

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2013-14

COUNCIL

27th November 2013

REPORT OF :

CORPORATE SERVICES GROUP DIRECTOR

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	AGENDA ITEM NO.8
THE COUNCIL'S 2014/2015 REVENUE BUDGET – THE PROVISIONAL SETTLEMENT	

1.0 PURPOSE OF THE REPORT

1.1 This report provides Council with information in respect of the 2014/2015 provisional local government settlement, and initial comments on its likely implications for the delivery of Council services. It also provides important information for use in respect of this year's general budget strategy consultation exercise.

2.0 RECOMMENDATIONS

It is recommended that Members:

2.1 Note the provisional 2014/2015 local government settlement, announced by the Minister for Local Government and Government Business, on the 16th October 2013.

2.2 Note that the final 2014/2015 local government settlement is expected on the 11th December 2013.

2.3 Note that in response to the Minister's request for local authorities' comments, as part of her local government settlement consultation process, this Council's response includes the following:

This Council understands that there are limited resources available to the Welsh Government (WG) as a result of the cuts imposed on them from the Coalition Government in London. We are though still disappointed with the overall level of settlement and have significant concerns on the ability we have to plan effectively into the medium term given the lack of robust forecasts of future settlement levels.

The decision to provide a damping / floor adjustment is we feel an equitable approach and we continue to argue that during this period of funding uncertainty and volatility, that formula changes should be kept to a minimum.

We are concerned that we face a funding shortfall in 2014/15 as a consequence of no additional resources being made available to support the Council Tax Reduction Scheme and that we as a Council take the full financial impact of any Council tax increase as well as increases in demand as Welfare Reform measures and the general economic situation impacts. .

In order to fully assess the impact on the Council of the settlement, we would also ask that the detail on outstanding specific grants is provided as soon as possible. We also await with interest the review commissioned by the minister on specific grants.

- 2.4 Note that the initial general budget strategy consultation exercise will begin at the start of December 2013.

3.0 BACKGROUND

- 3.1 On the 16th October 2013, the Minister for Local Government and Government Business (Lesley Griffiths AM) announced the provisional 2014/2015 local government settlement. The Minister's statement and key data table is attached at Appendix 1.

- 3.2 The "headlines" of the provisional 2014/2015 settlement are as follows:-

- i. The overall reported decrease in Revenue Support Grant (RSG) and Non-Domestic Rates funding for 2014/2015 (of unhypothecated funding) at an all Wales level, is -3.5%. Closer inspection of the settlement details reveals that the decrease excludes the impact of the additional Council Tax Reduction Scheme (CTRS) support provided after the 2013/14 settlement and the new £4M Local Government Borrowing Initiative funding for highways improvement in 2014/15. The impact of these adjustments is that the overall funding reduction at an all Wales level is actually **-4.0%**.
- ii. The provisional settlement for Rhondda Cynon Taf, shows a reported decrease of -3.3% which is marginally better than the average reported of -3.5%. As detailed above, the reported decrease should be adjusted for CTRS and the highways borrowing initiative, resulting in an actual funding decrease for this Council of **-3.9%** in 2014/15. This is a significant cut in funding, especially in the context of inflation currently at around

+2-3% and significant increases in service demand and subsequent pressures. 'Reported' settlements across the 22 local authorities range from at best -1.2% to at worst -4.6%, the later of which has been held at this level through a damping / floor adjustment applied by Welsh Government. This adjustment ensures that no Council receives a reduction in funding greater than -4.75%. The 'floor' has protected three Councils – Ceredigion, Denbighshire and Powys. This Council's contribution to the floor is £430k.

- iii. The provisional settlement includes an indicative further decrease for 2015/2016 of -1.4% for this Council. Some caution is advised in respect of this figure, given the recent experience of Welsh Government being unable to fulfil its obligations for the 2014/15 indicative (originally set out in the 2013/14 settlement at +0.6%).
- iv. The Provisional Settlement includes the Outcome Agreement Grant outside of RSG. This amounts to £2.504M and will only be received if the Council meets its Outcome Agreement targets.
- v. The Settlement includes a number of stated 'transfers in'. For this Council, these equate to:
 - First Steps Improvement Package - £0.250M
 - Council Tax Reduction Scheme Administration Subsidy - £0.475M
 - Private Finance Initiative - £2.747M
- vi. As yet we have had little detail of what specific grants this Council will receive from the estimated total of in excess of £700M across Wales. This is very important as many of these grants support key services provided by the Council. A number of these grants do appear to be reducing at an all Wales level.
- vii. The Council's General Capital Funding allocation is reduced by 1.1% (£0.129M) to £11.199M. The indicative figures show no further cut in 2015/2016.

4.0 PRELIMINARY ASSESSMENT OF THE SERVICE IMPLICATIONS OF THE 2014/2015 PROVISIONAL SETTLEMENT

- 4.1 Cabinet at its meeting on the 21st of October 2013 agreed to initiate consultation on Phase 1 Service Change proposals already identified as part of the Council's robust Medium Term Service Planning arrangements. These proposals were in response to regular updates on the Council's revenue budget projections, where an estimated budget gap of at least £56M over the next four years had been

forecast. Cabinet agreed to receive reports on potential Service Changes as soon as they became available. Indeed, Phase 1 proposals were reported before the Provisional Local Government settlement was announced (papers published 14th October 2013), in the knowledge that significant budget cuts across the whole of the Public Sector would be inevitable into the medium term. Now we have actually received the provisional settlement it is estimated that the four year gap will increase from £56M and move towards £70M.

- 4.2 The Provisional Settlement announcement confirmed the significant financial challenge facing this and every local authority in Wales. The decrease of 3.9% is by far the worst since Local Government reorganisation in 1996 and my initial view would be that we have an estimated budget gap of, approximately **£19.6M** for 2014/2015, subject of course, to receiving details of the final settlement.
- 4.3 A significant funding cut clearly takes no account of inflationary pressures, many of which are particular to Local Government, for example, payments to providers of homes for the elderly, landfill taxes, and increases in energy costs. In addition, we are facing ever increasing demands on our services including the impact of demographic changes (more older people) and many more children requiring support and care. These ever mounting pressures have already resulted in recent years in the Council meeting significant efficiency and savings targets, plus having to increase the fees charged for some services.
- 4.4 This Council has continued to prioritise financial stability and sustainability, recognising the pressures identified and the limited availability of resources. For that reason, we have already begun the assessment of the Services we deliver and changes are being considered as evidenced in the Phase 1 proposals.
- 4.5 In order to close a budget gap of approximately £19.6M in 2014/15, further phases of proposals will be required and all opportunities to deliver greater levels of efficiency must be maximised. Members and officers will continue to work hard to balance the need to respond to service demands and deliver savings into the medium term. A further phase of the service change proposals will be presented to Members shortly.

5.0 DEVELOPING AN EQUITABLE BUDGET STRATEGY FOR 2014/2015

- 5.1 Against the backdrop of significant funding cuts, the Council must maintain its focus on robust financial management and stability, indeed, our very survival will depend on it. A key ingredient of this is the responsible approach taken to how we address the development of our annual budgets. Therefore, even allowing for the difficulties

described earlier, we still, as in previous years, need to set parameters for producing the 2014/2015 budget and these are:-

- a) Maintain the Council's financial stability, whilst targeting any available funding, in an efficient and effective manner, towards the key services required by our residents;
- b) Look to protect those key services and jobs wherever possible;
- c) Review all areas of service provision, including eligibility to those services and charging policies in place;
- d) Take maximum advantage of all new funding opportunities made available by the Welsh Government and others;
- e) "Top slice" appropriate necessary sums to fund corporate budgets;
- f) Fully allocate any sums "earmarked" for specific services which are demonstrably the direct result of legislative changes included in the 2014/2015 Local Government Settlement, in strict accordance with the guidance issued by the Welsh Government;
- g) Allocate to our Service Groups, initially, an adequate allowance for (inflationary) movements in employee costs;
- h) Continue to deploy our procurement strategy to offset the impact of certain supplies and services' inflation, in the coming financial year;
- i) Actively pursue efficiency in all areas of the Council;
- j) Provide comprehensive support to help achieve efficiency requirements in all areas of service, including our schools.
- k) Where Service Change proposals are considered, that these are tested against the agreed guiding principles:
 - i. Services are as equitable as possible across Rhondda Cynon Taf;
 - ii. Proposals will result in a reasonable level of service remaining in place;
 - iii. Services will remain sustainable over the medium term (3 to 5 years);
 - iv. Services will, as far as possible, be generally better or as good as the rest of Wales;
 - v. Services will continue to meet our statutory obligations

- 5.2 This outline strategy will provide an effective and pragmatic framework for the delivery of a fair and equitable Council budget.

5.3 The Individual Schools Budget (ISB)

- 5.4 It will be particularly important how the Council responds to School budgets, including the direction from Welsh Government to protect schools by requiring an increase of 0.9% for 2014/2015. This needs to be set in context against the overall decrease provided to this Council of -3.9%. School budgets currently account for some 32% (£149M) of the Council's overall budget.

5.5 Council Tax Levels

- 5.6 As is the case every year in respect of Council Tax levels, the Council will have due regard to the level of increase and the ability of residents to pay, but it also has to balance this against the need to fund important services. This is particularly important when viewed against significant cuts in revenue funding made available from Welsh Government.

- 5.7 The Local Council Tax Reduction Scheme (CTRS), a replacement for Council Tax Benefit, which was introduced in 2013/14, will continue on the same basis into 2014/15. The same basis in this case being, full entitlement for all eligible claimants within a national framework, and disappointingly, the same level of funding as that provided in 2013/14. Costs therefore associated with Council Tax uplifts and increased caseloads (likely as the effects of wider Welfare Reforms impact on our communities) are not covered. To illustrate the cost implications further, a 1% increase in Council Tax will generate an additional income for the Council of £865k (at current tax base levels), but will also cost £226k in additional CTRS requirements. It therefore follows that a 1% increase generates a net additional income of £639k, or stated another way, one quarter of any Council Tax increase is lost to support the increased costs associated with the Welsh Governments CTRS.

- 5.8 The Minister has indicated within the provisional settlement that a review is to be commissioned to consider options for a longer term solution to provide an equitable and sustainable scheme within current available funding for 2015/16 onwards.

5.9 Consultation

- 5.10 As per paragraph 4.1 above, Members have already agreed to consult on a number of service change proposals at the Cabinet meeting held on the 21st October 2013.

- 5.11 As well as consulting on specific service change proposals, the Council is also keen to consult with the public and other interested stakeholders on its general budget strategy. This includes consideration of potential council tax levels, where any scarce resources should be targeted and to invite ideas for delivering efficiency and other cost savings. The initial general budget strategy consultation will take place at the start of December and will inform the budget strategy proposals that will be formulated early in the New Year. The consultation will include engagement with the public, the Council's Scrutiny Committees and other key stakeholder groups.

6.0 MEDIUM TERM FINANCIAL PLANNING IMPLICATIONS

- 6.1 Whilst inevitably the primary focus is on setting out an annual budget strategy and required Council Tax levels for the forthcoming financial year, the medium term service planning emphasis has been a cornerstone of robust financial management at this Council.
- 6.2 Whilst the further into the future you project, the less certain some of the projections become, it is my present view that a budget gap of approaching £70M is the position we face over the next four years. This is a significant budget gap that will only be addressed by a systematic review of **all** services and identifying the business cases for change as appropriate, whilst also taking careful consideration of the guiding principles set out in paragraph 5.1 (k) above.
- 6.3 In order to reduce the base budget going forward, key decisions will be required now. Phase 1 proposals are now subject to formal consultation (www.rctcbc.gov.uk/servicechanges1) and further phases of proposals will be considered shortly. Again, these will be subject to full consultation that will be over and above the consultation for Phase 1 Service Changes and the general budget strategy consultation requirements.
- 6.4 The medium term pressure on public finances is not likely to improve into the foreseeable future. The Institute for Fiscal Studies recently produced a report¹ predicting that the Welsh Government is likely to have between 14% and 17% less to spend in 2017/18 than it had in 2010/11. Beyond 2017/18, the position is more uncertain given decisions that the UK Government would need to make on its spending plans, but the scenarios all point to reduced budgets past 2020.

7.0 CONCLUSIONS

- 7.1 The Minister for Local Government and Government Business announced the provisional 2014/2015 local government settlement on the 16th October 2013.

¹ Scenarios For The Welsh Government Budget to 2025 / 26 - Institute For Fiscal Studies, September 2013

- 7.2 The provisional settlement provides an actual decrease in revenue funding for the Council of -3.9%, and a reduction in capital support of -1.1%.
- 7.3 It is evident from the provisional settlement and the financial pressures impacting on the Council at this time that the preparation of the 2014/2015 budget will be the most difficult to construct in its history. The Public Sector is facing a sustained period of reduced resources and it will take all of the skills and positive direction of Members and officers of the Council to set a budget that both maintains, as much as possible, key services and jobs as well as ensuring the ongoing financial stability of the Council.
- 7.4 The Cabinet will review the feedback we receive from the initial general budget strategy consultation and then, with the Council's Corporate Management Team use this and the data in the Medium Term Financial Plan to produce a draft budget that can be used to consult upon during January 2014.

APPENDIX 1



Llywodraeth Cymru
Welsh Government

**WRITTEN STATEMENT BY THE
WELSH GOVERNMENT**

Title: Provisional Local Government Settlement 2014-15

Date: 16 October 2013

**By: Lesley Griffiths AM
Minister for Local Government and Government Business**

Today I am publishing my proposals for the funding of Local Government in Wales for 2014-15. This includes details of the provisional allocations of the core unhypothecated funding each Unitary Authority may expect to receive for the forthcoming financial year. The allocations in respect of 2014-15 may be revised for the final Settlement to reflect more up-to-date tax-base and other relevant data, however, I am confident the information provides a robust basis for forward planning by Local Authorities.

Today's Settlement is delivered against an unprecedentedly challenging financial context, however, the Settlement continues to ensure an appropriate Settlement for Local Government in Wales to enable them to protect vital services in the face of severe funding pressures. As a consequence of UK Government decisions, by 2015-16, the Welsh Government budget will have been cut by £1.7 billion in real terms since 2010-11. Whilst Welsh Government has consistently achieved a better outcome for Local Authorities here compared

to England, I acknowledge this is an extremely challenging Settlement. However, the people of Wales will not understand if we focus on what cannot be done for the want of resource, when they would expect us to be focused on ensuring better services and outcomes for such a substantial investment. That is my expectation too. The substantial funding, over £4bn, which I am making available for Local Government in Wales, must be spent wisely in order to support stronger and more effective delivery of public services.

Since I took over this portfolio in March, I have been clear about the future financial reality facing Local Government in Wales. In shaping this Settlement, I have worked hard to increase flexibility, achieve fairness and provide additional support to help Local Authorities manage the challenges ahead. The decisions I have taken reflect the value the Welsh Government places on the wide variety of services provided by Local Authorities. The focus now needs to be on intensifying efforts to continue to achieve transformational change to sustain these services and deliver the best outcomes for individuals across Wales.

I propose to set the overall general revenue funding for Local Government in 2014-15 at £4.26 billion. This incorporates the transfer in of £39.3 million of specific grant funding into the Settlement. The funding announced today represents a decrease of 3.5% (£153 million) compared with 2013-14, when adjusted for transfers.

Also included within this year's Settlement is an additional £4 million to support the Local Government Borrowing Initiative for Highways Improvement.

Despite the reductions to the Welsh Block Grant since the 2010 Spending Review, Welsh Government has maintained funding support for Local Authorities in Wales over the past three years in cash terms. This was protected to enable Local Government to prepare for and invest in transforming the delivery of services in expectation of tougher times ahead.

Whilst today's Settlement represents a reduction in funding compared with 2013-14, it still reflects a balanced outcome for Local Government in Wales, set

against the constraints imposed on our budget by the UK Government. It continues to represent a significantly better outcome for Local Authorities in Wales compared to the reductions faced by their counterparts in England. The Institute for Fiscal Studies¹ (IFS) has identified in 2013-14, the total Welsh Block was 9.4% lower in real terms than in 2010-11 (after adjusting for transfers). In comparison, the Welsh Government has prioritised funding for Local Government, implementing a real terms reduction of half of that experienced by Local Authorities in England, 4.5% over the period 2010-11 to 2013-14.

Indicative allocations for 2015-16

I am also publishing today indicative figures for 2015-16. These show a further 1.55% decrease on the 2014-15 funding. These figures are indicative and subject to change as a result of the potential of further UK budget revisions.

Protection for schools

The Settlement reflects the Welsh Government's commitment to protect schools funding in order to ensure the delivery of the best outcomes for Welsh children. The Revenue Settlement, therefore, includes the resources necessary to contribute to a 1% protection above the change in the Welsh Government's Budget.

For 2014-15, this commitment provides an additional £16 million in total. This uplift is in addition to the provision of over £60 million for education protection over the three years up until 2013-14.

Without this commitment, the decrease in the Settlement announced today and over the past three years would have been greater. In these exceptionally challenging times, this funding has provided and will continue to provide, vital resources for local services and ensure we continue to deliver the best outcomes for our children

School Improvement Services

I am pleased the Minister for Education and Skills has recently negotiated an agreement with Local Government to deliver a new model of regional working in

relation to school improvement services, whilst still providing funding for this through the Revenue Support Grant. This enables Authorities to deliver on their commitments to support regional improvement services whilst retaining flexibility within their overall budget.

Transfers

This year's announcement continues our commitment to Local Government to reduce the proportion of overall funding which is provided as specific grants. Included within the RSG for 2014-15, is £39.3 million of funding previously provided through specific grants. From my own portfolio, I have decided to de-hypothecate over £30 million previously identified for Private Finance Initiative (PFI) and the Public Facilities Grant. This means over this Assembly term £145m has been transferred into the Revenue Settlement.

By providing this funding through the RSG, I aim to give Local Authorities greater flexibility in managing their resources to support them in making decisions about the prioritisation of resources. Transferring these grants into the RSG will also ensure funding can be used to support frontline delivery of services rather than diverting to unnecessary administration. I am also commissioning a review, in partnership with Local Government, of the remaining specific grants. The review will consider how best to ensure funding is used for its intended purpose, whilst ensuring administration and overheads are minimised.

Also transferring into the Settlement for 2014-15, is an additional £3.2 million in relation to the First Steps Improvement Package and £5.2 million for the administration of Council Tax Reduction Schemes. This was previously paid as part of the complicated grant subsidy provided by the Department for Work and Pensions for administering Council Tax Benefit and Housing Benefit.

Council Tax

I am distributing all the available funding through the Settlement for the benefit of all Local Authorities and the people of Wales. In setting council tax levels, I expect Authorities to ensure they are able to sustain local services and

implement the protection we are providing for school. However, I also expect them to balance this with considering the pressures on the finances of hard-pressed households. It will be for each Local Authority to justify its decision on council tax to its citizens.

In enabling Local Authorities to make local decisions about council tax, I am offering them flexibilities in managing their budgets which are not available to their counterparts in England where restrictive freezes apply. However, I have made it very clear I am prepared to use capping powers available to me in the event of excessive increases.

Support for Council Tax

Following the abolition of Council Tax Benefit by the UK Coalition Government, Welsh Government has decided to maintain entitlements under the Council Tax Reduction Scheme. In November, I will bring forward Regulations which place a duty on Local Authorities to introduce Council Tax Reduction Schemes for 2014-15, which maintain full entitlements for all eligible claimants and retains the national framework scheme we introduced last year. In line with this intention, I am supporting Local Government to deliver the scheme by distributing £244 million within the settlement. This reflects the cost of the scheme when it was first established but means Local Authorities must take account of any additional costs in making their decisions about council tax levels for 2014-15. A further £5.2 million is being included in the Settlement for the administration of Council Tax Reduction Schemes. Given the on-going shortfall and the continuing pressure on our budgets, I have also commissioned a review looking at our options for a longer-term solution which will provide an equitable and sustainable scheme within the available funding to be implemented from 2015-16.

Damping

To mitigate the year-on-year impact on any individual Authority, I intend to apply a damping mechanism within the Settlement. As agreed through the consultative process for developing the Settlement formula, funding relating to the Local Government Borrowing Initiative and the Private Finance Initiative has

been excluded from the damping calculation process. These elements are used to fund commitments already agreed with Local Authorities.

The damping threshold I have set will mean no Authority will experience a reduction of more than 4.75% on their 2013-14 allocations, when adjusted for transfers. Funding for the two components outlined above is provided to Authorities in addition to this threshold. Overall, this means no Authority will experience a reduction of more than 4.6%, when adjusted for transfers.

Individual Authority allocations

Table 1 sets out the distribution of Aggregate External Finance (which includes Revenue Support Grant and re-distributed Non Domestic Rates) between the 22 Authorities for 2014-15.

Capital funding

As a result of the reductions in the capital budget delegated to us by the UK Government, capital allocations for Local Government continue to present challenges. However, the capital funding for 2014-15 will represent a better Settlement for Local Authorities than was indicated last year.

Consultation

In announcing details of the Settlement today, I initiate the start of a 5-week period of consultation which will conclude on 20 November 2013. During the consultation period, I will consider whether there are further flexibilities I can offer Local Government as part of the final Settlement to help them manage their budgets in 2014-15.

Conclusion

I am putting forward this provisional Settlement for consultation. In doing so, I acknowledge this is a challenging Settlement. However, it is one where I have worked hard to ensure the best possible outcome for Local Government within the funding constraints we face. The focus now needs to be on maintaining quality services that deliver strong outcomes for the people of Wales, through more efficient, innovative and collaborative ways of working. Today's provisional

Settlement underlines that Welsh Government is committed to working alongside Local Government to manage the challenges ahead and to continue to deliver for the people of Wales.

Notes:

¹ “*Scenarios for the Welsh Government Budget to 2025-26*, Institute for Fiscal Studies Report R83, available at: <http://www.ifs.org.uk/publications/6867>

(Word count 1,840)

Table 1 – 2014-15 Provisional Settlement: comparison between the 2013-14 adjusted for transfers AEF and the 2014-15 provisional AEF

Unitary Authority	2013-14 final AEF (adjusted for transfers)	2014-15 Provisional AEF (including CTRS)	Percentage change on 2013- 14	£,000s	Of which Council Tax Reduction Scheme (for information)	£,000s
				Rank		Percentage share
Isle of Anglesey	100,338	96,326	-4.0%	16	5,154	2.1%
Gwynedd	182,089	174,621	-4.1%	17	8,961	3.7%
Conwy	163,501	157,567	-3.6%	11	8,895	3.6%
Denbighshire	152,103	145,080	-4.6%	22	9,266	3.8%
Flintshire	200,057	192,873	-3.6%	10	9,924	4.1%
Wrexham	181,426	175,110	-3.5%	8	10,016	4.1%
Powys	190,885	182,169	-4.6%	20	8,098	3.3%
Ceredigion	108,673	103,708	-4.6%	21	4,738	1.9%
Pembrokeshire	173,253	166,705	-3.8%	12	7,133	2.9%
Carmarthenshire	271,406	260,709	-3.9%	15	14,248	5.8%
Swansea	328,226	317,932	-3.1%	6	18,883	7.7%
Neath Port Talbot	217,937	209,496	-3.9%	14	15,579	6.4%
Bridgend	200,328	194,679	-2.8%	3	12,551	5.1%
The Vale Of Glamorgan	165,202	157,774	-4.5%	19	8,722	3.6%
Rhondda Cynon Taf	379,103	366,599	-3.3%	7	21,960	9.0%
Merthyr Tydfil	93,269	91,193	-2.2%	2	5,789	2.4%
Caerphilly	280,749	272,285	-3.0%	5	13,514	5.5%
Blaenau Gwent	117,336	112,834	-3.8%	13	8,351	3.4%
Torfaen	140,175	135,225	-3.5%	9	8,030	3.3%
Monmouthshire	101,926	97,472	-4.4%	18	6,044	2.5%
Newport	217,197	214,608	-1.2%	1	10,092	4.1%
Cardiff	447,832	435,043	-2.9%	4	28,053	11.5%
Total Unitary Authorities	4,413,012	4,260,009	-3.5%		244,000	100%