

THE VALE OF GLAMORGAN COUNCIL

CABINET: 22ND JANUARY, 2018

REFERENCE FROM CORPORATE PERFORMANCE AND RESOURCES
SCRUTINY COMMITTEE: 14TH DECEMBER, 2017

“558 INITIAL REVENUE BUDGET PROPOSALS 2018/19 (MD) –

The Council’s Scrutiny Committees had previously considered the above proposals at its meetings held on the following dates:

- Environment and Regeneration Scrutiny Committee – 30th November, 2017
- Healthy Living and Social Care Scrutiny Committee – 4th December, 2017
- Homes and Safe Communities Scrutiny Committee – 6th December, 2017
- Learning and Culture Scrutiny Committee – 11th December, 2017.

Details of each of the Scrutiny Committees’ recommendations if made on the Initial Revenue Budget Proposals were included in the agenda with the exception of the recommendation(s) of the Learning and Culture Scrutiny Committee which were tabled at the meeting. No recommendations were made by the Homes and Safe Communities Scrutiny Committee on the above budget proposals.

The following references were considered as part of the Committee’s wider consideration of the Initial Revenue Budget proposals:

Environment and Regeneration Scrutiny Committee recommended –

“..... With regard to the adverse variance on the Waste Management budget and the pressures within that service area, a Member raised concern in relation to the number of new developments that were being established in and around the Vale and that Section 106 funding should be made available for services such as Waste Management due to the number of new houses that were coming into the area and the requirement for them to be serviced by the department.

With reference to the Reshaping Services savings target and the need to work with Town and Community Councils, a Member raised the issue of the possibility of public conveniences being transferred to or working in conjunction with Town and Community Councils, with the suggestion that a further report in relation to the provision for the Vale of Glamorgan be presented to a future meeting of the Committee.

Following Members concerns in respect of the cost pressures for the service area, reference was made to a recent report which had been presented to the Corporate Performance and Resources Scrutiny Committee in relation to income generation.

Although it was accepted that some of the issues contained within that report were not within the remit of this Committee, it was subsequently

RECOMMENDED –

(1) *T H A T*

(2) *T H A T*

(3) *T H A T Corporate Performance and Resources be apprised of the comments made at the meeting, as outlined above, together with the Committee's recommendations.*

Reason for decisions

(1-3) To apprise Members and to consider options."

Healthy Living and Social Care Scrutiny Committee recommended –

"..... Members raised concern regarding the level of cost pressures with some noting that a significant increase in Council Tax may be required to deal with the pressures. Although there appeared to be significant reserves listed, the Operational Manager advised that if they were used, they could only be used for one off situations and could not be used year on year.

In recognising that it was difficult to streamline further, Members asked whether further pressure should be placed on WG in view of the requirements under the Wellbeing Act. The Cabinet Member, with permission to speak, advised that representations had already been made to WG and all Councils were facing similar pressures. He stated that he had also been disappointed that there had been no further funding in the UK budget to help Welsh Councils. Following a query as to whether the Health Board could be encouraged to assist the process, the Cabinet Member referred to the difficulties also being faced by the Health Board.

In recognising that a significant part of the overspend was around commissioning care it was noted that it was difficult for the department as it had statutory responsibilities to assess and meet people's needs, as not meeting their needs could have significant dire consequences. The Director also advised that although savings were increasingly difficult to find, the department was committed to try to find as many savings as possible and would also look to considering new models of care where it would be safe and prudent to do so. Good practice was also taken into account and the Association of Directors of Social Services Cymru offered support where possible. Officers regularly engaged with other Local Authorities and providers and also utilised their own personal networks, in order to be innovative with their approaches. The Vale had also been recognised for its innovative approach in a number of areas such as outcome based commissioning.

A Member queried whether there would be an opportunity for a number of organisations and professionals to have a wide debate on the subject in order to put

forward suggestions, recognising there were considerable complex care cases involved.

Following the response to the Chairman's question as to whether the savings identified were achievable, the Director advised that in his view they were achievable but it would be difficult, with Members accepting that there was a £1m overspend for Adult Services and the budget was extremely volatile. The budget was also under pressure from significant demographic growth and an increase in the complexity of cases as well as pressure from care providers to increase fees as a result of the National Living Wage. Although understanding that the department was considering every aspect and that it had the Committee's support, the Chairman felt that the significant complex cases and the issues facing the department needed to be raised throughout the Council in order that all Council Members could recognise the issues the department was facing, following which it was subsequently

RECOMMENDED –

(1) *T H A T*

(2) *T H A T the comments of the Scrutiny Committee be referred to the Corporate Performance and Resources Scrutiny Committee highlighting the issues facing the Department in reference to the £1m overspend for Adult Services with the request that the Corporate Performance and Resources Scrutiny Committee consider the matter with a degree of urgency.*

Reasons for recommendations

(1) *.....*

(2) *To advise Corporate Performance and Resources Scrutiny Committee as the lead Scrutiny Committee of the issues facing the Social Services Directorate in particular with regard to the £1m overspend on Adult Services forecast.”*

Learning and Culture Scrutiny Committee recommended -

“..... The Committee then discussed and agreed a proposal for Cabinet to consider funding all cost pressures, as outlined within Appendix 3 to the report. For 2018/19, the identified cost pressures being:

- *£1.362m - for Teaching/Non-Teaching Pay Award.*
- *£29k - for non-pay inflation.*
- *£868k - for demographic growth, based on 181 additional nursery/primary pupils and 62 additional secondary pupils.*
- *£701k - for Additional Learning Need inter Authority recoupment – due to a reduction in income as other Local Authorities now have their own provision and because there was a reduced number of places available as a result of increased demand for Vale pupils.*

- £159k - for Additional Learning Need complex needs placements – due to a requirement to purchase places for an increasing number of children presenting with complex needs.

The total projected cost of these pressures, for 2018/19, was in the region of £3.119m. This was however offset by less pressures to be funded by schools to the tune of £824k. This left the total remaining cost pressure for next year to be £2.295m.

There being no further discussion, it was subsequently

RECOMMENDED –

(1) *T H A T*

(2) *T H A T* Cabinet, via a reference to the Corporate Performance and Resources Scrutiny Committee, be requested to give serious consideration to funding all the cost pressures identified for the Learning & Skills Directorate, as detailed in Appendix 3 to the report.

Reasons for recommendations

(1)

(2) *In order to advise Cabinet of the importance and necessity to fund cost pressures, which were already and would continue to have an adverse impact on the budget of the Learning and Skills Directorate.”*

Corporate Performance and Resources Scrutiny Committee was informed by the Head of Finance that the Council was required under statute to fix the level of Council Tax for 2018/19 by 11th March, 2018 and in order to do so, would have to agree a balanced revenue budget by the same date. To be in a position to meet the statutory deadlines and the requirements for consultation set out in the Council’s Constitution, much of the work on quantifying the resource requirements of individual services needed to be carried out before the final RSG settlement was notified to the Council.

Appendix 1 to the report set out the amended budget for 2017/18, together with the necessary adjustments to be made to the original budget.

Asset Rents, International Accounting Standard (IAS) 19, Transfers and Recharges – These adjustments had no overall effect on the net budget of the Council. These were accounting adjustments largely outside the control of services. They reflected charges for the use of capital assets, changes to inter-service recharges and transfers and pensions adjustments to comply with accounting standards.

The following table compared the amended budget with the projected outturn for 2017/18. Services were anticipating drawing down from reserves this year with the main areas outlined in the table below:

Directorate / Service	2017/18 Amended Budget £'000	2017/18 Projected Outturn £'000	Variance (+)Favourable (-) Adverse £'000
Learning and Skills			
Schools	82,957	82,957	0
Strategy, Culture, Community Learning & Resources	11,014	11,004	+10
Strategy and Regulation	235	201	+34
Achievement for All	3,840	4,187	-347
School Improvement	1,102	1,054	+48
Additional Saving to be Found	0	(255)	+255
Social Services			
Children and Young People	15,168	15,168	0
Adult Services	41,838	42,838	-1,000
Resource Management & Safeguarding	270	270	0
Youth Offending Service	697	697	0
Transfer from Reserves	0	(1,000)	+1,000
Environment and Housing			
Visible Services	20,211	20,711	-500
Transfer from Reserves	0	(500)	+500
Transportation	4,841	4,841	0
Building Services	0	0	0
Regulatory Services	2,169	2,169	0
Council Fund Housing	1,257	1,257	0
Managing Director & Resources			
Resources	1,199	1,199	0
Regeneration	2,059	2,059	0
Development Management	1,012	1,012	0
Private Housing	11,038	10,468	+570
General Policy	15,513	12,083	+3,430
Transfer to Reserves	0	4,000	-4,000
Total	216,420	216,420	0
Met from General Reserve	(700)	(700)	0
Grand Total	215,720	215,720	0

The headline budget forecast for each service area was set out below:

- Learning and Skills
 - The forecast position for the Learning and Skills non-school budget was for an overspend of £879,000 which would be partially met by drawing down £624,000 from the Directorate's reserves.
- Social Services
 - The forecast for Social Services at year end was for a potential overspend of circa £1m due to pressures on the Community Care budget
- Environment and Housing
 - The forecast for the service was projecting within target at year end with an anticipated use of reserves which would be met by drawing down £200,000 from the Visible Services Reserve from the underspend in 2016/17 to offset any pressures in 2017/18 within Waste Management.
- Managing Director and Resources
 - The projected outturn for the above service was for a favourable variance of £570,000.
- General Policy
 - The projected outturn for General Policy was for a favourable variance of £3.43m when compared to the amended budget.

In terms of budget savings for 2017/18, it was noted that as part of the Final Revenue Budget proposals for 2017/18, a savings target of £4.017m had been set for the Council. Set out at Appendix 2 was a statement detailing each saving target with an update of progress. It was currently projected that there would be shortfall of £784,000 in the achievement of this year's target. The exact position in regard to savings targets in relation to Social Services, Environment and Housing and the Managing Director and Resources was set out in paragraph 36 to 38 of the report.

Having regard to the above, the Budget Strategy for 2018/19 outlined that in order to establish a baseline, services should prepare Initial Revenue Budgets based on the cost of providing the current level of service and approved policy decisions, including the existing savings target. This would mean the cost of price increases and any allowable pay awards should be included as advised by the Head of Finance.

Increases to budgets approved during the course of a financial year could restrict the freedom the Council had to allocate its resources to priorities during the following budget cycle when it was aware of all the competing demands. Consequently:

- Supplementary estimates would only increase the base budget if Council had given specific approval to this effect. Increases met by virement within a year would not be treated as committed growth;
- Directors should find the cost of increments and staff changes from their base budget unless the relevant specific approval had been given for additional funding;
- The effect of replacing grant from outside bodies that had discontinued would not be treated as committed growth. In addition, before any project or initiative that was to be met either wholly or partly by way of grant may proceed, the exit strategy must be approved;

- Certain items of unavoidable committed growth would continue and these included the effect of interest changes and the financing cost of the Capital Programme, increases in taxes, increases in levies and precepts charged by outside bodies and changes to housing benefits net expenditure;
- Services would be expected to achieve savings already approved by Cabinet as part of the 2017/18 final budget proposals and Directors were asked to continue work on achieving their Reshaping Services savings targets;
- It was envisaged that the costs of service development would need to be met from within the respective Directorates.

Having regard to the above, it was therefore proposed that in respect of the 2018/19 Budget Process that Directors be instructed to prepare initial revenue budgets in accordance with a timetable agreed by the Head of Finance. Preparation should be on the following basis:

- Capital charges, central accommodation costs and central support costs to be estimated centrally;
- Services to prepare baseline budgets on current service levels as set out in the 2017/18 Final Revenue Budget report;
- Budgets to be broken down subjectively and objectively in as much detail as deemed appropriate by the Head of Finance;
- Budget reports to include revised estimates for 2017/18;
- Full account to be taken of the revenue costs, other than debt charges, of new capital schemes coming into use;
- Minimum savings targets to be met initially as detailed in the 2017/18 Final Revenue Budget report. Any savings made directly by services over and above individual service targets to count towards future saving targets or to meet unavoidable service cost pressures;
- Directors would continue to draw up Service Plans that set out the aims and objectives for the service and any possible future developments and efficiencies;
- As stated previously, it was expected that the revenue costs of service development would need to be met from within the respective services (in particular, from the savings made). As such, no revenue bids were initially to be made. However, services may still be asked to identify and prioritise any burgeoning revenue cost pressures for consideration.

The Council's Medium Term Financial Plan (MTFP) 2017/18 to 2020/21 had been previously approved by Cabinet on 18th September, 2017 and at that time it assumed a reduction in WG funding of 3% for the years 2018/19, 2019/20 and 2020/21. This would result in the requirement to find savings of £20.941m over this period, with £9.326m currently having been identified. There were therefore further savings to be identified of £11.615m over the three year period. The latest Plan factored in a managed level of cost pressures, a notional increase in Council Tax of 2.6% each year, price inflation of 0.5% and annual pay awards of 1.6% each year from 2018/19.

To ensure that the budget set for 2018/19 continued to address the priorities of Vale residents and the Council's service users, the budget setting process would take into account the results of the consultation on the Well Being Plan which was currently

being undertaken. In addition, consultation with Town and Community Councils, the Voluntary Sector and the Council's Public Service Board partners would also take place, in order to inform the final budget proposals.

The Council's provisional settlement was announced by WG on 10th October, 2017.

WG advised the Council that its provisional Standard Spending Assessment (SSA) for 2018/19 was £221.296m. SSA represented WG's view of the relative resources needed to provide a standard level of service in each Local Authority in Wales and its primary use was to allocate RSG to these Authorities.

The Council would receive from WG Revenue Support Grant of £111.174m and a share of the Non- Domestic Rates (NDR) of £40.822m. Together these figures constituted the Council's provisional Aggregate External Finance (AEF) of £151.996m. WG reported that this represented a cash reduction of 0.4% (£670,000) for 2018/19. However, when taking into account new responsibilities, this actually represented a cash reduction of 0.56% (£859,000). This was a smaller reduction than the 3% (£4.486m) projected in the MTFP, although it did not take into account inflation.

Additional funding was provided through the RSG for a new responsibility as follows:

- Homelessness Prevention – £189,000.

There were transfers into the RSG settlement for 2018/19 totalling £3.112m as follows:

- Waste Element of Single Revenue Grant : £1.344m
- Welsh Independent Living Grant : £691,000
- Social Care Workforce Grant : £704,000
- Looked After Children : £262,000
- Carers' Respite Care Grant : £111,000.

As part of the settlement, WG had also provided an indicative figure for the change in AEF for 2019/20 which was a further reduction of 1.5%.

The value of grant funding to be made available to Councils on an all Wales level had been received from WG. The waste element of the Environment and Sustainable Development Single Revenue Grant had been transferred into the RSG. When comparing the level of the grant for 2017/18 to the proposed grant for 2018/19 plus the amount transferred into the RSG there was a reduction in funding of 10%. The Communities First grant would cease, but would be replaced with the Communities First Legacy and Communities Work Plus grants which currently showed around a 20% reduction.

As part of these initial proposals, it had been necessary to revisit the cost pressures facing services in order to build up a complete and up to date picture of the financial position of the Council and an updated list was shown in Appendix 3 to the report. These were not shown in any order of priority. The final proposal for the increase in

the National Living Wage from 1st April, 2018 has yet to be announced. An increase would have a significant effect on services the Council commissions from external organisations. The main area affected was Social Services and a cost pressure had been included to reflect this.

The Head of Finance indicated that the details of the proposed areas for savings for 2018/19 to 2019/20 were set out in Appendix 4. The savings did not include the cost of any potential redundancies. Further work was ongoing to identify future projects that would realise savings for the Council. However, she indicated that Members had an opportunity to comment on proposed savings and whether these were appropriate and to identify other saving suggestions.

A summary of the overall base budget for 2018/19 was attached at Appendix 5 to the report. This had been derived by adjusting the 2017/18 budget for items such as inflation and unavoidable growth, but did not include identified cost pressures or savings. These were shown as a note to the table and were further detailed in Appendices 3 and 4 respectively. Adjustments shown included the following:

- Asset Rents, International Accounting Standard (IAS) 19 – Related to accounting items outside the control of services. They reflected charges to services for the use of capital assets and adjustments in respect of pensions to comply with accounting standards.
- Recharges / Transfers – Related to changes in inter-service and inter Directorate recharges. The budget transfers that related to the reorganisation of the Environment and Housing Directorate were shown in a separate column.
- Budget Adjustment – There was a £320,000 increase in budget due to the change in the use of the Social Services Fund in 2018/19.
- Inflation – The total figure for inflation of £1.707m related to general price increases at 0.5% (£426,000) and for pay awards (£1.281m). At present the final proposals for pay awards for 2018/19 had yet to be agreed and therefore the figures had been included at the same level as those included in the MTFP, which was an average of 1.6%. Inflation was yet to be allocated to services pending the final agreement of pay inflation and the level and approach for allocating general price inflation. These figures did not include schools inflation which was included in Appendix 3 as a cost pressure.
- Committed Growth – This totalled £4.001m and related to the £700,000 reduction in use of the Council Fund. It also included the transfers into the RSG of £3.112m and WG funding provided for new responsibilities of £189,000 as previously detailed.

Once the base budget for 2018/19 had been established, it must then be compared to the funding available to identify the extent of any shortfall. With a projected AEF of £151.996m and Council Tax at a current level of £66.166m, total available funding would be £218.162m. When compared to a base budget of £221.748m, this would result in a funding deficit for 2018/19 of £3.586m.

If all identified cost pressures were funded, this would increase the shortfall to £10.636m. If all proposed savings were achieved, the shortfall would be reduced to

£3.910m. As WG had provided an indicative reduction for 2019/20 of 1.5% the impact of this is also shown in the table below.

Projected Budget Shortfall	2018/19	2019/20
	£000	£000
Funding Available		
Provisional AEF	151,996	149,716
Council Tax (Assumes no increase)	66,166	66,166
Projected Funding Available	218,162	215,882
Base Budget	221,748	220,201
Projected Shortfall Against Base Budget	3,586	4,319
Assume all Cost Pressures Funded	7,050	4,483
Projected Shortfall with Cost Pressures funded	10,636	8,802
Assume all Savings Achieved	(6,726)	(2,600)
Projected Shortfall	3,910	6,202

This shortfall was based on the assumption that the savings target of £6.726m set for 2018/19 would be achieved in full. However, a high proportion of these savings related to Reshaping Services schemes which reflected a new way of working and therefore required a lengthy period of time to implement. While all services were working towards achieving their 2018/19 targets, not all savings may be achieved in full from 1st April, 2018 and therefore the potential for reprofiling savings would need to be assessed when setting the budget for 2018/19.

The above projections included an assumed pay award for 2018/19 and the possible impact of the National Living Wage which averaged an increase of 1.6%. The current assumptions would be assessed as part of the Final Budget Proposals report when further information was available.

Further work would be undertaken by the Budget Working Group (BWG) in order to achieve a balanced budget for the final budget proposals for 2018/19. This would include a review of the use of reserves, a possible increase in Council Tax, a review of all cost pressures, possible changes to the approved saving targets, a review of the inflation assumptions and the current financial strategies. In order to provide options for balancing the 2018/19 budget, a sum of £2m would be transferred into the Council Fund, from the projected underspend in 2017/18, the use of which would be considered as part of the final budget proposals. The BWG would consider the results of the budget engagement process in determining priorities for future savings and service delivery. The BWG would also ensure that budget proposals considered the requirements of the Well-being of Future Generations Act and the Council's four well-being outcomes as detailed in the Corporate Plan. They would also ensure that the budget proposals reflected the five ways of working which were:

- Looking to the long term: The budget proposals were a means of planning for the future and should take a strategic approach to ensure services were sustainable and that future need and demand for services was understood;
- Taking an integrated approach: The budget proposals should consider and encourage ways of working with partners;
- Involving the population in decisions : As part of the budget proposal process there would be engagement with residents, customers and partners;
- Working in a collaborative way: The budget proposals should recognise that more could be achieved and better services could be provided by collaboration and this way of working in the future should be encouraged;
- Understanding the root cause of issues and preventing them: The budget process was proactive and would allow an understanding of the financial position so that issues could be tackled at the source during the process.

The Council Fund Reserve as at 31st March, 2018 was projected to stand at £10.609m, after the £2m transfer in, with no further reduction approved.

Appendix 6 to the report set out the Authority's actual reserves as at 31st March, 2017 and showed the estimated reserves balance for each year up to 31st March, 2021. The Council was forecasting the use of general and specific reserves, excluding HRA and schools, totalling around £36.718m from 1st April, 2017 onwards, which represented approximately 50% of the balance as at 31st March, 2017. These levels of reserves were still deemed to be adequate as known risks were largely covered and the Council Fund Reserve did not fall below £7m.

The Council was planning to use a considerable amount of its specific reserves over the coming years, however, as reserves were a non-recurring means of funding, they could only be used as part of a specific financial strategy. The use of all reserves would be reviewed further, by the BWG, as part of the final budget setting process.

Not all the identified savings related to staffing, however, the impact on staffing levels could be a potential reduction of up to 100 Full Time Equivalents (FTE).

A Member referred to the budget shortfall and enquired of the options available to reduce the same. The Head of Finance referred to the possible means of achieving a reduction by the use of reserves, an increase in Council Tax, the re-examination of the cost pressures and consideration of increasing savings requirements by Service Directorates.

Another Member further referred to the cost pressures facing Learning and skills and enquired how these were calculated and referred specifically to cost pressure L3. The Head of Finance referred to school pupil population growth in the County and WG had provided some additional funding for this.

Discussion ensued with a number of Members raising concerns relating to the feasibility of achieving the proposed savings, the implications for the Council in regard to the proposed national pay award and its associated implications for the Council pay structure, the cost pressures faced by Social Services, Learning and

Skills and Environment and Housing as a result of demographic changes within the County and the ability of services to utilise specific reserves to offset respective cost pressures. Specific concern was also raised by the Committee relating to the reduction in specific grant funding before these were transferred into the Council's Revenue Support Grant. This was particular pertinent in regard to Waste Management where a reduction in grant support was circa 10%. The Chairman also referred to the shortfall in regional grants and suggested that the Cabinet be made aware of the Committee's concern around such reductions and take these into account when considering the final budget proposals.

Having given consideration to the report and taking account of the above, it was

RECOMMENDED –

- (1) T H A T the comments of the Environment and Regeneration Scrutiny Committee be noted and referred to the Cabinet for further consideration.
- (2) T H A T the comments of the Healthy Living and Social Care Scrutiny Committee be noted and referred to the Cabinet for further consideration.
- (3) T H A T the recommendations of the Learning and Culture Scrutiny Committee relating to the funding of all the service's cost pressures be noted and referred to the Cabinet for further consideration.
- (4) T H A T the Cabinet be made aware of this Scrutiny Committee's concerns relating to the proposed national pay award and its implications for the Council's pay structure, CPI inflation and its implications for cost pressures on the Council's various services and whether the savings identified within the report were deliverable within the stated timelines.
- (5) T H A T taking account of the Committee's concerns raised regarding the proposed national pay award, the Cabinet be requested to write to the National Employers Pay Body raising concerns relating to the proposed national pay settlement on the Council's budget and pay structure.

Reason for recommendations

(1-5) To respond to the Cabinet on their Initial Revenue Programme Proposals for 2017/18.”