

## CABINET – 16TH JULY 2014

**SUBJECT: UPDATE ON MEDIUM TERM FINANCIAL PLAN**

**REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES & S151 OFFICER**

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### 1. PURPOSE OF REPORT

- 1.1 To provide Cabinet with updated potential savings requirements for 2015/16 and 2016/17 in light of further information received from the Welsh Government (WG) on indicative budget settlements.

### 2. SUMMARY

- 2.1 The report provides details of a recent announcement from WG that significantly changes the potential Local Government budget settlement for 2015/16 and beyond. This will have a major impact on the savings requirement for future years and the report assesses the potential consequences for Caerphilly CBC.

### 3. LINKS TO STRATEGY

- 3.1 The budget setting process encompasses all the resources used by the Council to deliver services and meet priorities.

### 4. THE REPORT

- 4.1 The Medium-Term Financial Plan (MTFP) agreed by Council on the 26<sup>th</sup> February 2014 identified an estimated savings requirement of £6.5m for 2015/16 and £6.9m for 2016/17 (see Appendix 1). This was based on an indicative reduction in WG funding of 1.34% for 2015/16 and, in the absence of further guidance from WG, an assumed reduction of a further 1.34% for 2016/17.
- 4.2 The budget strategy agreed by Council for 2015/16 and 2016/17 is currently being taken forward via two main strands. The first of these is further savings proposals for Members to consider in respect of up to 3% efficiency savings. These efficiency targets require savings of circa £5m and will be applied to those statutory and essential services that the Authority has to deliver. The second stand of the agreed budget strategy is a review of discretionary services with a view to identifying savings proposals totalling over £8m. A series of Special Scrutiny Committee meetings is already underway to consider savings proposals.
- 4.3 On the 24<sup>th</sup> June 2014 the Minister for Local Government and Government Business wrote to all Local Authorities in Wales informing them that there will now be a significant shift in the likely financial settlement for 2015/16 and beyond (see Appendix 2). The pertinent points of the letter are quoted below: -

*Since the Budget 2014/15 was approved by the Assembly in December 2013, rising demand levels and costs are placing our budgets under increasing pressures. You will be aware of the Nuffield Trust's report, which has highlighted the significant demands and pressures facing the NHS in Wales and the impact of our strategies to manage them, however, we are also facing new pressures.*

*I appreciate the importance of early planning and the need to begin work before the Government's spending plans are confirmed. I would, therefore, urge you to undertake planning work around a range of scenarios. The current published indicative plans for 2015/16 see a reduction of 1.5% compared to 2014/15. There remains a possibility further amendments may be required and I would suggest you consider how you would respond to reductions of up to 4.5%.*

*The UK Government has provided a broad envelope for likely spending over future financial years and from this there is a clear indication the scale of reductions we have faced since 2010/11 will continue over the next spending review period. In this context, it would be prudent for you to assume the current trends in Local Government funding will continue and you should scenario plan for a range of challenging settlements beyond 2015/16.*

- 4.4 This represents a significant shift in the potential budget settlements for future years and it is now clear that WG policy will be focussed on targeting resources to the NHS, which will inevitably have serious consequences for the funding settlements for Local Authorities.
- 4.5 Appendix 3 outlines the impact for Caerphilly CBC of potential cuts in WG funding of 3% and 4.5% for both 2015/16 and 2016/17. This reflects the same assumptions in respect of growth and inflationary/pay award increases as agreed in the MTFP approved at Council on the 26<sup>th</sup> February 2014. Cabinet should note that the potential also remains for further considerable cuts in 2017/18.
- 4.6 A cut in WG funding of 3% would increase the required savings for 2015/16 and 2016/17 from the current planning figure of £13.4m to £22.2m. A cut of 4.5% will increase the savings target to £30.1m. It is important to remind Cabinet that these savings cannot be applied to the total budget due to the current protection afforded to Schools and fixed commitments such as debt charges, the Council Tax Reduction Scheme and the Fire Service Levy etc. After adjusting for these items the 'Net Controllable Budget' against which savings will need to be found is circa £175m. The savings of £22.2m based on a 3.5% cut in funding represents 12.7% of the 'Net Controllable Budget', with the £30.1m savings requirement representing 17.2%.
- 4.7 It is not known at this stage whether the protection for Schools at 1% above the block grant increase/reduction from the UK Government to WG will be retained. Hence, head teachers will be advised that there is uncertainty surrounding the level of protection that can be afforded to schools in future years.
- 4.8 The level of potential savings now required for future years (on top of the £14.2m already agreed for 2014/15) is taking the Authority into uncharted territory. There will now inevitably be significant cuts in services with the consequential impact on jobs. A process of service contraction needs to be implemented to ensure that the Authority can manage within a significantly reduced financial envelope.
- 4.9 Work will continue on the MTFP for the 3 years after 2015/16 and 2016/17 to establish 5-year savings scenarios for financial planning purposes.

## **5. EQUALITIES IMPLICATIONS**

- 5.1 The equalities implications of savings proposals will be fully considered as part of the decision making process.

## **6. FINANCIAL IMPLICATIONS**

6.1 As detailed in the report.

## **7. PERSONNEL IMPLICATIONS**

- 7.1 There will be significant reductions in staffing levels if cuts in WG funding are at the levels indicated. The Authority has always endeavoured to avoid compulsory redundancies but due to the scale of savings that may now be required this cannot be maintained in future years.
- 7.2 Cabinet are due to consider a range of new HR policies to assist the Authority in respect of downsizing. However, the potential extent of the savings targets will limit the range of options and funding available.

## **8. CONSULTATIONS**

8.1 There are no consultation responses that have not been reflected in this report.

## **9. RECOMMENDATIONS**

9.1 Cabinet are requested to consider the content of this report.

## **10. REASONS FOR THE RECOMMENDATIONS**

10.1 To ensure that Cabinet Members are fully informed on likely future WG budget settlements and the impact on the MTFP.

## **11. STATUTORY POWER**

11.1 Local Government Acts 1972 and 2000.

Author: Stephen Harris, Acting Head of Corporate Finance  
E-mail: [harrisr@caerphilly.gov.uk](mailto:harrisr@caerphilly.gov.uk) Tel: 01443 863022

Consultees: Corporate Management Team  
Cllr Keith Reynolds, Leader  
Cllr Barbara Jones, Deputy Leader and Cabinet Member for Corporate Services  
Gareth Hardacre, Head of People Management & Development  
Angharad Price, Interim Deputy Monitoring Officer

Appendices:

Appendix 1 – MTFP (Council 26/02/14)

Appendix 2 – Letter from Minister for Local Government & Government Business

Appendix 3 – Update on MTFP Savings Targets