



## CABINET – 29TH JANUARY 2014

**SUBJECT: BUDGET PROPOSALS 2014/15 AND MEDIUM TERM FINANCIAL STRATEGY 2014/2017**

**REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES & SECTION 151 OFFICER**

### 1. PURPOSE OF REPORT

- 1.1 To seek Cabinet approval for the final draft budget proposals contained within this report. This will allow a further period of consultation to take place prior to final discussion with Cabinet to ensure that budget proposals can be presented to Council on 26 February 2014.

### 2. SUMMARY

- 2.1 Published on 11 December 2013, the key points of the Final Local Government Settlement for Wales are: -

- There have been two transfers into the settlement totalling £7.636m, details of which are provided in Table 2.
- The Revenue Support Grant (RSG) for Caerphilly CBC for the 2014/15 financial year is a reduction of 2.91% after adjusting for new responsibilities i.e. a RSG **decrease of £8.130m** (including Outcome Agreement).
- The capital allocations available to Caerphilly in the RSG and from the General Capital Grant have increased by £22k from the previous year.

- 2.2 The proposals contained within this report deliver (excluding external grant funding) a balanced budget for 2014/15 on the basis that Council Tax is increased by 3.9%. Table 1 below provides a summary: -

**Table 1 – Summary**

Paragraph	Description	£m	£m
5.2.1	Whole Authority Cost Pressures	5.695	
5.3.1	Inescapable Service Pressures	3.233	
5.4.1	Reduction in WG RSG Funding	8.130	
5.6.4	Savings Achieved in Advance		0.122
5.6.5	Savings Proposals 2014/15 (including Council Tax Surplus 2013/14)		14.723
6.1	Revenue Contribution to capital	0.186	
5.7.3	Council Tax Uplift (3.90%)		2.399
	<b>TOTAL</b>	<b>17.244</b>	<b>17.244</b>

- 2.3 Table 2 provides details of funding that is transferred into the RSG as part of the 2014/15 financial settlement: -

**Table 2 – Transfers in 2014/15**

	<b>£m</b>
Council Tax Reduction Scheme Administration Subsidy	0.328
Private Finance Initiative Grant	7.308
<b>TOTAL</b>	<b>7.636</b>

2.4 Table 3 provides details of other passported grants included in the WG financial settlement: -

**Table 3 – Other Passported Grants 2014/15**

	<b>£m</b>
Council Tax Reduction Scheme (CTRS) (10% shortfall)	1.231
Local Government Borrowing Initiative (LGBI) - Highways	0.194
Council Tax Pensioners Grant	0.246
First Steps Improvement Package	0.171
Other	(0.146)
<b>TOTAL</b>	<b>1.696</b>

- 2.5 Passported grants have historically been allocated to the relevant service. For the Council Tax Pensioners Grant, Members will need to agree a scheme for distributing the funding. During the 2013/14 financial year the Welsh Government prescribed a national scheme to enable local authorities to use the funding to further help those pensioners who were already receiving some (i.e. less than 100%) Council Tax reduction (formerly Council Tax benefit) to reduce the amount of Council Tax they had to pay, by between £5 and £100, depending upon how much their bill was after the Council Tax reduction amount and any discount or exemption awards had been deducted.
- 2.6 For the 2014/15 financial year it will be for each Local Authority in Wales to decide whether to use this funding to operate the same scheme or a different scheme. Alternatively, do nothing from the 1st April 2014 to help pensioners with their Council Tax bills but spend the money on something else.
- 2.7 Given the fact that there is not enough time before the required implementation date (1 April 2014) to carry out a full consultation on any alternative schemes, it seems reasonable to recommend that the Authority administers a scheme for 2014/15 that is in accordance with the details laid down by WG for 2013/14. This will remove the need for further consultation at this time; however, any future review would have to include a full consultation to consider all options for 2015/2016, with a report to Policy & Resources Scrutiny Committee in the first instance during the Summer 2014.
- 2.8 The net 2014/15 revenue budget for the Council (including transfers in) if approved, would be £332,032m (as shown in Appendix 1).

### **3. LINKS TO STRATEGY**

- 3.1 Budget decisions impact on all Council Strategies. This report relates, primarily, to the efficient and effective use of the Council's revenue and capital resources.

### **4. ECONOMIC OUTLOOK – MEDIUM TERM FINANCIAL STRATEGY**

- 4.1 It is clear from the financial settlement that Local Government in Wales faces a period of severe austerity.
- 4.2 Following the announcement of the WG final settlement a report was presented to Cabinet on 19 December 2013 which included details of the savings target to be achieved by 31 March 2017, totalling £28.044m as shown in Appendix 2a. This is based on WG's indicative further cut of 1.34% in the RSG for 2015/16. In the absence of indicative figures from WG for 2016/17 a further reduction of 1.34% has been assumed. A summary of the savings requirement is provided in Table 4 below: -

**Table 4 – Cash Savings Targets**

Year	Annual Cash Savings Target £m	Cumulative Cash Savings Target £m
2014/15	14.640	14.640
2015/16	6.462	21.102
2016/17	6.942	28.044

4.3 Members should note that the risk of a cut above the assumed level of 1.34% for 2015/16 and 2016/17 remains and for each additional 0.5% reduction in the RSG, further savings of £1.4m would need to be found.

4.4 As in previous years, WG have, through the RSG formula, placed a requirement on Local Authorities to include provision of a 1% protection above the percentage applied by Central Government to WG's block grant each year for the next 3 years for Schools. For 2014/15 Local Authorities have been allowed by WG to use the Pupil Deprivation Grant increases to reduce this commitment from £935k to £505k. This is summarised in Appendix 2b.

## 5. 2014/15 BUDGET PROPOSALS

5.1 This section of the report sets out the detailed budget proposals for consideration for the 2014/15 financial year.

### 5.2 Whole Authority Cost Pressures (£5.695 m)

5.2.1 The whole Authority cost pressures totalling £5.695 are set out in Table 5 below: -

**Table 5 – Whole Authority Cost Pressures**

	£m
• Pay excluding Teachers and other School staff @ 1% (Pay awards for Schools are provided within the cash pledge)	1.113
• Living wage at £7.65 per hour (increase assumed at 20 p per annum excludes Schools)	0.164
• Non pay inflation 1.5% (net of 1.5% fess & charges increases)	1.466
• WHQS – Capital Charges	0.792
• Supported Borrowing (Capital Financing)	0.270
• Local Government Borrowing Initiative - Highways	0.194
• Other Passported Grants to be supported by the Council	1.696
	<b>5.695</b>

5.2.2 As in 2013 the backdated arrears in respect of Living Wage to 1<sup>st</sup> November 2013 totalling circa £50k can be met from General Fund balances, if agreed by Council. Members are advised that in 2012/13 service areas were able to absorb these arrears. This is likely to be the case in 2013/14, but it is prudent to set a sum aside.

### 5.3 Service Commitments/Service Pressures (£3.233m)

5.3.1 The Council continues to manage within its means and is again projected to deliver a balanced budget overall for this current financial year to 31 March 2014, as reported to Policy and Resources Scrutiny Committee on 21 January 2014. It is incumbent upon Council to set a realistic budget each year. Table 6 provides details of those inescapable service commitments/pressures that have been identified and require consideration in respect of funding.

**Table 6 – Inescapable Service Pressures and Other Service Commitments**

	<b>£m</b>
CTRS additional liability	0.533
Annual Landfill Tax increases	0.240
Meeting the Schools Pledge (see Appendix 2a)	0.935
Social Services Demographics	1.000
Welfare Reform – implementation costs	0.100
Other Service Pressures	0.425
<b>TOTAL</b>	<b>3.233</b>

#### 5.4 **Welsh Government Funding (£8.130m Reduction)**

5.4.1 The WG RSG Settlement decreased the available funding by 2.91% for the 2014/15 financial year, which reduced the amount available for Caerphilly CBC by £8.130m in cash terms.

#### 5.5 **Outcome Agreement (£1.905m)**

5.5.1 The allocation of the Outcome Agreement of £1.905m continues to support key services that help the Council deliver its key strategic priorities.

#### 5.6 **2014/15 Savings Requirement**

5.6.1 Since the Local Government (LG) Provisional Settlement announcement in October 2013, a significant amount of work has been undertaken within each Directorate to identify further savings than originally anticipated for 2014/15 to 2016/17. There were plans in place to cope with the lower savings target anticipated in both February 2013 and June 2013, but the LG Settlement is now requiring an additional £7m of savings for 2014/15. Furthermore, there is currently no indication of the period of austerity coming to an end after 2016/17.

5.6.2 The work to identify savings has been led by the Corporate Management Team (in consultation with appropriate Cabinet Members), working with Heads of Service with support from colleagues in Finance. Service Managers have also been involved to ensure that all options are identified for consideration by Members.

5.6.3 A “Draft Long List” of potential savings was considered, in summary, at a MTFP Seminar held on 21 November 2013. This has been followed by a series of Special Scrutiny Committee Meetings held in December 2013 and January 2014. In addition, Trade Unions have been consulted and the Housing Revenue Account (HRA) savings proposals have been presented to the Caerphilly Housing Task Group (CHTG) as part of the consultation process. A public consultation in respect of savings proposals concluded on 20 December 2013

5.6.4 The Corporate Management Team had, in the light of the extensive work undertaken and the feedback from the consultation process undertaken so far, identified a shortlist of individual proposals for 2014/15 as set out in Appendices 3a to 3f. These proposals were presented to Cabinet at its meeting on 19 December 2013 and are summarised in Table 7 below: -

**Table 7 – Summary of Proposed 2014/15 Savings**

	<b>£m</b>
<b>Savings in advance</b>	
Brought forward from 2013/14	0.122
Insurance Fund	0.400
<b>Sub Total</b>	<b>0.522</b>
<b>2014/15 Savings Proposals</b>	
Whole Authority “corporate nature”	4.944
Corporate Services	2.259

HRA	1.338
Social Services	2.139
Environment	2.944
Education (excluding Schools) and LLL	1.202
<b>Sub Total</b>	<b>14.826</b>
<b>TOTAL SAVINGS</b>	<b>15.348</b>

5.6.5 The ongoing consultation process has resulted in some of the proposed savings presented to Cabinet on 19 December 2013 being withdrawn at the request of Members. Details of these are provided in Appendix 4. This reduces the total savings for 2014/15 to £14.723m.

5.6.6 The consequence of the removal of these savings for 2014/15 leaves a funding gap of £628k, which will be covered by a proposed increase in Council Tax for 2014/15.

## 5.7 Council Tax Implications 2014/15

5.7.1 The Medium Term Financial Strategy approved by Council on 27 February 2013 included indicative increases to Council Tax for 2014/15 and 2015/16 of 2.35%.

5.7.2 Given that the financial modelling identifies to date the need to continue to provide additional funding going forward, an uplift in Council Tax of 2.35% for the next 3 financial years, should be reviewed by Members.

5.7.3 Accordingly, it is proposed that the Council Tax level for 2014/15 be increased by 3.9% i.e. Council Tax Band D be set at £954.78 per annum (an increase of 69p per week) to deliver a balanced budget after the removal of proposed savings for 2014/15 as detailed in Appendix 4.

## 6. CAPITAL PROGRAMME 2014/15 TO 2016/17

6.1 The proposed Capital Programme for the period 2014 to 2017 is detailed in Appendix 5 of this report and is summarised below in Table 8: -

**Table 8 – Summary Capital Programme Funding 2014/2017**

	2014/15	2015/16	2016/17
<b>Capital Programme Proposals</b>	<b>13,462</b>	<b>12,028</b>	<b>8,466</b>
<b>WG Funding Available</b>	<b>8,009</b>	<b>8,009</b>	<b>8,009</b>
<b>Capital Funding Gap</b>	<b>(5,453)</b>	<b>(4,019)</b>	<b>(457)</b>
<b>Funded By: -</b>			
Surplus (Deficit) c/fwd	1,099	1,624	457
Bargoed Cinema Insurance fund	300		
* Prudential Borrowing Cinema	2,000	2,000	
LGBI – Highways	2,800		
Capital Earmarked Reserve – Cinema		800	
Senior Pay Revenue Contribution to Capital	112	52	
Additional Revenue Contribution to Capital	22		
Capital Receipts 2013/14	590		
Delay in borrowing due to cash reserves	154		
<b>Total Additional Funding</b>	<b>7,077</b>	<b>4,476</b>	<b>457</b>
<b>Surplus (Deficit) carried forward</b>	<b>1,624</b>	<b>457</b>	<b>0</b>

*\* In accordance with a previous decision by Council, this prudential borrowing will be funded by the annual lease rental income from the Odeon Cinema Group.*

## **7. GENERAL FUND BALANCES**

- 7.1 Details of the projected movement on General Fund balances are provided in Appendix 6.
- 7.2 There are no further allocations to General Fund identified at this time over and above those identified.
- 7.3 Going forward, there is limited scope for any significant additional surpluses or receipts available to replenish the fund. This is down to growing service pressures in key areas, the need to meet government initiatives (such as welfare reform); ongoing reductions in RSG funding and an ever reducing capital programme.
- 7.4 As in the previous report to Council in respect of the Budget for 2013/14, there is a growing pressure on the Local Government Pension Scheme. A pension deficit of circa £500k is anticipated for 2013/14 and this will need to be funded from the General Fund. It is expected that the conclusion of the triennial valuation in respect of the Pension Fund will address this issue moving forward. A further report will be presented to Members when the valuation process has been completed.
- 7.5 Provision has been made to fund the cost of the Living Wage increase for the period 1 November 2013 to 31 March 2014, if required.
- 7.6 Further to the report presented to Council on 20 January 2014 in respect of the interim arrangements for the role of Chief Executive Officer, it is proposed to set aside a further provision of £358k to cover the full financial year costs for 2014/15 of the 2 Senior Officers who are currently suspended. This provision will be reviewed when more information becomes available.
- 7.7 Funds have been set aside estimated at £800k in respect of some savings proposals for 2014/15, which are likely to be delivered after April 2014 but before March 2015. Funds will be released to service areas on a case by case basis following a review of need.
- 7.8 As in previous years, it has been agreed that a balance of £10m in respect of the General Fund is a prudent level for an Authority as large as Caerphilly CBC. Based on current projected levels there is scope to use £1.2m of General Fund balances for one-off capital expenditure as Invest to Save schemes. This will be subject to separate reports at a later date.

## **8. BUDGET STRATEGY FOR 2015/16 AND 2016/17**

- 8.1 For 2015/16 and 2016/17, it has become apparent from the work undertaken to date that there is a need for a different approach. This conclusion has been reached after taking into account the following: -
- (i) After consecutive years of efficiency savings or doing more or the same for less, there is only so far that this approach can be taken. Efficiency savings should still be pursued but it is not realistic to expect anything more than 3% can be delivered during 2015/16 and 2016/17.
  - (ii) Increasing fees and charges is another approach that once reviewed and exhausted is unlikely to deliver more than small inflationary increases that service users can tolerate.
  - (iii) Council Tax increases should be reviewed and will assist in respect of the shortfall for future years.
- 8.2 Hence, it is proposed that the Budget Strategy to be taken forward for 2015/16 and 2016/17 considers savings proposals via two main strands as follows:-

- (i) Further proposals for Members to consider in respect of up to 3% efficiency savings. These efficiency savings targets to be applied to those statutory and essential services that the Authority has to deliver, either directly or via a third party organisation. Reports to be presented to Special Scrutiny Committees after April 2014 and before October 2014.
- (ii) Discretionary services are reviewed in full, with a view to identifying savings proposals totalling over £8m. Again, proposals to be presented to Special Scrutiny Committees after April 2014 and before October 2014.

- 8.3 Members are advised that this strategy will ultimately lead to a much higher percentage reduction in service in a number, if not all, discretionary service areas. Even up to 100% reduction, can and should be considered, to allow for some real choices. Appendix 7 provides a list of discretionary services that have been identified for review. Members should note that this list is not exhaustive and further areas may also be subject to review.
- 8.4 It has been emphasised throughout the most recent Seminars, Scrutiny Meetings and Cabinet Meetings that an “early start” and an agreed “Strategy” is crucial to ensure that the Authority can maintain financial stability and confidence in its ability to financially manage its way through this period of austerity.
- 8.5 Finally, it has become quite apparent during the extensive analysis of savings proposals that a review is required of the Council’s priorities, to ensure that the reduced funding moving forward can sustain these priorities.

## **9. EQUALITY IMPACT ASSESSMENT**

- 9.1 Budget decisions at this level affect every resident in the county borough, regardless of their individual circumstances and backgrounds.
- 9.2 A full impact assessment has not been undertaken on these draft proposals, however assessments are made on all individual reports and projects during the financial year. This is in order to ensure that decisions that affect different individuals and groups are assessed at an appropriate and relevant level.
- 9.3 Consultation with residents, done in accordance with the Council’s Public Engagement Strategy and Equalities Consultation and Monitoring Guidance, also ensures that every resident, regardless of circumstances, has the opportunity to have their views heard and considered in the Council’s decision-making process.

## **10. PERSONNEL IMPLICATIONS**

- 10.1 The Workforce Strategy was approved and adopted by Cabinet on 30 March 2010 and designed to reduce the impact on staff and to avoid, wherever possible, compulsory redundancies. There is currently a review and consultation process that commenced at the 4<sup>th</sup> December 2013 Special Policy and Resources Scrutiny Committee that identified a number of additional options that Members will ultimately need to consider to ensure our Workforce Policies in respect of the MTFP are flexible enough to deal with the level of savings required in future years.
- 10.2 The outlook identifies the need to continue to require reductions in Council services and Members will need to consider carefully the personnel implications on the workforce when they consider proposals in the coming months and years.
- 10.3 The budget proposals include provision to pay the living wage, which will place the minimum hourly rate at £7.65.

## **11. CONSULTATIONS**

- 11.1 Since the announcement of the LG financial settlement an extensive consultation process has been undertaken so far including a Members' Seminar, a series of Special Scrutiny Committee Meetings, consultation with Trade Unions and the Caerphilly Housing Task Group (CHTG). In addition a public consultation process has taken place through a questionnaire. Appendices 8a to 8h provide details of the various consultations undertaken to date.
- 11.2 The consultation process is not complete, particularly in respect of the Trade Unions, business ratepayers and political groups. These will be concluded prior to the release of the final budget proposals for the 26 February 2014 Special Cabinet and Council meetings.

## **12. RECOMMENDATIONS**

- 12.1 Cabinet are asked to consider the report and its Appendices and approve the following proposals for final consultation: -
- 12.1.1 The Authority operates the 2013/14 WG scheme in 2014/15 in respect of the Council Tax Pensioners Grant.
- 12.1.2 The Living Wage increase to £7.65 per hour is backdated to 1 November 2013.
- 12.1.3 The Revenue Budget proposals for 2014/15 of £332,032m as set out in this report are approved (see Appendix 1).
- 12.1.4 The Council Tax level for the financial year 2014/15 be increased by 3.90% (Council Tax Band D £954.78).
- 12.1.5 The indicative proposals contained in the Medium Term Financial Planning assumptions are approved as the basis for delivering a balanced budget over the forthcoming 3 years (i.e. 2014/15 to 2016/17) (see Appendix 2a and 2b).
- 12.1.6 The Capital Programme for the period 1 April 2014 to 31 March 2017 as set out in Appendix 5 is approved.
- 12.1.7 The use of the General Fund balances as detailed in Appendix 6 are approved, including the establishment of provisions for the 2013/14 pension deficit, 2014/15 Senior Officer suspension costs, 2013/14 arrears in respect of the Living Wage and potential delays in delivering 2014/15 savings proposals.
- 12.1.8 The financial strategy for 2015/16 and 2016/17 as set out in Section 8 of the report is agreed.

## **13. REASONS FOR THE RECOMMENDATIONS**

- 13.1 The Council is required annually to approve proposals to set a balanced budget, agree a Council Tax rate and update its Medium Term Financial Strategy.
- 13.2 Council is required to put in place a sound and prudent financial framework to support service delivery.

## **14. STATUTORY POWER**

- 14.1 The Local Government Acts 1998 and 2003.



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Stephen Harris, Acting Head of Corporate Finance  
Gail Williams, Monitoring Officer  
David A. Thomas, Senior Policy Officer (Equalities and Welsh Language)  
Cllr Keith Reynolds, Deputy Leader

Background Papers:

Provisional Local Government Settlement (16 October 2013)

Final Local Government Settlement (11 December 2013)

Report to Council (23 October 2013)

Report to Cabinet (19 December 2013)

Appendices:

Appendix 1 Net Revenue Budget 2014/15

Appendix 2a Medium Term Financial Plan 2014/15 to 2016/17

Appendix 2b Education Medium Term Financial Plan 2014/15 to 2016/17

Appendix 3a Whole Authority – List of Potential Savings 2014/15

Appendix 3b Corporate Services – List of Potential Savings 2014/15

Appendix 3c HRA – List of Potential Savings 2014/15

Appendix 3d Social Services – List of Potential Savings 2014/15

Appendix 3e Environment – List of Potential Savings 2014/15

Appendix 3f Education & Lifelong Learning – List of Potential Savings 2014/15

Appendix 4 2014/15 Proposed Savings Withdrawn Following Consultation Process

Appendix 5 Capital Programme 2014/15 to 2016/17

Appendix 6 Movements on General Fund Balances

Appendix 7 List of Discretionary Services Subject to Review

Appendix 8a Minutes of Policy & Resources Scrutiny Committee (4 December 2013)

Appendix 8b Outcomes from HSC&WB Scrutiny Committee (11 December 2013)

Appendix 8c Minutes of Regeneration & Environment Scrutiny Committee (12 December 2013)

Appendix 8d Minutes of Education for Life Scrutiny Committee (16 December 2013)

Appendix 8e Minutes of the Caerphilly Homes Task Group meeting (9 January 2014)

Appendix 8f Trade Union Consultation Response

Appendix 8g Summary of Public Consultation Responses