

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

CABINET

22nd SEPTEMBER 2016

MEDIUM TERM FINANCIAL PLAN 2016/17 TO 2019/20

REPORT OF THE GROUP DIRECTOR CORPORATE & FRONTLINE SERVICES IN DISCUSSION WITH THE RELEVANT PORTFOLIO HOLDER, COUNCILLOR M NORRIS

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1. PURPOSE OF THE REPORT

- 1.1 This report provides Members with an update on the Medium Term Financial Plan for 2016/17 to 2019/20, based on current modelling assumptions in advance of formulating the detailed budget strategy proposals for 2017/18 during the autumn.

2. RECOMMENDATIONS

- 2.1 It is recommended that the Cabinet:
- i. Note the current position modelled in respect of the 'Medium Term Financial Plan 2016/17 to 2019/20' and receive further updates in the Autumn as part of the annual budget setting process.

3. REASONS FOR RECOMMENDATIONS

- 3.1 The need to keep Members informed of the budget modelling work being undertaken as part of the Council's Medium Term Financial Planning arrangements. This work is in advance of the Provisional Local Government Settlement, due from Welsh Government on the 19th of October 2016.

4. BACKGROUND

- 4.1 Each year as part of the Council's robust financial management arrangements, an update on the Medium Term Financial Planning assumptions is provided to Members in advance of the detailed budget strategy work in the autumn.

- 4.2 The Public Sector is facing a prolonged period of ongoing austerity into the medium term. National forecasts are all pointing to challenging times for services across local government in particular and the pressure on so called ‘non statutory’ services is critical, especially given the large share of budgets and requirements linked to Education and Social Care Services.
- 4.3 Locally, this Council has demonstrated its ability and willingness to invest in services, linked to our Corporate Plan priorities in order to meet the changing needs of our people and communities. The ‘additional’ investment agreed by Members during the latter part of 2015/16 totalled in excess of £20M and is providing real improvements across many areas including Leisure Centres, Roads and Information Technology.
- 4.4 Whilst investment through the use of one off funds has been very positive, the Council recognises that it must still address base budget shortfalls and make difficult decisions to balance its ongoing revenue budget into the medium term. This report provides an interim view on the scale of the challenge faced and the actions taken to date to address any shortfalls.

5. CURRENT MODELLING ASSUMPTIONS

- 5.1 The detailed modelling assumptions are included as part of the updated ‘Medium Term Financial Plan 2016/17 to 2019/20’ and is attached at **Appendix 1**. The updated plan sets out the detailed basis of the medium term strategy with references to revenue spending, capital plans, income levels and reserves.
- 5.2 Key assumptions used in the construction of the revenue budget modelling to 2019/20 are shown below:

5.3 Income

- Based on WLGA modelling assumptions (worst case) the Local Government settlement levels are projected to be:

Year	Potential Settlement
2017/18	-2.0%
2018/19	-2.6%
2019/20	-2.6%

- Council Tax increases are currently being modelled at 3% per annum
- Fees and charges uplifted by an average of RPI +3% for 2017/18 (in line with previous decision) and by RPI thereafter.

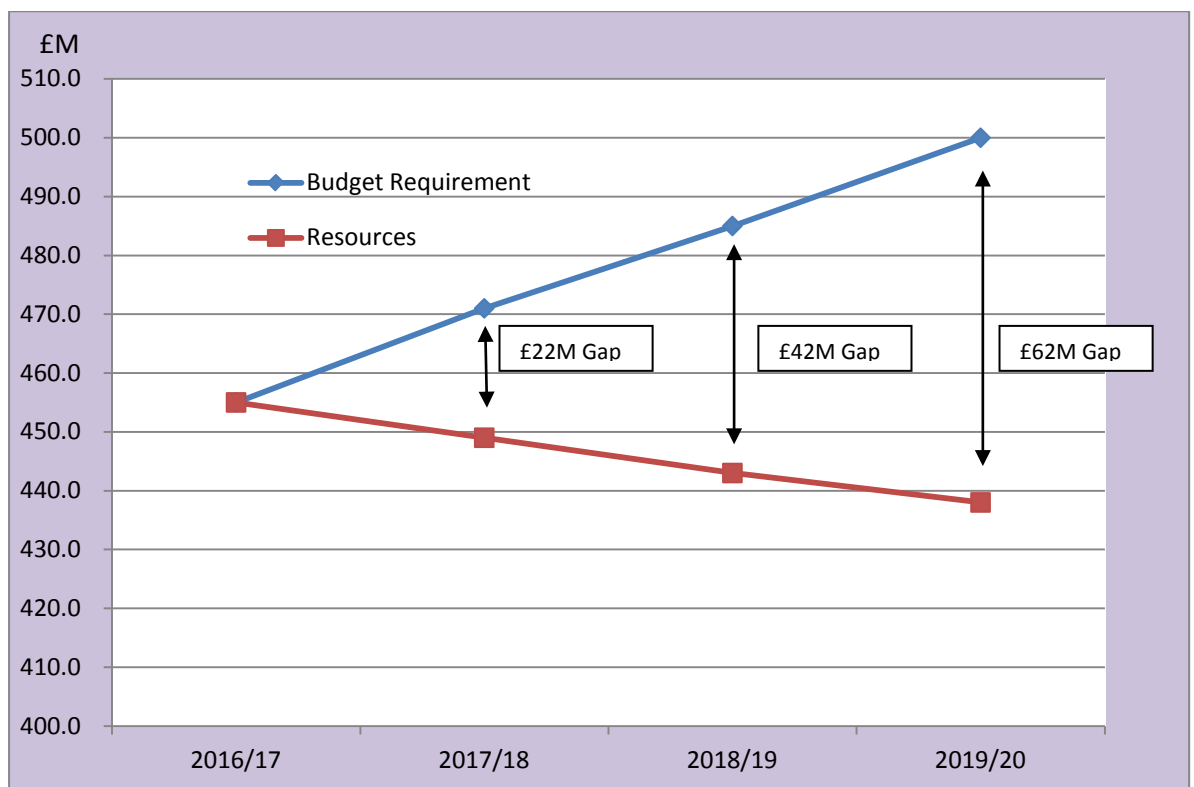
5.4 Expenditure

- Service area pressures reflected which arise from statutory requirements, demand led pressures, demographics etc..
- Uplifts included for pay, pensions and non pay inflation
- Authority wide pressures reflected including Capital Financing, Levies and the Council Tax Reduction Scheme
- Schools budget requirement includes uplifts for pupil number changes and inflation

6 CURRENT MODELLING OUTCOMES

6.1 From the modelling assumptions used, the budget gap currently (pre Provisional Settlement announcement) is shown below in Figure 1:

Figure 1 : Modelled Budget Gap 2016/17 to 2019/20



6.2 The modelling uses a number of assumptions which are all subject to change and will be reviewed as part of the detailed budget strategy work in the autumn. In particular, the variability of the potential level of Provisional Settlement from Welsh Government has a significant impact on the budget

gap. If for example the settlement follows the most optimistic WLGA forecast (+0.2%, +1.5% and +1.5% for the three years) the initial 2017/18 gap reduces to £14M and the cumulative 3 year gap totals £25M.

7 BALANCING THE BUDGET

- 7.1 The Council continues to focus on the budget gap position over the medium term and has successfully implemented a strategy of early identification and delivery of base budget reducing measures in-year. This has enabled the Council to deliver financial savings early and to replenish the Medium Term Financial Planning and Service Transformation Reserve which has been used proactively as part of the budget strategy for a number of years.
- 7.2 Plans are already well advanced across a number of areas to balance the projected budget gap for 2017/18 and the medium term. Inevitably the focus at annual budget setting time is for the forthcoming financial year, that is, 2017/18, and the savings quantum required is still to be confirmed pending receipt of the Local Government Settlement from Welsh Government.
- 7.3 Using the 'WLGA worst case' modelling forecast, Figure 2 summarises the current savings requirement position.

Figure 2: Budget Gap and Savings

	2017/18	2018/19	2019/20
Budget Gap Annual	21,519	19,977	20,501

Budget Reduction Measures

General Efficiencies	- 6,000	- 6,000	- 6,000
Minimum revenue Provision (subject to Audit)	- 3,143		
Additional Efficiency Measures (implemented during 2016/17)	- 1,856		

Remaining Budget Gap	10,520	13,977	14,501
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- 7.4 To close the remaining budget gap identified in Figure 2, work is progressing urgently and will be reported to Members as part of the budget strategy work this autumn. Areas of work to support further savings include:
- PFI contractual savings
 - Social Services Transformation/Modernisation (SS&WB Act).
 - Procurement savings opportunities
 - Office Accommodation Rationalisation
 - Digitisation
 - Agile Working
 - Managing Productivity

- 7.5 Greater clarity will be available on the level of savings required post the Provisional Local Government Settlement in October. The position will be reported to Members as soon as possible after the settlement publication.

8 EQUALITY & DIVERSITY IMPLICATIONS

- 8.1 There are no immediate equality and diversity implications to consider as an Equality Impact Assessment will be an integral part of the budget strategy itself that will be reported on during the autumn.

9 CONSULTATION

- 9.1 There are no specific consultation requirements at this time.

10 FINANCIAL IMPLICATIONS

- 10.1 The financial modelling assumptions and implications are set out in the detail of the report. At this stage, the Council is not being asked to make any new financial decisions in respect of the Medium Term Financial Plan.

11 LEGAL IMPLICATIONS

- 11.1 There are no legal implications aligned to this report.

12 LINKS TO THE COUNCIL'S CORPORATE PLAN / OTHER CORPORATE PRIORITIES / SIP

- 12.1 The Medium Term Financial Plan is a key enabler for the delivery of the Council's Corporate Plan and its obligations to support wider partnership objectives.

13 CONCLUSIONS

- 13.1 This report and the accompanying 'Medium Term Financial Plan 2016/17 to 2019/20' sets out the current position on the financial challenges facing the Council in the medium term. The report notes, that subject to the level of funding from Welsh Government, a significant budget gap is likely to be faced in 2017/18 and for the following two years.

- 13.2 The report clearly states that the proactive strategy adopted in recent years through early identification of savings and the targeting of key areas such as procurement and new ways of working can still deliver significant efficiency savings.
- 13.3 The focus will shortly switch to the 2017/18 budget strategy and the Provisional Local Government Settlement. Given the actions already being worked through, early indications are that any budget gaps can be addressed through efficiency actions and process changes without the need for significant service cuts.

Appendix 1



STRONG HERITAGE | STRONG FUTURE
RHONDDA CYNON TAF
TREFTADAETH GADARN | DYFODOL SICR

Rhondda Cynon Taf County Borough Council

Medium Term Financial Plan

2016/17 – 2019/20

Medium Term Financial Plan - Contents

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INTRODUCTION AND PURPOSE

Medium Term Financial and Service Planning is an essential component of the effective financial management of this Council. It is the cornerstone of good governance and an enabler of service delivery and service improvement within the constraints of available resources.

This Medium Term Financial Plan sets out, holistically, the financial context within which the Council is operating and forward projects the financial challenge facing the Council over a 3 year planning period.

It will also align and link our financial resources to our Corporate Priorities and will enable us to track resource allocation in this way over future years.

Section 1 Background and Context

- 1.1 Rhondda Cynon Taf has a track record of strong and effective financial management. Medium Term Financial Planning is an essential part of these arrangements.
- 1.2 The austerity measures emanating from the actions of Central Government continue to impact on the resources available to Welsh Government and consequently local government in Wales. At a national level, the overall local government settlement for Wales over the last 3 financial years is shown below in Table 1.

Table 1

Financial Year	All Wales Settlement
2014/15	-3.9%
2015/16	-3.5%
2016/17	-1.4%

- 1.3 For Rhondda Cynon Taf the reduction in funding over many years has translated into a need to make budgetary savings of some £76M over the period 2011 to 2015, equating to a reduction of approximately 16% of the Council's net budget.
- 1.4 In February 2016, the Council agreed a new Corporate Plan for the period 2016-2020, the context for which is reproduced in the following paragraphs.
- 1.5 The Corporate Plan 2016-2020 seeks to set the overall direction for the Council over the coming four years, describing its vision, purpose and ambition for the County Borough.
- 1.6 The Council's vision is:
“For a County Borough that has high aspirations, is confident and promotes opportunity for all”.
- 1.7 The Council's purpose and the reason why it exists is:
“To provide strong community leadership and effective services for the people of Rhondda Cynon Taf to enable them to fulfil their potential and prosper”.

1.8 The Council is focused on the following three priorities:

1. ***Economy - Building a strong economy;***
2. ***People - Promoting independence and positive lives for everyone;***
3. ***Place - Creating neighbourhoods where people are proud to live and work.***

1.9 The Corporate Plan is a key component of the Council's budgetary and business planning process. The Plan recognises that Rhondda Cynon Taf Council and the wider public sector continue to face significant financial challenges, even though macro economic conditions have begun to improve. The improved position is not reflected in the wider public sector and the challenges for services and ultimately residents continues to be significant. The position can be summarised as follows:

- *Further spending cuts to come:* Despite nearly £100 billion of spending cuts since 2010, the UK budget deficit still stands at around £90 billion meaning that austerity will continue.
- *Increasing pressure on services:* increasing demand on services is driven by a changing population. Rhondda Cynon Taf's population is relatively static but health and social services in particular are facing acute challenges due to the growth in older cohorts, as people live for longer.
- *Wider financial pressure on households:* from energy bills, housing costs, wage restraint, and benefit reforms.
- *Increasing public expectations:* with residents expecting better services and more prompt responses. This means that the Council must plan for the fact that spending reductions will affect all parts of the public sector to the end of the decade and that increasing levels of demand will not be met from simply doing more of what it is currently doing.
- *The impact on the Council's finances – past and future:* In Rhondda Cynon Taf, the impact of austerity has translated to the Council needing to save or generate £76m over the period 2011 – 2015, equivalent to 16% of the Council's budget. Looking ahead, based on assumptions about future public spending and rising demand, the Council is forecasting the need for further savings of over £60million in the latter half of the decade. In real terms, by the end of the decade, the council's total spending power will be nearly half of what it was at the start.

- 1.10 Knowing that the Council continues to face significant financial challenges in the years ahead, there is a need to develop and agree a plan for meeting the challenge.
- 1.11 Despite austerity, the economy is now growing, with the Cardiff Capital City Region one of the fastest growing areas outside of London. This creates opportunities for the Council; for residents; and for business. In Rhondda Cynon Taf, the benefits are already being seen through reduced unemployment, falling numbers of pupils eligible for free school meals, with more people on benefits moving into work. Despite the recession more new homes were built in the County Borough in recent years than in all but two other local authorities across Wales. We are actively working with housing developers in areas such as Llanillid, Robertstown, Hirwaun, Tonyrefail, and Mwyndy to provide new homes and new jobs. Furthermore, the ten local authorities of South East Wales, Welsh Government and the UK Government are currently agreeing plans for a £1.28 billion investment in boosting the local economy in the Cardiff Capital City Region that will benefit residents of Rhondda Cynon Taf.
- 1.12 The Council's agreed budget for 2016/17 amounts to £454.835M. Annex 1 sets out the Council budget for 2016/17 allocated across services.
- 1.13 The budget has also been analysed across the 3 priority areas of Economy, People and Place as set out in the Corporate Plan (referenced in paragraph 1.8) in order to demonstrate the allocation of Council Revenue Resources to these priority areas. Whilst some allocation has been necessarily subject to a degree of 'best fit', this is still felt to be a helpful analysis given the new Corporate Plan and will provide a baseline to gauge future resource allocation decisions against. This is attached at Annex 2.

Section 2 Local Government Settlement – Prospects

- 2.1 As referenced in Section 1, local government as a whole has received a negative settlement from Welsh Government in overall terms for the last 3 financial years. For Rhondda Cynon Taf the level of settlement received is shown below in Table 2.

Table 2

Financial Year	RCT Settlement	All Wales Settlement
2014/15	-3.7%	-3.9%
2015/16	-3.7%	-3.5%
2016/17	-0.9%	-1.4%

- 2.2 Welsh Government have not provided any indication of future year financial settlements, leaving local government to themselves model potential scenarios. The Welsh Local Government Association (WLGA) support local government in this regard.
- 2.3 In England, local authorities have a clearer picture of their funding trajectory over the lifetime of the Parliament. Furthermore, the Office for Budget Responsibility (OBR) has published its own forecast of local authority funding and spending up to 2021.
- 2.4 The OBR figures are summarised in Table 3 below where increases in central government current grants to local authorities between 2015-16 and 2020-21 are set to rise by 7% in Wales, 8% in Scotland (including business rates) and 4% in England (including retained business rates). Spending increases are even more generous.

Table 3: OBR Forecasts of LG Spend and Funding in Wales, Scotland and England, £bn

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Increase %	Annualised increase %
Net Current Expenditure								
Wales	7.1	7.3	7.4	7.5	7.6	7.9	11.3%	2.2%
Scotland	11.7	11.8	12.0	12.2	12.4	12.8	9.4%	1.8%
England	109.1	110.2	111.6	112.7	114.7	118.9	9.0%	1.7%
Central Govt current grants								
Wales (inc business rates)	5.2	5.3	5.3	5.4	5.5	5.6	7.0%	1.5%
Scotland (inc business rates)	9.7	9.7	9.9	10.0	10.2	10.5	8.2%	1.6%
England (includes retained business rates)	69.2	69.1	69.0	68.9	69.4	72.1	4.2%	0.8%

Source: Office for Budget Responsibility [Table 2.31 in the Economic and Fiscal Outlook Supplementary Fiscal Tables](#)

- 2.5 In the absence of Welsh Government projections, the Spending Review documentation does at least provide estimates for the Welsh Block Resource DEL which along with assumptions about the growth in business rates can assist in modelling a number of scenarios for potential budget levels and the impact on local government's core grant in the remaining years of the Spending Review.
- 2.6 Under the most optimistic scenario there is 'weak' protection for non-Local Government Budgets. Under this scenario, the NHS receives future increases based on a 'consequential' of the increase to the English NHS through the lifetime of the Parliament. All other budgets are held cash flat, allowing AEF to increase by 0.2% in 2017-18, 1.5% in 2018-19 and 1.5% in 2019-20. This scenario roughly aligns with the OBR forecast.
- 2.7 A less favourable scenario is to assume that there is 'medium' protection for non-Local Government Budgets. This time the NHS receives more generous uplifts based upon general (GDP) inflation over the SR period. All other budgets are held cash flat, allowing AEF to reduce by 0.6% in 2017-18, 1.0% in 2018-19 and 0.9% in 2019-20.
- 2.8 An even more pessimistic scenario could be envisaged where, as above, the NHS is protected for inflation, and so are all other non-LG budgets. AEF reduces by 2.0% in 2017-18, 2.6% in 2018-19 and 2.6% in 2019-20.
- 2.9 For planning purposes, this Council will use the more pessimistic scenario as set out at paragraph 2.8 as a basis of its assumptions for resource levels from Welsh Government, whilst having due regard to the other potential scenarios and taking into account ongoing Welsh Government policy announcements. The current planning assumptions are summarised in Table 4 below.

Table 4: RCT Planning Assumptions – Welsh Government Settlement

Year	Potential Settlement
2017/18	-2.0%
2018/19	-2.6%
2019/20	-2.6%

- 2.10 The provisional local government settlement for 2017/18 is due to be received on the 19th October 2016.

Section 3 Council Tax

- 3.1 Council Tax income accounts for 22% of the Council's net budget, generating £98.9M from local taxpayers in 2016/17.
- 3.2 The total yield from Council Tax is determined by a combination of the level of the tax base and the level at which Council Tax is set.
- 3.3 The Tax Base is the measure of the relative taxable capacity of different areas within the County Borough and is calculated in accordance with prescribed rules. The Gross Tax Base is the number of chargeable dwellings in the area expressed as Band D equivalents after allowing for exemptions, disablement reductions and discounts. This is then adjusted for an assumed collection rate to give the Net Tax Base.
- 3.4 The Tax Base is provided to Welsh Government and is used as part of the distribution formulae for the Local Government Settlement. The Tax Base is calculated for the County Borough as a whole and for those areas that have a Community Council.
- 3.5 The Tax Base movement over recent years is shown in Table 5 below.

Table 5

Year	Gross Tax Base (£)	Collection Rate	Net Tax Base (£)
2014/15	75,189	96.5%	72,557
2015/16	75,565	97.0%	73,298
2016/17	76,207	97.5%	74,302

- 3.6 The level of any increase or decrease of Council Tax is considered each year as part of the annual budget consultation processes, and subsequently determined by Council as part of the annual budget strategy. The formal resolution is also agreed by Council.
- 3.7 Council Tax levels over recent years are shown in the Table 6 below.

Table 6

Year	Band D Council Tax £	Increase over Previous Year
2014/15	£1,248.00	4.5%
2015/16	£1,295.48	3.8%
2016/17	£1,331.17	2.75%

- 3.8 The total amount raised through Council Tax is derived by multiplying the net tax base by the band D Council Tax charge, which for 2016/17 amounts to (74,302 x £1,331.17) £98.909M.
- 3.9 For modelling purposes as part of this report, a Council Tax increase of 3% per annum is currently being used in our medium term calculations, noting of course that this is a key decision for Members to make as part of setting each years budget. In terms of generating resources, a 1% increase in the level of Council Tax will raise an extra £724k¹ of additional income each year (this is net of the costs associated with the Council Tax Reduction Scheme described in more detail below).

Council Tax Reduction Scheme (CTR Scheme)

- 3.10 Welsh Government have determined a national CTR Scheme for Wales which assesses a taxpayers ability to pay and provides support for those who are eligible.
- 3.11 During 2015/16 the Council paid CTRS to 27,131 eligible applicants at a cost of £23.4M. For 2016/17 the Council has estimated the cost to be £23.954M.

¹ Based on 2016/17 Council Tax Income

Section 4 Individual Schools Budget (ISB)

- 4.1 The total Individual Schools Budget (ISB) for the Council in 2016/17 amounts to £144.9M and represents over 30% of the Council's net budget.
- 4.2 Since 2012/13, the ISB has increased at a level above other council services and above the level of the Council's own settlement from WG. The ISB has been subject to protection requirements by WG over this period but as yet there is no indication that this will continue into the future. The comparative ISB increases over the last five years are shown in Table 7:

Table 7

Year	School (ISB) Increase	RCT Settlement Level
2012/13	+1.58%	+0.42%
2013/14	+2.08%	+0.5%
2014/15	+0.9%	-3.7%
2015/16	+0.6%	-3.7%
2016/17	+1.85%	-0.9%

- 4.3 Over the 5 year period shown in Table 7, the ISB has received an increase amounting to 7.01%, as opposed to the Council's remaining budgets having been reduced by 7.38%. In monetary terms, applied to an ISB of £138M (2011/12 ISB) this amounts to an extra £19.8M being provided to schools over the period.
- 4.4 Pupil number forecasts are modelled across Primary, Secondary and Special Schools sectors with the financial implications included in the Schools Budget Requirement.
- 4.5 The levels of school reserves held as at the 31st March 2016 are shown in Table 8 below.

Table 8

Type of School	31/03/15	2015/16 Movement	31/03/16
	£'000	£'000	£'000
Primary	4,336	(177)	4,159
Secondary	(1,077)	249	(828)
Special	463	(193)	270
Nursery	(11)	(3)	(14)
Total	3,711	(124)	3,587

Section 5 Fees and Charges

- 5.1 The Council raises £15.5M of income annually from fees and charges raised across services. The level of charges is reviewed annually.
- 5.2 As part of the budget strategy for 2014/15, Council agreed to increase fees and charges, in total, by an average of 3% above the Retail Prices Index (RPI) per annum for 2014/15 and for each subsequent year up to and including 2017/18.
- 5.3 The latest application of this decision for 2016/17 meant an average increase of 4.2% (with RPI on the 19th January 2016 being 1.2%)
- 5.4 As part of their review for 2016/17, Cabinet determined to make a number of exceptions to the standard level of increase which meant that all other fees would increase by 4.7%. The changes are detailed in Table 9 below.

Table 9

Area of Charge	Proposed Increase for 2016/17
Parking Charges	Nil
Summer and Winter Playing Fees (Sports Clubs)	Nil
Bereavement Services Charges (other than Cremation Fees)	RPI + 10%
Domiciliary Care (Adults)	Nil
Trade Refuse (Residual)	RPI + 4.5%
Trade Refuse (Recycling)	Nil
School Meals	Nil

- 5.5 Leisure Fees and Charges were subject to a separate agreement having previously been agreed by Cabinet (12th February 2015). For Leisure, all committed prices were frozen until January 2017, at which point they will be increased by RPI + 3%. In line with the same decision, all pay and play prices were increased from 1st January 2016 (by 3.7%).
- 5.6 Cabinet will be provided with information to enable it to determine price increases for 2017/18 during the autumn of 2016 as part of the annual budget setting process.
- 5.7 Fees and Charges for Council services can be found in the relevant service area of the Council's website. A full schedule of all Fees and Charges will be presented to Cabinet during the autumn as part of the consideration of the policy for 2017/18.

Section 6 National and Local Pressures

6.0 Authority Wide Budgets

6.1 Appropriate sums must be set aside to cover a number of Authority Wide costs. These include the following:

Capital Financing

The projected level of capital charges are linked to the Council's Capital Programme and Treasury Management Strategy.

Levies

Levies are raised (against non service specific budgets) by the South Wales Fire Service, the Coroner, Brecon Beacons National Park Authority and the Glamorgan Archives (Joint Committee).

Council Tax Reduction Scheme

This demand led area of expenditure is still relatively new, with Welsh Government having introduced a national scheme from financial year 2013/14.

Miscellaneous

The areas of expenditure held here include :

- Carbon Reduction Commitment
- Graduate and Apprenticeship programmes
- Trade Union Costs
- Elections
- Planning Appeals
- Former Authority Pension Costs
- Voluntary Termination Costs
- LGPS including auto-enrolment
- Bank Charges
- Housing Benefit Subsidy Costs
- Energy / Invest to Save
- External Audit Fees
- Vehicle Replacement Funding
- Insurance Costs
- Discretionary NDR Relief
- Apprenticeship Levy

6.2 A summary of the projected requirement for Authority Wide budgets from the current year (2016/17 budget) to 2019/20 is shown below in Table 10.

Table 10

	2016/17	2017/18	2018/19	2019/20
	(Current Budget)	(Projected)	(Projected)	(Projected)
	£K	£K	£K	£K
Capital Financing	22,977	23,600	23,600	23,600
Levies	11,382	11,610	11,842	12,079
CTRS	24,554	25,290	26,049	26,831
Miscellaneous	16,172	17,974	20,433	22,888
TOTAL	75,085	78,475	81,925	85,397
		3,390	3,450	3,473

Note included in 'Miscellaneous' are increases in pension fund contributions and costs associated with living wage which will be reallocated across service areas as part of the budget setting process.

6.3 Service Inescapable Pressures

6.4 There are clearly areas of our budget which are exposed to more uncontrollable spending requirements which might arise from demand led or demographic changes, legislative or regulatory change, the effect of external market forces (and prices) and the financial implications of policy and service planning decisions made by the Council. These are **inescapable pressures** and include the implications of the Living Wage on our External Contracts, increasing pupil number projections, the impact of EU legislation on sleeping night payments and assumptions around reductions in specific grants.

6.5 The amount included for Service Inescapable Pressures within the Budget Requirement is shown below in Table 11.

Table 11

Forecasted Inescapable Budget Pressures			
	2017/18	2018/19	2019/20
	£k	£k	£k
Schools	1,250	1,082	1,695
Education & Lifelong Learning	76	86	86
Community and Children's Services	2,621	1,367	933
Corporate and Frontline Services	1,787	347	322
Total	5,735	2,710	2,864

6.6 Service Financial Risks

- 6.7 In addition to the above inescapable budget pressures, there are items of risk which have been identified and which are captured and estimated in financial terms. A view is then taken on the potential overall likelihood of the risk materialising and the quantum of it which can be included in the early modelling of the budget requirement. As time progresses the risks will either become inescapable or will fall away, possibly with a longer term impact.
- 6.8 The amount included for Service Financial Risks within the Budget Requirement is shown below in Table 12:

Table 12

	2017/18	2018/19	2019/20
Risks (£k)	619	1,898	2,379

6.9 School (ISB) Requirements

- 6.10 Section 4 set out the potential requirements for school budgets, noting that there has been no firm policy intention in relation to the ISB from Welsh Government announced at this stage for 2017/18 and beyond. Based on their full funding requirements, the ISB budget increases are set out in Table 13 below.

Table 13

	2016/17	2017/18	2018/19	2019/20
	£k	£k	£k	£k
Modelled Schools Budget	145,005	148,719	151,723	155,403
Schools Budget Increase		3,714	3,005	3,680

Section 7 Inflationary Pressures

7.1 Employee Inflation

7.2 The NJC for APT&C workers has agreed a 2 year pay award for 2016/17 and 2017/18; this is reflected in the MTFP for 2017/18. It should be noted that the pay award increases are proportionately greater for the lower grades hence the cost implication is greater than 1% of the paybill.

7.3 For all other categories of employees, including teachers, a 1% allowance is included for each year from 2017/18 to 2019/20.

7.4 There are currently no known changes planned to employer National Insurance Contributions.

7.5 Non Employee Inflation

7.6 The Bank of England's Central forecast for inflation remains at 2%. For the MTFP, inflation is included across all expenditure and income heads currently at 1.9%, 2.0% and 2.1% (based on CPI Rates, sourced from a combination of longer term forecasts published by the BoE and HM Treasury across the 3 years) for 2017/18, 2018/19 and 2019/20 respectively.

7.7 Specific Inflation

7.8 There are some budget heads which are particularly volatile and susceptible to variations in rates of inflation which are outliers to the central forecasts. More detailed analysis and procurement intelligence is applied to uplifts for the following expenditure heads :

- Electricity
- Gas
- Fuel (Petrol)
- Food

7.9 The overall cost of inflation to the Council is summarised in Table 14 below.

Table 14

<u>Inflation</u>	2017/18	2018/19	2019/20
Employee Related	2,686	2,713	2,740
Non Employee Related	3,710	3,682	3,875
TOTAL INFLATION	6,396	6,395	6,615

Section 8 Specific Grants

- 8.1 The Council is mindful of the opportunities that are likely to accrue, by the Council attracting specific grants to supplement its base revenue budget. Whilst specific grants can dilute local accountability, the fact remains that in attracting such funding, it allows us to undertake projects that otherwise we may have had to defer, or cancel.
- 8.2 By their nature, specific grants tend to be time-limited, and involve an assessment process. It is important therefore, that any specific grant funded programme complements the Council's locally determined priorities. In addition, even if they are initially successful in attracting specific grants, authorities are restricted in their ability to confidently forward plan, as they have no guarantee of ongoing (specific grant) funding. Consequently, because specific grants are time limited it is vital to develop appropriate "exit strategies".
- 8.3 Whilst specific grants come from a number of sources, for 2016/17 the Welsh Government alone will provide over £750M in total to Welsh Local Authorities. The allocation of specific grants remains a key feature of the Welsh Government's annual local government settlements, albeit the WG is committed to reduce this form of hypothecation in the longer term.
- 8.4 Table 15 sets out the main areas of expenditure and services which are funded currently by specific revenue grants.

Table 15

Award Body	Purpose	Amount (2016/17) £M
<u>Community & Children's Services</u>		
Shaw Trust & Working Links	Subsidisation of Employment of Disabled Workers	0.456
Welsh Government	Communities First Grant	4.937
	Communities 4 Work	1.108
	Families First	3.271
	Flying Start	6.863
	Housing Benefit Subsidy Bed & Breakfast Scheme	0.292
	Language & Play Grant	0.105
	Social Care Workforce Development Programme	0.556
	Supporting People Grant	9.056
	Youth Crime Prevention Grant	0.096

	Substance Misuse Action Fund	2.686
	Wales Safer Communities Grant	0.256
	General Practitioner (GP) Referral Scheme	0.185
Youth Justice Board	Youth Justice Provision	0.522
Sports Council for Wales	Grand/Big Splash	0.279
	Dragon Sports Scheme	0.098
	Sports Development	0.239
Natural Resources Wales	Coed Cymru/Countryside Services	0.053
Total Community & Children's Services		31.058
Education & Lifelong Learning		
Welsh Government	Post-16 Provision in Schools	10.610
	Education Improvement Grant (EIG) Delegated to Schools	9.428
	Education Improvement Grant (EIG) Admin	0.019
	Foundation Phase - EIG	0.108
	Learning Pathways (14-19) - EIG	0.038
	Pupil Deprivation Grant	8.041
	Community Learning	0.178
	Youth Service Support Grant	0.210
	Youth Engagement	0.069
	Ethnic Minority Achievement - EIG	0.128
	School Uniform Grant Scheme (Estimate)	0.077
	Education of Gypsy Travellers - EIG	0.029
	Out of School Childcare Grant	0.165
Ministry of Defence	MOD Education Support Fund	0.057
Rural Payments Agency	Infant Milk (Estimate)	0.380
Sports Council for Wales	5x60 (Estimate)	0.311
Total Education & Lifelong Learning		29.848
Chief Executive's		
Arts Council of Wales	Arts Development	0.150
Total Chief Executive's		0.150
Corporate & Frontline Services		
Department for Work & Pensions	Housing Benefit Administration Subsidy	1.029
Welsh Government	NDR Admin Grant	0.372
	Environment & Sustainable Development	4.252
	Concessionary Fares	6.789
	Local Road Safety	0.133

	Bus Service Support	0.665
	Tomorrow's Valley Residual Waste	1.189
	Tomorrow's Valley Food Waste	0.064
Total Corporate & Frontline Services		14.493
TOTAL SPECIFIC REVENUE GRANTS		75.549

- 8.5 Assumptions are made in the MTFP about future levels of specific grants, in particular where they are effectively funding core services, for example the Environment and Sustainable Development Grant which provides funding for our Recycling services.

Section 9 Summary Spend Requirements and Resource Availability

9.1 The impact of the aforementioned modelling is aggregated into Table 16 below to show the forecast budget position over the next 3 years. The modelling shows a projected budget gap over the 3 year period which needs to be addressed and closed with actions during the period. Whilst modelled over a three year period, the Council must also be mindful of its legal responsibility to set a balanced budget annually and for the forthcoming financial year this has to be completed before the 11th March 2017.

Table 16

SUMMARY OF EXPENDITURE REQUIREMENTS AND RESOURCES AVAILABLE

	2017/18		2018/19		2019/20
Summary	£k		£k		£k
Base	454,831	*	470,502		484,954
<u>Expenditure Pressures</u>					
Inflation	6,396		6,395		6,615
Inescapable Budget Pressures	5,735		2,710		2,864
Budget Risks Included	619		1,898		2,379
Impact of Prior Budget Reduction Decisions	- 468				
Authority Wide Budgets	3,390		3,450		3,473
Total Budget Requirement	470,502		484,954		500,284
<u>Resources Available</u>					
WG Funding - RSG & NDR	346,700		337,686		328,906
Council Tax	102,283		105,773		109,382
Resources Available	448,983		443,459		438,288
Budget Gap Cumulative	21,519		41,495		61,996
Budget Gap Annual	21,519		19,977		20,501

* Note original budget of £454,831k (and not £454,835k) is the starting point for the MTFP

9.2 Clearly a significant determinant in the budget gap is the level of funding which the Council receives from Welsh Government. To understand the potential impact of changes in the level of funding, Table 17 below sets out a range of potential settlement levels and the resultant budget gap.

Table 17

	2017/18	2018/19	2019/20
Budget Gap - Sensitivity Analysis			
Budget Gap at WLGA Least Optimistic Prospects	21,519	41,495	61,996
Budget Gap at WLGA Medium Prospects	16,742	30,924	45,017
Budget Gap at WLGA Most Optimistic Prospects	13,911	19,260	24,823
Budget Gap at 1% better than modelled (each year)	18,157	34,426	50,900

Section 10 Reserves Policy

- 10.1 Reserves play an important part of the overall financial management and financial standing of the Council. In this regard the Council holds a minimum of £10M in its General Reserves (that is, unallocated reserves). This level is not set by any formula but is a judgment of the Council's Section 151 Officer taking into account the overall quantum of the budget and the financial risks therein and facing the Council.
- 10.2 The Council also holds Earmarked Reserves which are sums set aside for specific purposes. The full schedule of reserves is attached at Annex 3 (draft Statement of Accounts 2015/16).
- 10.3 All reserves are reviewed at least twice yearly, at budget setting stage and as part of the year end closure of accounts process. In between, changes in risk and potential liabilities are continuously monitored as part of the Council's Financial Management and budgetary control arrangements and changes in reserve levels are actioned, following member approval, as appropriate.
- 10.4 The Council has used reserves prudently as part of supporting its annual budget strategy for a number of years. Whilst reserves can be used to balance the budget, this alone is not a sustainable strategy and more permanent changes / reductions to the base budget must be made. With regard to the budget gap as modelled in Section 9, to balance the budget for the next 3 years using reserves alone would require the use of over £120M of reserves and the Council would still have a need to reduce its base budget by £60M.
- 10.5 The Council will hold reserves for the following purposes :

Capital, Treasury and Insurance Reserves

Reserve	Purpose
Capital Developments	Resources set-aside from revenue budget, earmarked to fund the Council's approved 3-year capital programme.
Treasury Management Reserve	Funding for known and potential future pressures upon the Capital Financing budget.
Insurance Reserve	To provide for estimated costs of incidents that have occurred during the policy year but have not yet resulted in a claim being received.

Other Revenue Related Reserves

Reserve	Purpose
Private Finance Initiative	Balance of excess Welsh Government support over unitary charge payments to reflect the differing expenditure and income profiles.
Revenue Budget Strategy 2016/17	Medium Term Financial Planning & Service Transformation (transitional funding) released to fund the 2016/17 Budget Strategy.
Joint Committee Reserve	Reflects the Council's share of General and Earmarked Reserves of the Joint Committees in which it has an interest.
Revenue Grant Reserves (IFRS)	Carry forward of Revenue Grants not yet applied to spend - required accounting treatment to comply with International Financial Reporting Standards.
Financial Management and Human Resources Risk Management	Resources set aside as cover for future liabilities relating to various risks identified and being managed.
Prior Year Commitments	Carry forward of existing funding to finance projects for which commitments have already been made in the prior year.
Medium Term Financial Planning and Service Transformation	Resources set aside as transitional (one-off) funding to support the Council's medium-term financial and service planning requirements.
Other Specific Reserves	Represents a number of reserves held for specific and identified purposes.

Section 11 Balancing the Budget

- 11.1 Whilst the budget setting process is necessarily and statutorily an annual process, this Council has moved away from the annual cycle for financial planning purposes and seeks to address the budget gap over the medium term period.
- 11.2 Part of this process is the early identification and delivery of base budget reducing measures in-year and therefore before the start of a financial year. This has enabled the Council to deliver financial savings early and to replenish our Medium Term Financial Planning and Service Transformation Reserve which we have used proactively as part of our budget strategy approach for a number of years.
- 11.3 In line with the above, plans are already advanced across a number of areas to balance the projected budget gap for 2017/18 and the medium term. Table 18 below summarises the current position (based on the modelled budget gap set out in Table 16) :

Table 18

Budget Gap Annual		21,519		19,977		20,501
 <u>Budget Reduction Measures</u>						
General Efficiencies	-	6,000	-	6,000	-	6,000
Minimum revenue Provision (subject to Audit)	-	3,143				
Additional Efficiency Measures (implemented during 2016/17)	-	1,856				
Remaining Budget Gap		10,520		13,977		14,501

- 11.4 To close the remaining budget gap as shown above, particularly in respect of 2017/18, additional measures are currently under review, including: :
- a. Council agreed in December 2015 to voluntarily terminate our PFI arrangement at Garth Olwg Lifelong Learning Centre. This process is envisaged to be completed during this financial year with the financial implications taken into account as part of finalising the 2017/18 budget.

- b. Our Social Services Transformation Programme continues to be implemented and it is envisaged that further budget reductions will be able to be made for next financial year as we continue to provide the targeted, preventative services which our clients require to enable them to maintain their independence. The financial impacts will continue to be modelled over the coming months in order for the 2017/18 budget to take into account the most up to date and robust position.
- c. Over the last 2 financial years we have continued to see a reduction in demand for Council Tax Reduction Scheme support which has resulted in underspends in this area. We have already reduced this budget for 2016/17 but we will closely monitor demand as we progress through this financial year with a view to reflecting this into next years budget.
- d. We will continue to review our base budget requirements and modelling around key service pressures including inflationary requirements and contractual arrangements.
- e. We will continue to actively pursue savings opportunities across our key priority areas of :
 - Procurement
 - Office Accommodation Rationalisation
 - Digitisation
 - Agile Working
 - Managing Productivity

11.5 The remaining budget gap at the alternative planning scenarios outlined in Section 2 is shown below in Table 19. Note for 2018/19 and 2019/20, the remaining budget gap is AFTER the delivery of £6M of efficiencies across services, which in itself is becoming ever more challenging.

Table 19

	2017/18	2018/19	2019/20	
Remaining Budget Gap at Most Optimistic Prospects	2,737	-	355	324
Remaining Budget Gap at Medium Prospects	5,567	8,479	8,854	

Section 12 Capital Programme

- 12.1 The Council's 3 year capital programme, 2016/17 to 2018/19 was agreed by Council on the 23rd March 2016.
- 12.2 The three year Capital Programme is a key component of the overall Medium Term Financial Planning and Resources Strategy for this Council. Targeted capital investment can make a significant impact on service delivery and used effectively, is able to underpin the Council's Corporate Plan Priorities, where relevant.
- 12.3 The three year programme amounted to £198.466M and includes the additional investment of £11.3M in priorities aligned to the Council's Corporate Plan as agreed by Council on the 10th March 2016.
- 12.4 The rolling 3 year programme is reviewed and determined annually (in March of each year) and provides service managers with the opportunity to plan investment in our infrastructure and assets over the medium term.
- 12.5 A summary of the current 3 year programme is provided in Table 20.

Table 20 : THREE YEAR SUMMARY CAPITAL PROGRAMME

GROUP	BUDGET		
	2016/17	2017/18	2018/19
	£M	£M	£M
Community & Children's Services			
General Programme	0.550	0.550	0.550
Private Sector Housing	6.868	5.368	5.368
Public Health & Protection	3.134	0.550	0.550
Education & Lifelong Learning			
Schools	49.661	40.726	13.043
Supplementary Capital Programme	6.896	4.825	4.825

Chief Executive's Division			
Regeneration & Planning	8.505	8.279	0.740
Cabinet Office & Public Relations	0.020	0.020	0.020
Corporate & Frontline Services			
Corporate Estates	0.200	0.200	0.200
Financial Services	0.700	0.700	0.700
Customer Care & ICT	0.500	0.000	0.000
Highways Technical Services	11.849	1.835	1.835
Strategic Projects	5.573	0.325	0.325
Waste	0.150	0.000	0.000
Fleet	4.965	2.112	0.631
Buildings	0.268	0.100	0.100
Corporate Budgets			
Corporate Initiatives	2.450	0.850	0.850
TOTAL CAPITAL BUDGET	102.289	66.440	29.737

Section 13 Consultation and Scrutiny

- 13.1 Following consideration of this MTFP by Cabinet, it is proposed that this document and the planning assumptions be made available to the Finance and Performance Scrutiny Committee, as part of the consultation on the draft 2017/18 budget strategy.
- 13.2 The MTFP will be used as a basis of planning for our 2017/18 budget strategy consultation processes, updated as appropriate to reflect the implications of the provisional local government settlement which is due to be received in October 2016.

Section 14 Other Relevant Documents

Below are links to other documents which are relevant to the Medium Term Financial Plan.

Budget Book 2016/17

<http://www.rctcbc.gov.uk/EN/Council/PerformanceBudgetsandSpending/Councilbudgets.aspx>

Statement of Accounts 2014/15

<http://www.rctcbc.gov.uk/EN/Council/PerformanceBudgetsandSpending/StatementofAccounts.aspx>

Treasury Management Strategy, Investment Strategy and Prudential Indicators

<http://www.rctcbc.gov.uk/EN/Council/CouncillorsCommitteesandMeetings/Meetings/Council/2016/03/23/Reports/12.TreasuryManagementStrategy.pdf>

Council Performance Report, Year End 2015/16

<http://www.rctcbc.gov.uk/EN/Council/PerformanceBudgetsandSpending/Councilperformance/Councilperformancemonitoringreports/Reportingcouncilperformance.aspx>

Corporate Plan

<http://www.rctcbc.gov.uk/EN/Council/CouncillorsCommitteesandMeetings/Meetings/Council/2016/02/24/Reports/Agendaltm9CorporatePlanReportAppendices.pdf>

Council 3 Year Capital Programme 2016/17 to 2018/19

<http://www.rctcbc.gov.uk/EN/Council/CouncillorsCommitteesandMeetings/Meetings/Council/2016/03/23/Reports/11.3YearCapitalProgramme.pdf>

ANNEX 1

GENERAL FUND REVENUE : SERVICES PROVIDED

2015/16 Budget		2016/17 Budget
£M		£M
	<u>Community & Children's Services</u>	
73.273	Adult Services	70.786
45.307	Children's Services	44.883
3.622	Transformation	2.762
15.787	Public Health & Protection	14.739
137.989		133.170
	<u>Education & Lifelong Learning</u>	
21.406	School & Community	20.264
11.151	Access, Engagement & Inclusion	10.501
141.854	Delegated Schools	144.945
174.411		175.710
	<u>Chief Executive's Division</u>	
0.395	Chief Executive	0.402
2.510	Cabinet Office & Public Relations	2.694
3.863	Human Resources	3.557
3.651	Legal & Democratic Services	3.371
2.018	Regeneration & Planning	2.059
12.437		12.083
	<u>Corporate & Frontline Services</u>	
42.931	Frontline Services	43.447
5.690	Financial Services	5.487
6.044	ICT & Customer Care	5.985
5.427	Corporate Estates Management & Procurement	5.264
0.146	Group Management	0.151
60.238		60.334
385.075	Total Group Budgets	381.297
	<u>Authority Wide Budgets</u>	
23.364	Capital Financing	22.977
11.406	Levies	11.382
12.352	Miscellaneous	14.825
0.400	NDR Relief	0.400
23.897	Council Tax Reduction Scheme	23.954
71.419	Total Authority Wide Budgets	73.538
456.494	TOTAL REVENUE BUDGET	454.835

ANNEX 2

COUNCIL BUDGET - BY PRIORITY AREA

Priority Area	Budget 2016/17 £'000
<u>PEOPLE</u>	
Children's Services	45,224
Adult Services	74,259
	119,483
<u>PLACE</u>	
Parks / Leisure (including physical participation) / Libraries / Heritage Sites	11,278
Anti-Social Behaviour / Domestic Violence / Substance Misuse	301
Crime Reduction (inc hate crime)	774
Highway cleanliness	3,269
Waste / Recycling	14,342
Highways Infrastructure / Road maintenance / condition	8,293
Homelessness prevention	392
	38,649
<u>ECONOMY</u>	
Economically active people / Job Seekers Allowance Claimants / Job Creation / Not in Education, Employment or Training (NEET)	25,262
School Attainment	182,967
Business start ups / closures	482
Town Centre	836
Town Centre Vacancy Rates (businesses)	400
Housing / affordable housing delivered	570
	210,518
<u>LIVING WITHIN OUR MEANS</u>	
Customer Care	1,816
Office Accommodation/Buildings	6,271
	8,088
TOTAL SPEND ON COUNCIL PRIORITIES	376,737
REGULATORY PUBLIC SERVICES	4,540
OTHER SERVICES TO THE PUBLIC	2,241
AUTHORITY WIDE COSTS	49,184
CORE SUPPORT	22,132
TOTAL COUNCIL BUDGET	454,835

COUNCIL EARMARKED RESERVES

Reserve	Purpose	Balance at 31/03/15	Transfers Out	Transfers In	Balance at 31/03/16
		£'000	£'000	£'000	£'000
Capital Developments	Resources set-aside from revenue budget, earmarked to fund the Council's approved 3-year capital programme.	18,359	(5,876)	28,597	41,080
Treasury Management Reserve	Funding for known and potential future pressures upon the Capital Financing budget.	2,399	0	4,001	6,400
Insurance Reserve	To provide for estimated costs of incidents that have occurred during the policy year but have not yet resulted in a claim being received.	10,609	(61)	1,840	12,388
Total		31,367	(5,937)	34,438	59,868

Reserve	Purpose	Balance at 31/03/15	Transfers Out	Transfers In	Balance at 31/03/16
		£'000	£'000	£'000	£'000
Private Finance Initiative	Balance of excess Welsh Government support over unitary charge payments to reflect the differing expenditure and income profiles.	8,534	0	187	8,721
Revenue Budget Strategy 2015/16	Earmarked Reserve released to fund the 2015/16 Budget Strategy	4,396	(4,396)	0	0
Revenue Budget Strategy 2016/17	Medium Term Financial Planning & Service Transformation (transitional funding) released to fund the 2016/17 Budget Strategy.	0	0	2,147	2,147
Joint Committee Reserve	Reflects the Council's share of General and Earmarked Reserves of the Joint Committees in which it has an interest.	2,278	(2,278)	1,620	1,620
Revenue Grant Reserves (IFRS)	Carry forward of Revenue Grants not yet applied to spend - required accounting treatment to comply with International Financial Reporting Standards.	5,379	(5,379)	3,759	3,759
E-Government/ Service Re-engineering	Delivery of the Council's E-Government Strategy, system replacements and service re-engineering.	339	(339)	0	0
Financial Management and Human Resources Risk Management	Resources set aside as cover for future liabilities relating to various risks identified and being managed.	34,331	(24,690)	11,951	21,592
Development Fund	To support improvement in the delivery of the Council's business in line with key priorities.	713	(713)	0	0
Social Inclusion	To fund activities and projects carried out to improve social inclusion.	131	(131)	0	0
Prior Year Commitments	Carry forward of existing funding to finance projects for which commitments have already been made in the prior year.	12,426	(6,425)	7,603	13,604
Medium Term Financial Planning and Service Transformation	Resources set aside as transitional (one-off) funding to support the Council's medium-term financial and service planning requirements.	5,127	(2,147)	1,921	4,901
Other Specific Reserves	Represents a number of reserves held for specific and identified purposes.	2,630	(1,237)	793	2,186
Total		76,284	(47,735)	29,981	58,530

Total Earmarked Reserves	107,651	(53,672)	64,419	118,398
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