

THE VALE OF GLAMORGAN COUNCIL

CABINET: 6TH NOVEMBER, 2017

REFERENCE FROM CORPORATE PERFORMANCE AND RESOURCES
SCRUTINY COMMITTEE: 19TH OCTOBER, 2017

“ MEDIUM TERM FINANCIAL PLAN 2017/18 to 2020/21 (REF) –

The Cabinet had given consideration to and approval of the above Plan at its meeting held on 18th September, 2017 and had subsequently referred the matter to the Scrutiny Committee for consideration / comment.

In providing context to how the Plan had been developed, the Head of Finance indicated that the document had been written prior to the Welsh Government's (WG) formal announcement of the Council's initial Revenue Support Grant (RSG) settlement and therefore a number of assumptions had been made in respect of the following:

- As a result of the continuation of austerity measures, a 3% reduction with regards to the funding from WG had been applied for the period 2018/19
- With continued economic uncertainty as a result of the United Kingdom's exit from the European Union, a further 3% reduction had been applied for both financial years 2019/20 and 2020/21
- Initial estimates showed a projected savings target between 2018/19 and 2020/21 of £20.941m excluding schools, comprising of £9.326m of savings already identified and £11.615m yet to be allocated
- There would be additional cost pressures arising between now and 2020/21 which were as yet unknown and therefore little provision had been made for service development
- Whilst savings would continue to remain a major expectation of future budgets, it was unlikely that the Council would seek to or be able to fund all cost pressures
- That there would be a continuance of exploring opportunities for collaboration and alternative forms of service delivery
- The only realistic option facing the Council in future years was the successful delivery of its Reshaping Services programme
- To ensure that the budget set for 2018/19 continued to address the priorities of the residents of the Vale of Glamorgan and the Council's services users, the budget setting process would incorporate engagement with a range of key stakeholders
- The actual shortfall in funding for 2018/19 would not be known until December 2017, it was proposed that the following areas were considered as a means of

reducing the projected £799,000 funding gap if the reduction in funding from WG was 3% as included in the Plan:

- No provision for prices inflation which equated to £455,000;
 - The impact of the change to the Council's Tax base; and
 - The further use of the Council General Fund to fund any remaining shortfall
- Many activities were dependent upon grant funding to maintain existing service delivery levels and aside from the general uncertainty as to whether certain grants would continue in future years, it was likely that these grants would be absorbed into the RSG with the real possibility of a significant reduction in grant funding in the future for distribution
 - There was increasing pressure on pay budgets, in particular as a result of the introduction of the National Living Wage (NLW) and it was anticipated that these increases would put significant pressure on the lower part of the NJC pay scale. It was estimated that such changes could equate to an average increase across all staff of circa 1.6% in 2018/19
 - Price inflation had previously been included in the Plan at a rate of 1% per annum. Consumer Price Index (CPI) increased by 2.6% in the year to July 2017 and it was considered with the current projected reduction in funding this level of provision could no longer be maintained going forward. It was therefore proposed a figure equating to 0.5% be included, which would be allocated to specific budgets which had large contractual commitments. Other price inflation would need to be managed by respective services
 - No final decision would be made on the increase in the level of Council Tax until the 2018/19 budget which would be set in March 2018, however, for the purpose of the Plan, an increase of 2.6% had been included for each year in line with the current level of CPI
 - Options which were recommended within the Plan for further exploration as part of the 2018/19 budget process to reduce the funding gap in future years related to the following matters:
 - considering the results of the budget engagement process in determining priorities for future savings and service delivery;
 - reviewing the appropriateness of financial strategies for services;
 - reviewing the feasibility of any change in the use of the Council Fund Reserve and other reserves as part of the financial strategy;
 - a further review of the level of cost pressures with a view to services managing and reducing demand and mitigating pressures;
 - services funding their own residual cost pressures through reviewing their existing budgets and revised / alternative means of service provision;
 - services meeting their own pay inflation through reviewing their staffing structure in line with changes to service delivery and workforce planning requirements;
 - further consideration of the level of price inflation provided;
 - reviewing the priorities for funding statutory and non-statutory services, including establishing minimum levels of service provision;
 - considering the latest position regarding the Council's Reshaping Services programme and identifying further area for savings;
 - collaborative working in line with the WG reform agenda;

- develop a strategic approach to income generation;
- finalise the Minimum Revenue Provision (MRP) review;
- reviewing the achievement of the 2017/18 savings targets; and
- considering the possibility of a reduction in the level of service and determining what services the Council needed to deliver in the future.

The Head of Finance's attention then turned to the Capital Programme and indicated that there was an expected decrease in the Council's General Funding allocation in 2018/19 and specific capital grants from WG with limited capital receipts, which continued to give the Council little room for manoeuvre in progressing its priorities in this area. She indicated that as part of the 2017/18 final capital proposals, due to the Council's capital funding being flat lined for the past two financial years and after reviewing the assumptions adopted by a number of other Local Authorities across Wales, a reduction of 5% year on year was assumed for future years.

Having stated the above, she updated the Committee in that WG had notified the Council of its provisional RSG which was 0.4% reduction in funding for 2018/19, but the reduction was likely to be greater as certain grant responsibilities which the Council received grant funding for were likely to be absorbed into the final RSG settlement and the figure did not take account of inflationary increases. She stressed that this would still provide little room for the Council to manoeuvre and cost pressures were likely to be above those included within the Medium Term Financial Plan. She reiterated that services were being asked to bring forward cost pressures but due to the continued funding challenges only certain cost pressures would be supported, e.g. in instances where there were contractual implications for the Council.

In conclusion, she indicated that the initial budget proposals would be submitted to Cabinet and the Council's Scrutiny Committee during November and December later in the year.

A Member, in referring to the level of savings required and the potential for a cash decrease of 3% as stated in the Plan, sought clarification as to which areas of grant funding were likely to be absorbed into the Council's RSG. He also sought clarification in regard to the rationale for a 1.6% wage uplift as a result of the NLW and only 0.5% allowance for inflationary price pressures. He alluded to likely financial pressures as a result of wider pay increase demands for all staff given that CPI was near 3%. In response, the Head of Finance referred to the areas which grant funding would be transferred into the RSG (something which the Local Authority had lobbied for and estimated to be £3.1m) and referred to the Waste element of the Single Revenue Grant, Welsh Independent Living Grant, Social Care Workforce Grant, Looked After Children Parent Grant and Carers Respite Grant. She indicated that the increase as a result of the pressure of introducing the NLW and inflation equated to £2.6m. This was the position when the Plan was written which was before the UK Government indication that they would be lifting the Public Sector pay cap. Any increases to the employee pay budget would have a considerable impact on the wider budget. The 0.5% allowed for inflation was in acknowledgement of cost pressures on services.

Another Member referred to his concern regarding the absorption of grant funding into the wider RSG in that the overall net figure was likely to be significantly different to the gross budget and therefore caution should be exercised. He was also concerned about the level of inflation at the current rate and the Plan only allowing for 0.5% for inflationary pressures on services. It was his desire to see greater detail when the matter was reported back to the Cabinet and the Scrutiny Committee as part of the Initial Budget Proposals.

The Chairman referred to the funding levels in future years and sought clarification regarding the assumptions made for these in terms of how accurate these had been in past years and how relevant these were going forward for the Council in the future. In response, the Head of Finance indicated that the assumptions were only an indicative for the period of the Plan and reminded the Committee that the WG had indicated a further 1.5% reduction in the Council's RSG in 2019/2020. In terms of estimates as being realistic, she indicated that the Council had been prudent in past years and that its assumptions would have been close to the final settlement decision of WG.

The Chairman then referred to the assumptions made for future Council Tax rises as detailed in the Plan given that the Council had not made a decision on the same for future financial years. In response, the Head of Finance indicated that these were only an assumption and a basis for planning the Council's accounts. The figure of 2.6% as cited in the Plan was only an indicative figure to identify where the funding gap would be. In response, the Chairman, in referring to the funding shortfall, enquired if this could be met other than from a Council Tax rise. In response, the Head of Finance indicated that in the absence of being able to do so, the funding gap could only be met by income streams or income generation.

A Member then referred to Teachers' pension changes and sought clarification on the £450,000 additional costs. In response, the Head of Finance indicated that this was a cost pressure which she believed should be picked up by the Council in 2019/20.

Having regard to the above discussions, it was

RECOMMENDED – T H A T Cabinet be advised of the Committee's concern regarding the implications for services as a result of the Plan allowing for only 0.5% price inflation given that the Consumer Price Index (CPI) had increased to circa 2.9% in year to date.

Reason for recommendation

To advise the Cabinet of the Scrutiny Committee's concerns.