

AGENDA ITEM NO.

ISLE OF ANGLESEY COUNTY COUNCIL	
Report to	EXECUTIVE COMMITTEE
Date	4 NOVEMBER 2013
Subject	UPDATED BUDGET STRATEGY AND INITIAL DRAFT REVENUE BUDGET 2014-15
Portfolio Holder(s)	COUNCILLOR H E JONES (FINANCE PORTFOLIO HOLDER)
Lead Officer(s)	HEAD OF FUNCTION (RESOURCES) AND SECTION 151 OFFICER
Contact Officer	CLARE WILLIAMS
Nature and reason for reporting:	
To enable the Executive to approve the budget assumptions and the effect of the provisional settlement.	

A – Introduction / Background / Issues		
B - Considerations		
C – Implications and Impacts		
1	Finance / Section 151	Author of the report
2	Legal / Monitoring Officer	
3	Human Resources	
4	Property Services (see notes – separate document)	
5	Information and Communications Technology (ICT)	
6	Equality (see notes – separate document)	
7	Anti-poverty and Social (see notes – separate document)	
8	Communication (see notes – separate document)	
9	Consultation (see notes – separate document)	
10	Economic	
11	Environmental (see notes – separate document)	
12	Crime and Disorder (see notes – separate document)	
13	Outcome Agreements	

CH - Summary
D - Recommendation
<ul style="list-style-type: none"> • The draft standstill budget should be adopted by the Executive as a basis for the 2014-15 revenue budget; • That the Executive should seek to make sufficient savings in 2014-15 to balance the revenue budget without use [of reserves] of general reserves; • That the Executive should plan to cover unavoidable costs of severance, or other one-off costs of delivering savings, from slippage on the current budget for cost of change and without the use of general reserves; • The Executive requests savings proposals from departments to be completed by 16 November 2013; • The Executive agree that management now arrange for voluntary redundancy to be offered across the Council, subject to usual controls and conditions.

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Job Title : Head of Function (Resources) and Section 151 Officer
Date: 21 October 2013

Appendices:

Background papers

1. BACKGROUND

1.1 Earlier Decisions

1.1.1 The Budget report to Executive in July updated the Medium Term Financial Revenue Strategy and assumptions for the 2014/15 budget. The report set out the budget gap based on the likely WG settlement and the protection of services. Executive approved the direction of travel and the recommendation to model 6.3% efficiencies across the Council to meet the budget gap. All Directorates were subsequently asked to develop proposals to find 6.3% savings options in preparation for the 2014-15 budget setting process on the basis that the 2014-15 Aggregate External Finance (AEF) would be as forecast.

1.1.2 The Budget and Strategy Statement presented to Executive on 15 July 2013 laid the following underlying principals in establishing the standstill budget:-

- Welsh Government funding to reduce by 4%;
- To adopt an intention to increase the Council Tax by 5%;
- Protection for schools of 1.27%;
- Cost increase and growth, inflation on pay 1%, non-pay 2.6%, energy 10%, non-grant income to grow by 5%;
- Demographic changes estimated at 2.25% £500k;
- Allowance for an increase in borrowing;
- Job Evaluation and Equal Pay;
- The 2013/14 budget included an investment in change of £1.5m. The proposals are to reduce this investment by £100k 2014/15, £300k 2015/16 and £500k in 2016/17.

The plan assumes savings proposals agreed in the 2013/14 budget will be achieved.

1.1.3 It has been assumed that there will be no use of general reserves to fund the revenue budget in 2014-15. A recommendation to use slippage on the current budget 2013-14 cost of change budget is being made.

1.2 Provisional Local Government Settlement

1.2.1 The Minister for Local Government and Communities announced the provisional local government settlement on 16 October 2013. Consultation has now begun and will close 20 November 2013.

1.2.2 The provisional settlement informs us of our likely AEF of £96.326m, which comprises of Revenue Support Grant (RSG) of £74.284m and Redistributed National Non Domestic Rates (NNDR) of £22.042m. There is expected to be further changes to the split between RSG and NNDR, but with no significant changes in the overall AEF.

1.2.3 The provisional settlement confirms a number of 'transfers in' to the settlement of specific grants funding as highlighted below.

1.2.4 In addition to these, there is a significant additional sum for the additional burden of Council Tax Reduction Scheme. Council Tax Reduction Scheme is the new scheme to replace Council Tax Benefit. The sum included in RSG (£5.154 million for Anglesey) has been calculated on the basis of past costs, reduced by 10%, as Council Tax Benefit claims figures vary over time.

1.2.5 The 'transfer in' has replaced a specific grant according to agreed formulae.

Transfers Out:

- None

Transfers In:

- Local Government Borrowing Initiative £371k.

1.2.6 The provisional settlement suggests a 4% reduction in AEF for Ynys Môn, and ranked 16th and below average in Wales and that there will be a floor mechanism. The decrease in the AEF is £4.012m after allowing for the above transfer in.

Changes in the settlement are caused by data changes in the formula. The updating of the figures within the formula also includes numbers of people and other data which measure the demand on the Authority's services. For these statistics, ultimately, it is the Authority's share of the Welsh total which determines whether it has done better or worse than the rest of Wales.

1.3 The Final Settlement

1.3.1 The Final Settlement is due on 5 December. There will be changes to reflect data changes in the formula.

2. REVENUE BUDGET 2014-15

2.1 Standstill Budget

2.1.1 Appendix A presents the initial draft high level standstill revenue budget for 2014-15. This takes the 2013-14 finalised budgets as the starting point and reflects budget movements throughout the year, grant transfers, staffing movements, inflation and committed changes.

2.1.2 The standstill budget has taken account of the factors described in 1.1.2 as per the Executive Budget Strategy Statement:

The Bank of England projection for August suggested inflation at 2.7% during 2014-15. The November projection shows a slightly higher rate. It should also be noted that certain factors such as energy have been consistently higher than general inflation for the last few years. A 10% allowance was put in the 2014-15 budgets as energy have announced a fresh round of price increases. This will, once again, need to be monitored carefully due to its volatility and unpredictability.

2.1.3 The standstill budget has also allowed for:

Loss of Specific Grant income. There is a reduction of specific grant and an allowance has been made of £100k in the budget.

Welfare Reform. An amount of £250k has been included for welfare reform and proposals for the use of this funding are being prepared by services.

Increase in capital financing. A net increase of £160k in revenue costs, have been included due to the requirement to borrow to fund capital programme and external debt.

2.1.4 Limited demographic changes have been applied. There is little change in pupil numbers for the year. Discussions are still on-going with Social Services on their demographic and demand figures and these are discussed as pressures later in the report.

2.1.6 The standstill budget assumes that the current year savings approved by Council and programmes included within the Transformation Programme Boards are achieved. Discussions are taking place within Social Care regarding the achievement of the savings proposals.

2.2 Risk and Contingencies

2.2.1 There are a number of key risks which the Authority faces in 2014-15 which may have an impact on its finances as the year progresses. Some of these risks cannot be quantified at this stage, and include but are not limited to:

- The localisation of Council Tax Reduction Scheme is the most significant financial risk in the coming years. This volatile area is difficult to predict and there are uncertainties around the level of support which should be awarded; the likelihood of collection and the ongoing cost of collection and recovery;
- Changes in benefits as a result of government housing benefit reforms. From 1st January 2012 new benefit rules were introduced and the plans for Universal Credit are well advanced. Changes so far include capping the amount of benefits individuals can claim and will undoubtedly mean pressures on our benefits and housing functions; Pay Award - as highlighted in Para 1.1.2, the budget strategy paper assumed that there could be a pay award in 2014-15 and recognised that this could be around 1%. In the light of more recent announcements it is possible that this could increase;

- Specific Grants - As this report is presented, there is currently very little detailed information on grant allocations for 2014-15. Any reductions in grant levels in 2013-14 will have to be managed by equivalent reductions in expenditure, either directly related to the grant or through other areas of the budget. The income budgets in respect of grants that have been transferred in as part of the provisional settlement have been stripped out of the budget, however, this has had a largely neutral effect as mentioned in section 1.2 above;
- The current activity in relation to the potential nuclear power station and the Enterprise Island Programme has been covered in previous budgets. It may be necessary to amend them from time to time and the pressures on the budgets are being reviewed;
- The base budget includes a budget for cost of change and this may be insufficient to deliver the Corporate Plan and projects considered by the Transformation Boards, including investment into ICT. The budget savings for 2015/16 are significant and investment into transforming the Council to achieve future year's savings and improve the quality of services is to be determined;
- The impact of potential current year budget pressures have not been reflected within the budget. Further work to identify potential budget pressures will be carried out between provisional and final budget announcements.

2.2.2 Often the uncertainty surrounding proposed budgets is because of a number of major contracts out to tender. This is due to the final value not being known until the tendering exercise is completed. There are only a small number of major contracts due for retendering in 2014-15 and this reduces the uncertainty.

2.2.3 The annual contingency budget for Job Evaluation and Employment Costs now stands at £1.3m i.e. 2% of the relevant pay bill. More work has now been undertaken on Job Evaluation and potential equal pay claims and the Pay and Grading Panel decided to proceed with the whole Council on Job Evaluation, and the financial modeling of the cost of Job Evaluation will commence shortly. A Project Plan has been drawn up with an expected timetable in place.

This is a key financial risk and it will require continual review as the Job Evaluation process is developed and methodology agreed. The Medium Term Financial Strategy includes an additional £1.3m from 2014-15 and a further £700k in the following year. Although reserves have been built up over a number of years, the outcome of this exercise is currently unknown and, given the varying experiences of other Authorities within the UK, is difficult to assess. The reserve will be insufficient to fund Equal Pay and Job Evaluation and an application to Welsh Government to Capitalise Equal Pay costs has been made and the Medium Term Financial Plan will be updated accordingly once a response from the application is received.

2.2.4 The budget also includes contingency of £180k for mainly one-off spend to support the performance and implementation activities.

2.3 Budget Gap

2.3.1 It is recommended that the draft standstill budget should be adopted by the Executive as a basis for the 2014-15 revenue budgets.

2.3.2 The Provisional Settlement figures do not include any possible changes to the tax base, the calculation of the tax base and reporting on this to the Executive will take place in November. Assuming the Council increases, Council Tax for 2014/15 by 5%, the affordable budget requirement is:

	£000
Aggregate External Finance	96,326
Council Tax	<u>29,250</u>
	<u>125,576</u>

2.3.3 The standstill budget, i.e. budget before any additional growth is considered. The budget gap at the draft initial standstill position is £7.774m.

2.3.4 The Budget Strategy report included a top level forecast showing a potential funding gap of £7.511m for 2014-15. This included £0.7m growth projection over and above demographic growth and protection for schools budgets. The budget gap position at standstill is now £7.774m, an increase of £263k on the budget gap reported in July. The main changes are:

- The impact of the provisional settlement after accounting for the transfer in of LGBI.

3. BUDGET STRATEGY

3.1 Efficiency Strategy

As part of the budget and service planning framework, an efficiency strategy is now being prepared, based on Annual Service Reviews and Transformation Programmes, and designed to obtain sustainable efficiency savings over the life of the new Council. These medium term savings are likely to cover:

- Better use of technology;
- Standardisation of systems;
- Procurement and commissioning;
- Internal collaboration and centralisation;
- Collaboration;
- Better use of assets;
- 21st Century schools;
- Enhancement of social care accommodation.

3.2 Revised Budget Projections for 2014-15 onwards

3.2.1 Taking account of the foregoing, the following table shows an updated three year budget projection:-

	2014-15	2015-16	2016-17
	£'000	£'000	£'000
Previous year's budget	128,084	125,576	125,427
Schools Protection	449	449	449
Inflation	3,241	3,151	3,062
Increase Income	-855	-855	-855
Demographic change	500	500	500
Financing Unsupported Borrowing	160	240	320
Salary & Grading review	1,300	700	700
Investing in change	-100	-300	-500
Contribution to balances	-500	0	0
Identified Pressures	0	0	0
New Priorities	1,071	1,000	1,000
Savings	0	0	0
Funding Gap	-7,774	-5,034	-3,519
Total	125,576	125,427	126,584
Funded by WG	96,326	94,714	94,335
Council Tax	29,250	30,713	32,249
	125,576	125,427	126,584

The funding figure is derived from the WG provisional settlement. However, this could change further with both the final settlement and future data changes and the current economic environment.

The projections for 2015-16 and 2016-17 have been taken from those presented in the Budget Strategy statement, updated for the latest AEF figures from the final settlement for 2015-16 with the same level of decrease projected for 2016-17. The Council Tax projections assume an annual increase in yield of 5%, although, in practice, this could be made up of an increase in tax base of 1% say, and an increase in the Council Tax rate of 4% should the housing market/sector pick up in the future.

3.2.2 The savings requirement has been treated as a balancing figure in this analysis. It is consistent with the top level analysis in the Budget Strategy report presented in July that savings totalling around £16.3 million will need to be made over the next three years, although the figures have reduced slightly for 2015-16 and 2016-17 with the revised assumptions but this should be treated with caution.

3.3 Savings Proposals

- 3.3.1** The need to make revenue savings on an unprecedented scale, not just for 2014-15 but for the foreseeable future, is of course the dominant issue of the budget strategy. The proposals that have been put forward to date by directorates are a mix of Savings, Efficiencies and Service Reductions.
- 3.3.2** The report to the Executive in July 2013 highlighted the level of savings needed to balance the budget. If Members choose to protect education in line with the Welsh Government expectations, then the Council will need to find efficiencies of at least 6% without growth pressures.
- 3.3.3** The savings targets will not necessarily be applied in an even pattern across all services, but will reflect choices and priorities as set out by the Executive. To facilitate those options, all services are currently working through proposals for 2014-15 and the following year to re-model service delivery in line with a reducing financial envelope.
- 3.3.4** The outcome of these deliberations will be discussed at the all Member workshop in November and further refined in preparation for consultation on proposals. The Council also consulted with the public earlier in the year on “making a difference” and the results of the consultation will be available for Members at the workshop in November.
- 3.3.5** The savings proposals that have been submitted to date do not include any allowance for any anticipated redundancies.
- 3.3.6** The majority of the savings proposals that have been submitted to date will, inevitably, have an impact on service delivery to different degrees, which will need to be considered when deciding which options to package. Some savings options will involve devolving some non-statutory functions to the local communities.
- 3.3.7** The proposals will depend also on the Executive’s objectives. The Executive met on the 16 September to consider proposals submitted to date and further work is on-going with officers following that meeting. There is a potential that not all the proposals submitted will be implemented, some need further verification, some are not new and many will take time to deliver savings. The Council is currently undertaking service reviews across the Council and, in parallel, is developing an efficiencies strategy to help in taking the Council forward in meeting budget targets over the next three years.
- 3.3.8** Some of these savings proposals will, inevitably, involve reduction in staff numbers, some of which may be achievable by “natural wastage”. The Executive will consider implementing a voluntary severance scheme to assist with meeting the savings target. The savings proposals currently assume a full year’s worth of saving in relation to staffing reductions. There is a timing risk associated with these, in that if the staffing is not reduced on 1st April, then the full saving will not be achieved.

It is also likely that there will be staff severance costs involved in making savings. The budget for 2013-14 includes a budget of £1.5m, of which only a small amount has currently been allocated and no proposals for this to be used are in the pipeline. It is, therefore, possible for slippage on this budget to be used to fund redundancies in 2014-15.

3.3.9 It is recommended that:

- (a) that the Executive should seek to make sufficient savings in 2014-15 to balance the revenue budget with no use of reserves;
- (b) that the Executive should plan to cover unavoidable costs of severance or other one-off costs from slippage on the cost of change budget for 2013-14 before using the cost of change budget of £1.4m available in the base budget for 2014-15.

3.3.10 Capital

The provisional settlement for 2014-15 and the indicative settlements for the following two years are:-

Financial Year	Funding indicatives and provisional settlement £'m
2014 - 15	3.528
2015 - 16	3.528
2016 - 17	<i>Indicative figure not provided by Welsh Government</i>

This is an increase of 1% on the £3.446m allocation. The 2013-14 capital budgets were set by rolling forward the budget from the previous year and by:

- Reviewing and updating budgets for capital maintenance and/or replacement of fixed assets;
- Including known changes;
- Including new grants where known;
- Using the Welsh Government General Capital funding together with an assessment of the capital receipts likely to be available;
- Reviewing and revising the general contingencies (the unsupported borrowing contingency and unallocated contingency) with new budgets of £1m and £0.8m respectively;
- Including the Housing Revenue Account according to the revised and updated 30 year plan.

During the last two years several major programmes were under review, the residential homes programme and the leisure centre rationalisation programme required a new direction and the Housing Renewal Policy was being finalised. This has meant that related capital budgets were not, and have not, been allocated and further work is on-going to identify the maintenance required on assets.

3.3.11 Work is underway on an options appraisal to identify an appropriate solution to the Authority's investment needs for its assets, to include maintenance. This is linked to the 21st Century Schools programme; modernisation of adult social care; as well as other key parts of the Authority's estate. A new Capital Investment Strategy will also be prepared. As these preparations are made, the proposed approach for 2014-15 is:-

- To complete the current projects;
- To use available capital grant and supported borrowing allocations;
- To allocate £1m in unsupported borrowing for spend to save initiatives;
- To consider allocating budgets for upgrade of the Authority's schools, funded from unsupported borrowing, and to complement the 21st Century Schools programme;
- To consider the allocation of £1m for the Local Authority Mortgage scheme.

3.5 Growth Bids and Pressures

3.5.1 There was an allowance of £0.7m for growth in the top level forecast presented in the Executive strategy and budget statement in July.

3.5.2 This has now been reviewed and updated and allowance has been made for a number of pressures, the most significant being:

Welfare Reform
Additional borrowing to support Capital Programme
Reduction in Grant
Other pressures

3.5.3 It should also be noted that there may be further growth proposals submitted for consideration. The total of the above proposals comes to £700k. These will need to be prioritised against the savings proposals requiring either further saving proposals to be taken or further saving proposals to be identified.

3.5.4 Based on the above the revised gap is £7.774m as shown above.

4. SCHOOL BUDGETS

4.1 Indicative budgets will be issued to schools during December 2013 as soon as the final WG settlement is confirmed. The provisional settlement sets out a level of protection for schools budgets which will need to be modelled, taking into account contracts and demographic changes.

4.2 All assumptions applied to the schools budget have been the same as that of other directorates within the Authority. The Executive agreed for a savings target of £1m for schools.

4.3 There is to be further consultations with the schools, including the schools forum, during the consultation period.

5. MATTERS FOR DECISION

- 5.1** The content of the Budget is not prescribed, but its timetable requires the co-operation of the Executive, Scrutiny Committees and the full Council if it is to be adopted in March 2013.
- 5.2** An all Member workshop has been established for November 2013 to go through the options for growth and savings.
- 5.3** The initial proposals for the budget will be presented to the Executive in January. Following that meeting the completion of a consultation document covering both strategy and annual budget issues should serve both the requirements of the Constitution and public consultation.
- 5.4** This report has recommended:-
- The draft standstill budget should be adopted by the Executive as a basis for the 2014-15 revenue budget;
 - That the Executive should seek to make sufficient savings in 2014-15 to balance the revenue budget without use of general reserve;
 - That the Executive should plan to cover unavoidable costs of severance, or other one-off costs of delivering savings, from slippage on the current budget for cost of change and without the use of general reserves;
 - The Executive requests savings proposal from departments to be completed by 16 November 2013;
 - The Executive agree that management now arrange for voluntary redundancy to be offered across the Council, subject to usual controls and conditions.