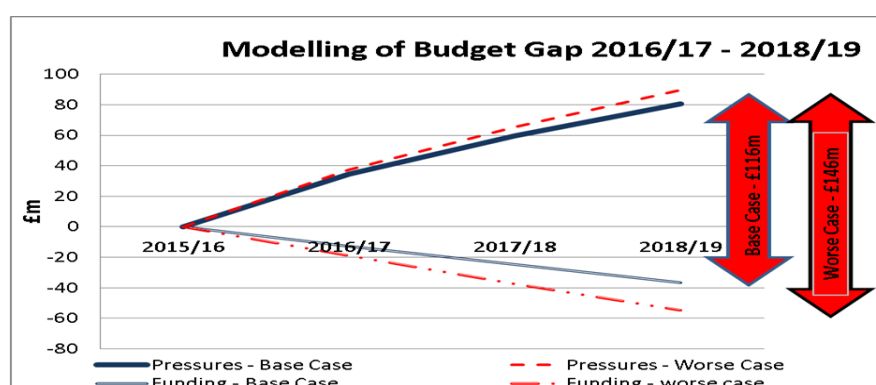


Budget Strategy Report 2016/17 – Quick Questions and Answers

Background

- Each year the Council sets its Budget Strategy for the following year and medium term. This briefing summarises the information contained in the July 2015 Budget Strategy Report for 2016/17 and the medium term. As shown below the situation is extremely challenging with the updated Budget Gap showing the Council needing to make savings of £47.378m in 2016/17 and £116.908m from 2016/17 to 2018/19.



How can the Council address the Budget Gap?

- The Council can address the budget gap using a combination of three main options noted here and subsequently explained in more detail.
 - Reduce the Budget Gap set out in the Medium Term Financial Plan (MTFP)**
 - Reduce existing Council budgets based on Reshaping Base Budgets**
 - Set Budget Strategy Assumptions in respect of council tax, schools and reserves**
- When deciding the combination of options, the Council considers both its statutory duties and its financial resilience (coping with unexpected and adverse events)
- It should be noted that one option in isolation would not be enough to address the scale of the budget gap, so Budget Strategy involves setting a suitable combination of options.

What does the Budget Strategy assume about the Budget Gap of £47.378m?

- Reviews are undertaken to consider scope to reduce the budget gap. This review is dynamic and changes are made due to technical updates and policy discussions.
- One of the reasons the Budget Gap is so high in 2016/17 is the inclusion of financial pressures of over £7m in respect of increases in national insurance costs.
- Review to date has identified a budget gap of £47.378m for 2016/17 which is £3.721m less than the £51.099m identified in February when the 2015/16 budget was set.**
- This reduction is a combination of updated modelling for voluntary severance costs, pay and price inflation. It also reflects updated projections for debt financing and a £1m reduction to a provisional sum of £6m that was included within the gap to address emerging financial pressures and potential in-year monitoring issues.

What does the Budget Strategy assume about reducing existing Budgets? How will targets be set?

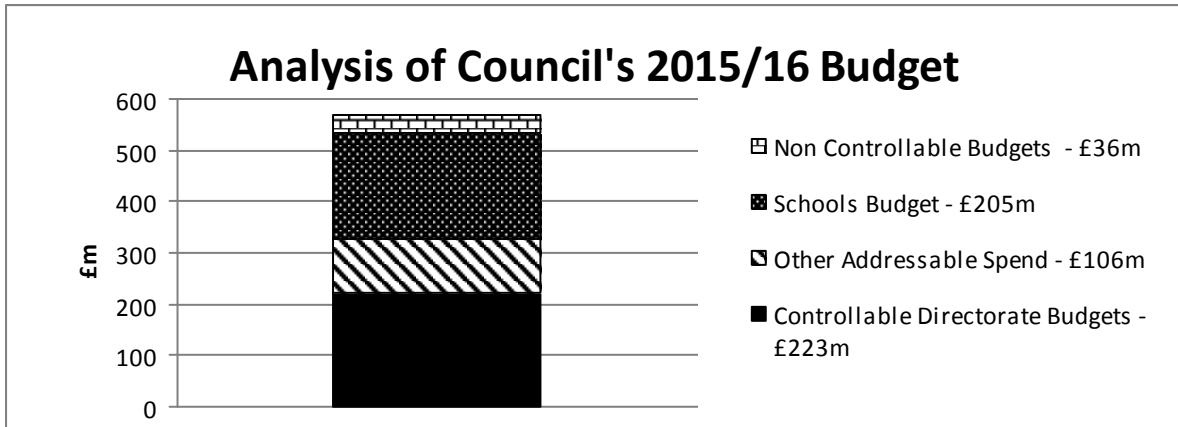
- The 2015/16 Budget Report acknowledged that an updated approach to identifying savings targets was required which considers the future shape of the Council.
- This has been taken forward as a **Reshaping the Base Budget** exercise
- This exercise identified services at the minimum statutory level and considered whether discretionary services could be covered by income. The difference between this picture and the current shape of services highlighted the opportunities for budget reductions over both one and three years against four savings drivers.
- In some instances this was driven by ongoing work in respect of alternative service delivery models, for example, leisure centres, arts venues and infrastructure services

Savings Driver	For Example
Policy led savings	Service reductions and Alternative Delivery Models that may require specific consultation.
Business Process Efficiency Savings	Savings from streamlining services in a citizen centric way. Their savings will often be technology driven, like mobile working and scheduling of electronic document management.
Discrete Directorate Led Savings	The more traditional savings found within directorates like reducing supplies budgets, maximising grant funding, reducing posts etc.
Income / commercialisation	Increasing existing income streams and looking for new opportunities to sell or trade services.

- The Reshaping exercise acknowledged that there are difficult policy choices ahead but also identified that because of the financial challenge, choices are severely constrained.
- The Reshaping exercise was the basis of setting savings targets for directorates for the period 2016/17 – 2018/19.
- **This exercise culminated in a target savings figures for directorates of £29.661m for 2016/17, £23.845m for 2017/18 and £17.010m for 2018/19.**
- These figures include challenging targets for the Communities and Wellbeing cluster given the complex and increasing demand in social care services.
- Figures also include stretching targets for business process efficiency and income/commercialisation savings
- **It should be emphasised that these targets do not represent specific proposals at this stage.**

Was the Reshaping the Base Exercise applied to all Budgets? Have we looked at everything?

- The Council's budget can be broken down as follows:-



- The £223m controllable directorate budgets were the subject of the Reshaping the Base exercise.
- The £205m Schools Budget is addressed below as part of assumption setting.
- The £36m non-controllable budget relates to areas that would be very difficult to reduce - the largest being the budget to pay Council Tax Support to eligible recipients
- The £106m **Other Addressable Spend budget** refers to areas that are not within the control of individual directorates to reduce, but are areas in which the Council could seek to make corporate reductions. It includes things like debt financing budgets, budgets to pay levies to other organisations, budgets for building costs and budgets to pay voluntary severance.
- **The budget strategy assumes a £7.05m reduction on addressable spend for 2016/17 with £4m per annum in each of the subsequent years.**

What about solutions other than savings? What other assumptions have been set as part of the Budget Strategy?

- There are 3 main budget strategy assumptions and these involve:-
 - 1. Policy decisions around council tax increases.**
 - It should be noted that the council tax for 2016/17 will not be set until the February 2016 Budget Report. However, the need to plan effectively means that some assumptions need to be included within the budget strategy.
 - **The budget strategy assumption is based on council tax increases of 4.5% per annum for 2016/17 – 2018/19. This equates to £5.14m for 2016/17, £5.37m for 2017/18 and £5.61m for 2018/19.**
 - 2. Review of the Council’s Balance sheet**
 - This may identify areas that could be released to help reduce the budget gap. However, these sums tend to be “one offs” and therefore create an immediate, additional problem in the following year. Taking sums from the Council’s balance sheet also has a negative impact on the Council’s financial resilience and ability to manage risks as we have less to fall back on in the case of unforeseen financial events. For these reasons, it is not advisable to include excessive sums in this area.
 - **The budget strategy assumes an annual £1.5m use of reserves for 2016/17 – 2018/19.**
 - 3. Consideration of whether to reduce the additional funding identified for Schools.**

- Schools budgets, which account for 36% of the Council’s overall budget, have been afforded protection by Welsh Government in recent years.
- To date, there is no confirmation of whether this protection will continue. The Budget Strategy assumes that it will, and that it may mean we cannot reduce Schools budgets by any more than approximately £500k in 2016/17.
- Based on this assumption, the 2016/17 Budget Gap includes £10.074m for financial pressures above the amount identified to be provided to schools to meet protection requirements. This is in addition to £4.03m required to meet rising pupil numbers.
- ***The budget strategy assumes that, setting aside increases for pupil numbers, sums included in the budget gap for schools pressures will be capped by 40%, releasing £4.03m in 2016/17 and £2.1m in each of the following two years.***
- Schools would still receive funding of 60% in respect of identified financial pressures as well as growth to meet rising pupil numbers.

How does this all fit together?

- The updated budget gap across the life of the MTFP is as follows:-

Budget Reduction Requirement	2016/17 £000	2017/18 £000	2018/19 £000	TOTAL £000
Increasing Pressures	34,655	24,940	20,835	80,430
Anticipated Funding Reduction (at 3%)	12,723	12,151	11,604	36,478
Budget Gap	47,378	37,091	32,439	116,908

- This scenario is a base case with the potential to increase to £146m if future funding decreases are 4.5% not 3% and future pay awards are 2% not 1%.
- The table below sets out the strategy for bridging the gap over the medium term.

	2016/17 £m	2017/18 £m	2018/19 £m	Total £m
Directorate Savings	29.66	23.85	17.01	70.52
Addressable Spend Savings	7.05	4.00	4.00	15.05
Total Savings	36.71	27.85	21.01	85.56
Reduction of 40% on Schools pressures	4.03	2.09	2.05	8.18
Council Tax (at 4.5%)	5.14	5.37	5.61	16.12
Balance Sheet Review	1.50			1.50
Total Assumptions	10.67	7.46	7.66	25.80
Updated Budget Gap	47.38	37.09	32.44	116.91
Shortfall to target	0.00	1.78	3.77	5.55

- Clearly £86m is a huge savings requirement which already includes stretching targets for income and business process efficiency savings
- Targets will be extremely challenging for all directorates and notably for the Communities and Wellbeing given the complex and increasing demand in Social Care
- **Even after setting these challenging targets and assumptions, a shortfall of £5.6m still remains in relation to 2017/18 and 2018/19. This shortfall may require further consideration of planning assumptions and policy choices moving forward**

What about our Capital Programme?

- The affordability of our existing Capital Programme is challenging given our reducing budgets. The Council needs to lower its borrowing levels and reduce its asset base.

What is the outlook?

- Achieving a balanced budget in 2016/17 will be extremely challenging
- **Beyond that, as for many councils, there is real potential that the Council will be unable to balance the budget unless radical policy choices and strategies are adopted.**
- Decisions will need to be taken in advance of budget dates to ensure full delivery.

Next Steps?

- **Savings proposals will be developed over the summer for consideration and consultation in the Autumn.**