £40.976m produces a requirement of £66.166m to be met from council tax. Dividing this by the council tax

base of 57,920, gives a level of council tax for this Council's purposes (excluding police and community council precepts) for Band D properties of £1,142.37. This is an increase over the current year of £31.14 or 2.8%.

94. The average of the Council Tax set by councils in Wales for 2016/17 at Band D was £1,127, whilst the Vale of Glamorgan's was £1,111.23. The BWG's view is that the proposed increase in Council Tax at 2.8% is a reasonable compromise between the pressure on services, particularly in light of the reduction in AEF and consequent level of savings required and the financial pressures facing council taxpayers.
95. The proposed budget will require the use of £700k from the Council Fund Reserve. The estimated balance on the Council Fund at 31st March 2018 is £8.572m. The use of reserves for funding recurrent expenditure is clearly not sustainable.
96. The 2016/17 MTFP projected a shortfall in funding over the next 3 years of £16.363m even after the identification of £7.783m of savings, thus resulting in the potential requirement for £24.146m of savings. This £16.363m shortfall in funding has now been reduced to £7.259m over the next 3 years through various sources, including a lower than anticipated reduction in the WG settlement of £2.968m, an increase in Council Tax above the assumed figure of 2% plus a change in the Council Tax base totalling £2.152m, a review of cost pressures resulting in an increase of £446k (including changes to one off adjustments), an increase in identified savings of £3.73m and a use of reserves of £700k. The savings target for the next three years is now £18.772m.
97. In order for the Council not to be exposed to unacceptable risk it is essential that all Services maintain their expenditure within budget and that this is a major priority for Directors, Heads of Service and all Managers. Any further cost pressures will need to be managed down or mitigated by Services.
98. The budget proposals will have implications for the Council's employees and there will be a loss of jobs. The reduction for 2017/18, excluding schools, is estimated to be around 100 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.
99. The above figures do not include the staffing implications relating to budget pressures within schools as the details need to be considered by individual Governing Bodies and supported by the Interim Director of Learning & Skills. Individual schools will also be impacted by whether they have growing or falling pupil numbers. There are, however, likely to be staff reductions and redundancies depending on each schools circumstances. The Interim Director of Learning & Skills will need to establish the impact of the budget on employees in schools.
100. The Council has an Avoiding Redundancy Procedure that will be followed and includes a requirement for the Council to search for suitable alternative employment. The numbers of employees referred to are those impacted in the budget. There could be further staff implications from other restructuring exercises during the year.
101. The trades unions will continue to be consulted on the details of any potential redundancies once known.
102. In light of the staffing implications it is essential to ensure that consultation with the trades unions is carried out in accordance with the Council's Avoiding Redundancy Policy and related legal requirements. A Change Forum meets regularly with the trade

unions to help co-ordinate the consultation process and deal with cross- directorate issues.

Statement of Section 151 Officer on Robustness of Estimates

103. The Local Government Act 2003 requires that the Section 151 Officer (currently the Head of Finance) must report on the robustness of the estimates, which are to be approved by Council. This Section constitutes that assurance.
104. In view of the uncertainties of the current and future economic climate there is increased risk facing the Council's financial position and, as a consequence, the delivery of services. This has been recognised and referenced within this report, where relevant, together with actions that can be taken to manage that risk.
105. Savings are regarded as extremely challenging but achievable and have been carefully examined with risk and measures to mitigate them identified. It is important to stress the importance of the mitigating actions being implemented and the need to consider equality impact assessments.
106. Estimates in the budget report are robust subject to any reservations/ qualification or other commentary contained in the report. All services' expenditures are under pressure and there is always a risk that a service may overspend, particularly in light of unforeseen circumstances.
107. A measure to guard against this will be to monitor the budget during the year and to identify problems as they arise and put in place remedial action. Key to this will be the delivery of savings including those required under the Reshaping Services programme. Cabinet, Scrutiny and managers continue to have a key role in reviewing and maintaining budgetary performance.
108. Reserves have been again reviewed and are considered adequate to cover contingencies and the risks stated in the report.

Sustainability and Climate Change Implications

109. 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)

110. The Council is required under statute to fix its 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.

Crime and Disorder Implications

111. Provision within the budget for Community Safety and other expenditures could have a beneficial effect on the reduction of crime.

Equal Opportunities Implications (to include Welsh Language issues)

112. Councils are required to comply with the Equalities Act 2010 and in particular the Public Sector Equality Duty for Wales.
113. The Council has an existing process for undertaking equality impact assessments and the Equality Impact Assessment (EIA) for the overall budget set out in this report is included at [Appendix I](#). Carrying out an EIA involves systematically assessing the likely (or actual) effects of policies on people in respect of disability, gender, sexuality (including gender identity), age, Welsh language, and racial equality.
114. EIA scoping assessments will be undertaken for each of the approved individual savings for 2017/18 and, where relevant, full assessments will be completed and appropriate consultation undertaken before the savings are implemented.

Corporate/Service Objectives

115. 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

116. This report is following the procedure laid down in the Constitution for the making of the budget and needs to be referred to Council to make the final decision.

Consultation (including Ward Member Consultation)

117. Scrutiny Committees and Corporate Management Team have been consulted on the initial budget proposals. Trade Unions have been consulted informally on the potential implications of the proposals. External stakeholders were also consulted on the budget priorities.

Relevant Scrutiny Committee

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

Background Papers

Local Government Final Revenue Settlement letter dated 21st December 2016.

Contact Officer

Carys Lord
Section 151 Officer

Officers Consulted

Corporate Management Team

Responsible Officer:

Carys Lord Section 151 Officer