



CABINET – 30TH NOVEMBER 2016

SUBJECT: DRAFT BUDGET PROPOSALS FOR 2017/18

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

1. PURPOSE OF REPORT

- 1.1 To present Cabinet with details of draft budget proposals for the 2017/18 financial year to allow for a period of consultation prior to a final decision in February 2017.

2. SUMMARY

- 2.1 The report provides details of draft budget proposals based on the Welsh Government (WG) Provisional 2017/18 Local Government Financial Settlement.
- 2.2 The report also provides details of draft savings proposals for 2017/18 totalling £8.653m.

3. LINKS TO STRATEGY

- 3.1 The budget setting process encompasses all the resources used by the Council to deliver services and meet priorities.
- 3.2 Effective financial planning and the setting of a balanced budget support the following Well-being Goals within the Well-being of Future Generations Act (Wales) 2015: -
- A prosperous Wales.
 - A resilient Wales.
 - A healthier Wales.
 - A more equal Wales.
 - A Wales of cohesive communities.
 - A Wales of vibrant culture and thriving Welsh Language.
 - A globally responsible Wales.

4. THE REPORT

4.1 **Headline Issues in Provisional Settlement**

- 4.1.1 Published on the 19th October 2016, the key points of the WG Provisional 2017/18 Local Government Financial Settlement are the following: -
- An overall net increase of 0.1% in the Aggregate External Finance (Revenue Support Grant (RSG) and Redistributed Non-Domestic Rates) on an all-Wales basis. This varies by Authority due to the funding formula and ranges from minus 0.5% to plus 0.9%.

- For Caerphilly CBC there is a reduction of 0.3% in the Aggregate External Finance i.e. a cash decrease of £0.608m.
- There is £262k funding in the provisional settlement for Caerphilly CBC for new responsibilities in Social Services. This funding has been allocated due to WG policy changes that will result in a loss of income from service user financial contributions to the cost of their care.
- There have been four transfers into the settlement totalling £0.185m and one transfer out of £0.062m. Details are provided in paragraph 4.1.2.
- Changes to other passported grants in the provisional settlement result in a net reduction of £0.283m as detailed in paragraph 4.1.3.
- No indicative settlement figures have been provided by WG at this stage for future years beyond 2017/18.
- The capital allocations available to Caerphilly CBC in the RSG and from the General Capital Grant have increased by £19k from the previous year.

4.1.2 Table 1 provides details of transfers in and out of the WG financial settlement: -

Table 1 – Transfers In/Out 2017/18

| | £m |
|---|--------------|
| Transfers In: - | |
| Delivering Transformation Grant | 0.171 |
| Deprivation of Liberty Safeguards | 0.010 |
| Blue Badge Scheme Additional Funding | 0.001 |
| Food Hygiene Rating Scheme | 0.003 |
| Transfers Out: - | |
| Education Workforce Council Teacher Registration Fees | (0.062) |
| TOTAL | 0.123 |

4.1.3 Table 2 provides details of changes to other passported grants included in the WG financial settlement: -

Table 2 – Other Passported Grants 2017/18

| | £m |
|-----------------------------------|----------------|
| Integrated Family Support Service | (0.173) |
| Private Finance Initiative (PFI) | (0.201) |
| Council Tax Reduction Scheme | 0.091 |
| TOTAL | (0.283) |

4.1.4 As in previous years, the adjustments in Tables 1 and 2 (both the increases and decreases in funding) will be passed directly to those services that they relate to.

4.2 2017/18 Draft Budget Proposals

4.2.1 The proposals contained within this report will deliver a balanced budget for 2017/18 on the basis that Council Tax is increased by 1%. Table 3 provides a summary: -

Table 3 – Summary

| Paragraph | Description | £m | £m |
|-----------|---------------------------------|--------------|--------------|
| 4.2.2 | Whole Authority Cost Pressures | 2.745 | |
| 4.2.3 | Inescapable Service Pressures | 6.186 | |
| 4.1.1 | Reduction in WG Funding | 0.608 | |
| 4.3.1 | Draft Savings Proposals 2017/18 | | 8.653 |
| 4.4.1 | Council Tax Uplift (1%) | | 0.886 |
| | TOTAL | 9.539 | 9.539 |

- 4.2.2 The whole Authority cost pressures totalling £2.745m are set out in Table 4 below (cost pressures for schools are excluded as these will be funded through a proposed increase of 1.25% in the funding provided to schools): -

Table 4 – Whole Authority Cost Pressures

| | £m |
|---|--------------|
| Pay – Weighted average increase of 1.2% | 1.367 |
| Living Wage (assumed increase of 20p per hour) | 0.148 |
| Non-pay inflation at 1% (net of 1% fees and charges increase) | 1.128 |
| New Responsibilities | 0.262 |
| Transfers in/out and other passported grants | (0.160) |
| TOTAL | 2.745 |

- 4.2.3 It is incumbent upon Council to set a realistic budget each year. Table 5 provides details of the 2017/18 inescapable service commitments/pressures that have been identified and require consideration in respect of funding: -

Table 5 – Inescapable Service Pressures and Other Service Commitments

| | £m |
|---|--------------|
| Council Tax Reduction Scheme additional liability | 0.148 |
| Apprenticeship Levy | 0.454 |
| Additional holiday pay (staff working variable hours) | 0.425 |
| Welsh Language Standards | 0.250 |
| Tir-yr-Berth Depot – Running costs | 0.075 |
| Increase in funding for schools (1.25%) | 1.334 |
| Social Services cost pressures | 3.500 |
| TOTAL | 6.186 |

- 4.2.4 **Council Tax Reduction Scheme (CTRS)** – The additional liability of £148k arises from a 1% increase in the CTRS budget in line with the proposed increase in Council Tax.
- 4.2.5 **Apprenticeship Levy** – This levy will be introduced by the UK Government from April 2017 and will be applicable in Wales. All employers with a payroll cost of greater than £3m per annum will be subject to a 0.5% levy on total payroll costs. The purpose of the levy is to fund traineeships but it is currently not clear how this will operate in Wales and how the funding will be allocated to WG. The estimated cost of the levy for Caerphilly CBC is £454k per annum.
- 4.2.6 **Additional holiday Pay for staff working variable hours** – Negotiations are ongoing to ensure that the Council is compliant with recent case law concerning annual leave payments for employees that receive payments in addition to their basic salary. An initial estimate of £425k has been calculated as the cost of these potential additional payments. It is proposed that this funding should be held corporately in the first instance until the actual impact on service budgets has been established.
- 4.2.7 **Welsh Language Standards** – Significant financial pressures are being experienced in this area and to ensure compliance with the Standards it will be necessary to provide additional resources, particularly in relation to translation costs.
- 4.2.8 **Tir-yr-Berth Depot** – Following the transfer of various teams into and out of the Depot there is a resultant shortfall of £75k in the running costs budget largely due to a loss of income from the Housing Revenue Account (HRA).
- 4.2.9 **Increase in funding for schools** – An increase of 1.25% is proposed for schools totalling £1.334m. This increase will fully fund pay and non-pay inflationary increases and will also fund the majority of the cost of the impact of the Apprenticeship Levy on schools.

4.2.10 **Social Services cost pressures** - Cabinet will recall that the 2016/17 budget approved by Council on the 24th February 2016 included a contingency of £2.5m for Social Services cost pressures. This contingency was initially held corporately but the full £2.5m has now been permanently transferred into the Social Services base budget. This has been necessary to fund increases in fees for external care providers due in the main to the introduction of the National Living Wage, and additional costs arising from increasing demand for services in both Adult and Children's Services. It is proposed that a further sum of £3.5m should be allocated in the 2017/18 budget to meet ongoing financial pressures for Social Services.

4.3 2017/18 Draft Savings Proposals

4.3.1 Although the Provisional 2017/18 Financial Settlement is much better than originally anticipated, the emerging cost pressures identified in this report result in a net savings requirement of £8.653m. Table 6 provides details of the draft savings proposals that, alongside the proposed increase of 1% in Council Tax, will enable a balanced budget to be achieved.

Table 6 – Draft Savings Proposals 2017/18

| Description | 2017/18 Saving £m |
|--|----------------------|
| Savings in advance brought forward from 2016/17 | 1.815 |
| Full-Year impact of approved 2016/17 savings | 0.146 |
| 2017/18 savings proposals: - | |
| 'Nil impact' savings | 3.037 |
| Bowling Green rationalisation | 0.113 |
| Treasury Management – Review of MRP policy | 3.500 |
| Pension contributions for former Authorities | 0.042 |
| TOTAL | 8.653 |

4.3.2 **Savings in advance brought forward from 2016/17** - At its meeting on the 24th February 2016 Council approved a package of savings totalling £11.117m for the 2016/17 financial year. This exceeded the total savings required to balance the 2016/17 budget resulting in savings in advance of £1.815m. Council agreed that for 2016/17 only this excess sum should be set aside in an earmarked reserve to meet cost pressures in dry recyclable waste and to provide one-off match-funding to support carbon management initiatives. The £1.815m savings will now be required to help balance the budget for 2017/18.

4.3.3 **Full-Year impact of approved 2016/17 savings** - Some of the approved savings for 2016/17 only had a part-year impact and the full-year effect of these savings will now provide an additional £146k to support the 2017/18 budget.

4.3.4 **2017/18 'Nil Impact' savings** - As part of the extensive work previously undertaken to prepare for anticipated savings in future years, savings totalling £3.037m were identified for 2017/18 that do not have a direct impact on services users or the public. These proposals consist in the main of vacancy management, budget realignment and minor changes to service provision.

4.3.5 **Bowling Green rationalisation** - At its meeting on the 2nd March 2016, Cabinet agreed proposals on the rationalisation of Bowling Greens which will deliver savings of £113k to support the 2017/18 budget. The approved changes include the following: -

- The closure of Abertridwr Bowling Green and subsequent release of one post.
- Removal of the Park Ranger service.
- The operation of 20 bowling greens at a reduced maintenance specification with the subsequent release of three members of staff.
- Bowling Clubs to undertake non-specialist green maintenance tasks.
- Payment of a grant to Bowling Clubs.
- Clubs to retain income from fees and charges.

4.3.6 **Treasury Management - Review of MRP policy** - A saving of £3.5m is proposed through undertaking a review of the Authority's Minimum Revenue Provision (MRP) policy. MRP is a very technical concept but its core purpose is to charge revenue accounts over a period of time with the cost of assets financed through debt. There are a number of different ways that this charge can be calculated but in simple terms the current approach adopted within Caerphilly CBC essentially charges the revenue account annually over a period of 25 years. The revised approach being undertaken by a number of Local Authorities links the annual MRP charge to a more realistic assessment of the lives of assets funded through debt. For example, it would not be unreasonable to assume that a school would have a useful life of up to 70 years.

Staff in Corporate Finance have been working with our Treasury Advisors, Arlingclose, and a report on proposed changes to the MRP policy is being prepared for the Special Policy & Resources Scrutiny Committee on the 7th December 2016. The main thrust of this report will be to change the policy to reflect average asset lives of 50 years. This effectively spreads the MRP charge over 50 years instead of 25, thus reducing the annual charge to the revenue account and realising significant savings to support the MTFP.

MRP is an element of the Treasury Management Strategy which is approved annually by full Council. The proposed change to the MRP policy is therefore of interest to all Members. With this in mind a Members' Seminar has been scheduled for the 12th January 2017. This will provide an opportunity for all Members to be fully briefed on the proposed changes and Arlingclose will be in attendance to assist with dealing with questions that Members may raise. A report on the proposed changes will subsequently be presented to Cabinet on the 18th January 2017 and then Council on the 24th January 2017.

4.3.7 **Pension contribution for former Authorities** – Commitments against this budget are reducing over time and a budget reduction of £42k is achievable for 2017/18.

4.3.8 Cabinet is asked to endorse the proposed package of savings totalling £8.653m and to agree that the draft budget proposals contained in this report should now be subject to a period of consultation prior to final 2017/18 budget proposals being presented to Cabinet and Council in February 2017.

4.4 **Council Tax Implications 2017/18**

4.4.1 The draft budget proposals within this report include a proposed increase of 1% in Council Tax for the 2017/18 financial year. This will increase the Caerphilly CBC Band D precept from £1,001.94 to £1,011.96 i.e. an annual increase of £10.02 or weekly increase of £0.19.

5. **WELL-BEING OF FUTURE GENERATIONS**

5.1 Effective financial planning is a key element in ensuring that the Well-being Goals within the Well-being of Future Generations Act (Wales) 2015 are met.

6. EQUALITIES IMPLICATIONS

- 6.1 An EIA screening has been completed in accordance with the Council's Strategic Equality Plan and supplementary guidance. No potential for unlawful discrimination and/or low level or minor negative impact has been identified regarding this report; therefore a full EIA has not been carried out.

7. FINANCIAL IMPLICATIONS

- 7.1 As detailed throughout the report.

8. PERSONNEL IMPLICATIONS

- 8.1 Where staff reductions are required the Council will firstly try to achieve this through 'natural wastage' and not filling vacancies. However, where this is not possible then every opportunity will be taken to find alternative employment through the Council's redeployment policy. The Council will also utilise other policies as appropriate e.g. voluntary severance.

9. CONSULTATIONS

- 9.1 The draft savings proposals for 2017/18 continue to follow the principles previously agreed by Council which in essence seek to limit the impact of savings on front-line services. The proposed savings for 2017/18 will have limited (if any) impact on the public so the extensive consultation process that has been followed in recent years will not be necessary. Steps will be taken to consult and engage with key stakeholders but this will be a more general approach than last year as we do not have long lists of saving proposals to consult upon.
- 9.2 Special Scrutiny Committee meetings have been scheduled throughout December 2016 to provide Members with the opportunity to comment upon the draft 2017/18 budget proposals.

10. RECOMMENDATIONS

- 10.1 Cabinet is asked to: -
- 10.1.1 Endorse the draft 2017/18 budget proposals including the proposed savings totalling £8.653m.
- 10.1.2 Support the proposal to increase Council Tax by 1% for the 2017/18 financial year to ensure that a balanced budget is achieved (Council Tax Band D being set at £1,011.96).
- 10.1.3 Agree that the draft budget proposals should now be subject to consultation prior to final 2017/18 budget proposals being presented to Cabinet and Council in February 2017.

11. REASONS FOR THE RECOMMENDATIONS

- 11.1 Council is required annually to approve proposals to set a balanced budget and agree a Council Tax rate.
- 11.2 Council is required to put in place a sound and prudent financial framework to support service delivery.

12. STATUTORY POWER

12.1 The Local Government Acts 1998 and 2003.

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Background Papers:

Provisional Local Government Financial Settlement (19th October 2016)

Council (24/02/16) - Budget Proposals 2016/17 and Medium-Term Financial Strategy 2016/2021