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To: Chair and Members of the County Council

Date: 27 November 2015

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Dear Councillor

I refer to this agenda for the meeting of the **COUNTY COUNCIL** to be held at **10.00 am** on **TUESDAY, 1 DECEMBER 2015** in **COUNCIL CHAMBER, COUNTY HALL, RUTHIN LL15 1YN** and enclose the following report(s).

Agenda Item No

6 BUDGET 2016/17 - UPDATE (Pages 3 - 18)

To consider a report to provide an update on the latest budget position for 2016/17

Yours sincerely

G Williams
Head of Legal and Democratic Services

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Report To: County Council

Date of Meeting: 2nd December 2015

Lead Member / Officer: Councillor Julian Thompson-Hill/ Richard Weigh

Report Author: Richard Weigh, Chief Finance Officer

Title: Budget 2016/17 Update

1. What is the report about?

The report gives provides the latest position with regard to the delivery of the 2016/17 revenue budget and highlights the measures being taken as part of Phase 5 of the current two-year budget process. The report also highlights the investment that the council has made in crucial infrastructure and improvements throughout the county over a continuing period of funding reductions. The report also outlines how the council's budget strategy has protected key services whilst managing a challenging financial position.

2. What is the reason for making this report?

To provide an overview of the budget process and achievements to date and to update on the latest position. To reflect on the significant level of investment in major capital projects and protection of key services during a challenging financial period.

3. What are the Recommendations?

To note the progress made in the delivery of the 2016/17 budget and the proposed steps to finalise the process.

To note the bulk of the savings made to date in this two year budget process have not imposed cuts to services or increases in charges.

To note the capital investment of almost £200m on completed and planned projects across the county from 2012 rolled out to 2019.

4. Report details

In April 2014, the council's budget strategy had identified a possible budget gap of up to £18m over the coming two financial years. This was primarily driven by indications that the council's funding settlement would reduce alongside estimated unavoidable cost pressures. The Local Government Settlement for 2015/16 provided a cash reduction to the council's budget of 3.6% which equated to £5.3m. With cost pressures the council had to fund, such as pay, pensions and energy increases, the budget gap for 2015/16 was £8.3m and using the same methodology, is now estimated to be approximately £7.4m in 2016/17, so £15.7m in total.

At the same time as dealing with a funding cut, the council set priorities to protect and invest in important service areas such as schools, social care and the roads and has continued to achieve this throughout the budget process.

The process to identify the savings required to deliver the budgets over the two years is called Freedoms & Flexibilities. It has involved a review of every service and activity and an analysis of the council's revenue budget. The process incorporated a series of budget workshops with elected members where the council's entire revenue budget was presented on a line-by-line basis, along with saving proposals from each service. So far, there have been fifteen workshops with a sixteenth final workshop scheduled for 14th December.

A summary of the budget position to date is shown in Table 1 below

Table 1 Summary Budget Position

Summary Position Phases 1 -5		
	2015/16	2016/17
	£'000	£'000
Budget Gap	8,259	7,433
Proposals		
Phase 1	3,715	870
Phase 2	3,571	1,785
Phase 3	473	-
Phase 4		1,290
Phase 5		1,273
Total Proposals	7,759	5,218
Balances	500	
Tax Base Adjustment		250
Gap	0	1,965

Phases 1-4 have approved proposals totalling £4m, with a further £1.2m included in Phase 5 (details attached to this report). An analysis of the savings achieved in the process is provided in Table 2 below:

Table 2 Analysis of Savings to Date

Category of Saving Delivered by Freedoms & Flexibilities	2015/16	2016/17	Total
	£'000	£'000	%
Alternative commissioning / procurement / service delivery	520	1,253	14%
Change to service level received by public	867	331	9%
Efficiency & Modernisation	2,820	2,151	38%
Increase in Fees & Charges or additional external revenue	665	128	6%
Service Reduction/withdrawal	140	240	3%
Technical Budget Adjustments - matching budget to spend	2,747	1,115	30%
Total	7,759	5,218	

The vast majority (82%) of the savings made so far have been efficiency or other measures which have not negatively impacted services to the public. Council Tax was increased by just 2.75% in 2015/16 which was one of the lowest increases in Wales and this level of increase is the working assumption for 2016/17.

The budget gap is calculated by applying a number of planning assumptions, including the level of Council Tax rise and inflation over pay and other areas. The key ingredient however is the level of revenue funding provided by Welsh Government as this provides almost three-quarters of the council's net revenue funding. The budget gap assumes a -4% cash reduction to the level of the council's funding provided through the settlement from Welsh Government. This level of reduction is consistent with other Welsh councils as a planning assumption and is based on indications (but not firm indicative settlements) that the settlement for 2016/17 would be worse than 2015/16, which was 3.6% for Denbighshire. Each percentage reduction in the revenue settlement equates to approximately £1.4m.

The basis for such significant reductions is unclear as analysis of the UK Summer Budget suggests that the impact of deferring achievement of a national budget surplus by a year, taken with the Barnett consequential impact of policies to protect health budgets at a UK level, would provide a positive cash settlement to Wales. If this is the case, the analysis suggests that there could be sufficient headroom to provide the same level of protection to health in Wales as in England without making such significant cuts to local government funding. One scenario suggests the average reduction to local government could be less than 1% next year, rather than the much more severe cuts being trailed.

The bulk of council budgets in Wales are spent providing education and social care. With fixed budgets, such as repayment of debt, there is less than 1/5th covering other budgets. Therefore, if cuts of 3-4% were to be applied in the medium term, the scale of the reduction would mean it is inevitable that some of the impact would have to fall on schools and social care, which would seem contrary to national priorities to protect these budgets.

The Welsh Government is scheduled to publish its budget on the 8th December with the Provisional Local Government Settlement following on the 9th December. This will make the funding position for 2016/17 clearer. The Provisional Settlement announcement will include a headline figure but the impact of changes to revenue grant funding streams (of which the council receives approximately £30m) may not be published at the same time.

Given the level of uncertainty about the revenue settlement, recent member budget workshops have focussed on a range of proposals that may or may not be required to be implemented for 2016/17. In order to maintain momentum and limit risks at the end of the process, it has been explained that a set of measures would be presented to council for information in December so that the impact on the budget can be noted. These have all been discussed at budget workshops or presented at other member forums and are items

delegated to officers, including management restructures, modernisation and efficiencies, alternative funding models and adjusting budgets to match expenditure or risk. The details are presented in **Appendix 1** and in total contribute £1.2m to the budget gap. Taken with amended planning and funding assumptions, Phase 5 measures reduce the budget gap by £2.093m. Where appropriate, impact assessments have been completed and can be accessed by members in the members' library section of the Modern.gov system.

There is no clear steer yet as to whether there will be directives to protect schools and other budgets. There has been a ministerial pledge since 2011 to protect schools budgets in Wales by '1% above the Block Grant to Wales'. Assuming the Block Grant is broadly flat, as highlighted above, this pledge can be fulfilled by not removing pupil demography adjustments from the quantum of school budgets and providing further additional resources to build new schools throughout the county.

To comply with the pledge to 'protect' schools budgets, the council should have increased schools funding by £3.4m over the last four years. In fact, schools funding in Denbighshire has increased by £6.3m. This is detailed in **Appendix 2**. Schools will have to absorb all cost pressures arising in 2016/17 which are estimated to be £2.5m and have been modelling indicative budgets on that basis. Social care budgets have also been protected and have achieved positive revenue positions allowing further investment in services and service modernisation over the last two years.

As well as delivering a balanced budget through a detailed and challenging process, the council has also continued to invest in vitally important improvements and infrastructure. It is worth reflecting on the scale of this investment and the benefits delivered throughout the county. These are detailed in **Appendix 3** and show that from 2012/13 to 2019/10, actual and planned capital investment will amount to almost £200m during a period of sustained reductions to the council's revenue budget.

Summary Capital Investment 2012-2020	£m
Schools	96.8
Roads	18.4
Social Care	21.5
Floods & Coastal Defence	16.1
Economic Development/ Regeneration	26.8
Leisure & Libraries	6.7
Other	9.3
Total	195.6

The late announcement of the Provisional Local Government Settlement will mean that the budget timetable may need to be refined. The council has to set its budget in time to allow the production and distribution of Council Tax bills in March. Depending on the level of Provisional Settlement, it is probable that an

extra meeting of the full council will be required to finalise the budget in February.

The Final Local Government Settlement will not be published until 2nd March 2016. Assurances have been provided that there should be no negative movement between the Provisional and Final Settlement values. Usually, there are minor data changes between the two but assurances have been provided that these will have been factored into the Provisional. Therefore, the council's final budget and Council Tax will have to be set based on the Provisional Settlement. Initial legal advice suggests that this is acceptable as long as the Final Settlement is not significantly different from the Provisional. The final Welsh Government budget will not be put before the Senedd until 8th March.

Appendix 4 is a letter from Welsh Government/WLGA outlining the national budget timetable.

5. How does the decision contribute to the Corporate Priorities?

Effective management of the council's budgets and delivery of the agreed budget strategy underpins activity in all areas, including corporate priorities.

6. What will it cost and how will it affect other services?

Depending on the level of financial settlement, it is estimated that savings of £7.4m are required. The budget gap on the bass that it is -4% is currently £1.9m. Further proposals will come forward to address the budget gap once the settlement is known.

7. What are the main conclusions of the Equality Impact Assessment (EqIA) undertaken on the decision?

An EqIA has been completed for all relevant proposals.

8. What consultations have been carried out with Scrutiny and others?

Previous reports have highlighted in detail the significant consultation process undertaken to deliver the 2015/16 and 2016/17 budgets, including workshops, scrutiny committees, Corporate Governance Committee, task and finish groups, Joint Consultative Committee and a public engagement exercise last year. The engagement exercise completed last year, called 'Cutting our Cloth' included proposals covering the two financial years and yielded 822 survey responses and over 5,179 website hits. The detailed report of responses to the engagement exercise was presented to council last year and is available on the Modern.gov system. A member task and finish group has been established to assess the impact of savings proposals that have been implemented as part of this budget process. Since the conclusion of the second phase of the two-year budget process, proposals to address the budget gap have focussed on efficiency and not measures that would have an impact on the public and therefore further engagement on such proposals would not be worthwhile.

9. Chief Finance Officer Statement

This remains a difficult process with some tough decisions to make along the way. The engagement and support of elected members in the decision making process and scrutiny of the process is crucial.

The aim of the budget process is to ensure that the council delivers a balanced budget. The uncertainty over the level financial settlement means that the budget gap estimated may change for 16/17 but this must be viewed in the context of the likelihood that negative financial settlements will continue in the medium term. The late notification this year poses some risks but these are currently thought to be manageable.

It is likely that funding reductions to local authorities in Wales will continue in the medium term and while the council will always endeavour to be more efficient to save money, this in itself may not be sufficient in future years. Budget decisions will get harder and will probably have a longer lead-in time to deliver.

10. What risks are there and is there anything we can do to reduce them?

The budget process itself is a risk management measure with the aim of identifying, assessing and agreeing budget proposals in a planned and timely way. Risk management of the budget process is a key consideration of the Corporate Governance Committee and specific risks have been raised in previous reports. As each proposal is identified, the financial and service risks are identified and highlighted at budget workshops as they are being developed.

11. Power to make the Decision

Local authorities are required under Section 151 of the Local Government Act 1972 to make arrangements for the proper administration of their financial affairs.

Appendix 1 Phase 5 - Measures to Address the Budget Gap	Description	£000
Channel Shift - digital choice	Modernisation project to promote more contact and transactions made with the council through digital means.	210
Better take-up of Green Waste scheme	Budget adjustment to account for the impact of better take-up of the green waste scheme launched last year.	75
Capital Financing	Adjustment to the capital financing budget to reflect lower borrowing costs and lower borrowing requirements in recent years.	500
PFI Additional Savings	Additional savings from the termination on the PFI Project Agreement. This will now deliver £575k per annum in revenue savings.	275
Management restructures (SLT)	Budget adjustment to reflect the change to the council's senior leadership team introduced in May 2015.	80
Alternative Funding (Town Council) - Ruthin Craft Centre	Replacing county council funding with a contribution from Ruthin Town Council.	30
Legal/Professional Fees - reduced demand	Changes to thresholds at which legal proceedings are initiated has meant a reduction in the amount of legal fees incurred by Children's Services. This measure is reducing the budget to reflect the new thresholds.	70
Early Intervention/Family Support	Not replacing a post that has been vacant for some time. The tasks are being dealt with by others and so there is no impact on the service.	23
Realignment of other budgets to match demand	Proposal is to align other budgets within Children's Services with levels of continuing expenditure, therefore matching demand. The measure is a realigning the budget to match spend so is not a reduction to services. Realignments will be reviewed in future if demand changes.	10
Measures from Services		1,273
<u>Funding and MTFP Assumption Changes</u>		
Amended Medium Term Financial Plan Budget Assumption	Change to a financial planning assumption as a consequence of pupil demography changes and further investment in schools through the 21st Century Schools Programme.	570
Changes to Council Tax Yield	The Council Tax base has grown slightly higher than the planning assumption so the level of funding available next year will increase as a consequence.	250
Total Phase 5 Impact on Budget Gap		2,093

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	PERIOD OF WG PROTECTION						2016/17 £m
	2011/12	2012/13	2013/14	2014/15	2015/16	5 year Totals	
	£m	£m	£m	£m	£m	£m	
Targeted Increase Required by WG (%age)	0.67%	1.58%	2.08%	0.45%	0.60%		? Tbc
A Value (£) of Increase Required by WG (target)	0.376	0.927	1.272	0.289	0.386	3.249	? Tbc
Net RA Budget Brought Forward	56.086	58.668	61.147	64.131	64.332		63.390
Technical Adjustment to Budget (eg Inc/dec Delegation)	0.060	0.660	1.700	-0.120	-1.140		0.000
Demographic (pupil numbers) Adjustment					-0.202		-0.320
B Increase School Budgets less technical and demographic adjustments	2.522	1.819	1.284	0.321	0.400	6.346	0.470
Net RA Budget Carried Forward	58.668	61.147	64.131	64.332	63.390		63.540
B-A Amount £ over / under target (since 11/12)*	2.146	0.892	0.012	0.032	0.014	3.097	? Tbc
ESTIMATED Demographic Adjustment NOT Taken as saving / given as pressure	-0.511	-0.290	-0.225	0.013		-1.014	
Schools Balances over the same period							
Opening	1.578	1.801	2.870	3.892	3.538		
Closing	1.801	2.870	3.892	3.538	1.631		

NOTES: * This does not take Inflationary pressures into account - the increase is cash based

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Appendix 3 Major Capital Investment Analysis
Expenditure Period 2012-13 to 2019-20

Area	Scheme Description	Investment £m	Status	Period
Rhyl	New School	24.6	On-going	2013 - 2016
Rhyl	Harbour Development	10.6	Completed	2009 - 2015
Rhyl	Bee & Station - Renovation to form business units	1.1	Completed	2012 - 2013
Rhyl	Property Acquisition/Demolition and Public Realm Works	15.1	Completed	2012 - 2014
Rhyl	Cefndy Health Care - Investment in Factory	0.5	Completed	2013 - 2015
Rhyl	Coastal Defence Works Ph 1 - 3	13.4	Completed	2012 - 2015
Rhyl	Housing Improvement - Renewal Area	2.0	On-going	2013 - 2016
St Asaph	Ysgol Glan Clwyd - Extension and Refurbishment	15.9	On-going	2014 - 2018
Prestatyn	Bodnant Community School - Extension and Refurbishment	3.4	On-going	2013 - 2016
Prestatyn	New Library	1.0	Completed	2012 - 2014
Prestatyn	NOVA Development	4.5	Completed	2014 - 2015
Prestatyn	Ysgol y Llys - Refurbishment and Remodelling	2.8	Completed	2012 - 2014
Ruthin	Investment in Primary Area - Town School, Ysgol Carreg Emlyn, Llanfair/Pentrecelyn	15.1	On-going	2014 - 2019
Ruthin	Leisure Centre Re-development	1.2	Completed	2012 - 2013
Denbigh	Ysgol Pendref	1.8	On-going	2016 - 2019
Denbigh	Ysgol Twm o'r Nant - Extension and Refurbishment	1.9	Completed	2012 - 2015
Cynwyd/ Llandrillo	Ysgol Bro Dyfrdwy - Extension and Refurbishment	1.4	Completed	2013 - 2014
Corwen	Flood Defence Works	2.7	Completed	2013 - 2015
Other:				
County	Extra Care Provision	21.0	On-going	2015 - 2019
County	Improvements to Highways Infrastructure	18.4	On-going	2013 - 2019
TBC	New Faith School	23.8	On-going	2015 - 2019
County	ICT Infrastructure Improvements	2.4	On-going	2014 - 2019
County	Housing Improvement Grants	4.9	On-going	2013 - 2016
County	Schools - Capitalised Maintenance	6.1	On-going	2013 - 2016
	Total	195.6		

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Leighton Andrews AC / AM
Y Gweinidog Gwasanaethau Cyhoeddus
Minister for Public Services



Llywodraeth Cymru
Welsh Government

Councillor Bob Wellington
Arweinydd Cymdeithas
Llywodraeth Leol
Cymru (CLILC)
Leader, WLGA



Ein cyf/Our ref: MA-P-LA-0378-15

Leaders, County and County Borough Councils
Police and Crime Commissioners

26 October 2015

Dear all,

The Minister for Finance and Government Business recently set out the timing of the Welsh Government's Budget process for the 2016-17 financial year in light of the UK Government's Spending Review announcement, scheduled for 25 November 2015.

Our officials have met and considered the implications for the timing of the Local Government settlement and Local Authorities budget setting in light of the same. We are writing jointly to inform you of the outcome of the discussions.

An appropriate amount of time has to be built around the announcement of the UK Spending Review to allow for the National Assembly to scrutinise the Welsh Budget. Whilst we recognise that this creates difficulties for the timing of Local Government budget-setting, the proposed timetable, at Annex A, does not result in any legal or financial impediment to the process.

However, it is also recognised that the timetable does present challenges. Each Authority will therefore need to give consideration to the implications of the timetable for its own budget setting exercise.

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

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We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

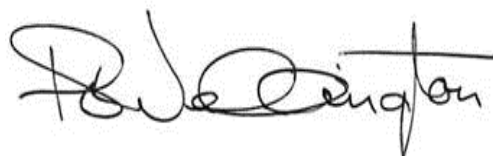
Particular considerations arising from the timetable which need to be taken into account include the following.

- ◆ The detailed allocations of Revenue Support Grant and redistributed Non-Domestic Rate Income published in the Provisional Settlement announcement, and subject to the statutory consultation process, will reflect all the information normally available by Final Settlement stage including updated tax-base information. This should provide a firmer basis for planning than is normally the case at the Provisional Settlement stage.
- ◆ The Provisional Settlement will include the available information on specific grants. The later budget will however have implications for decisions about individual specific grants. It is therefore to be expected that comprehensive data on all grants is unlikely to be available at the time of the Provisional Settlement. Work will continue after the provisional announcement to provide as comprehensive a picture of Welsh Government funding as early as practically possible.
- ◆ It may not be possible to publish some of the more detailed analysis underpinning the settlement allocations, such as the breakdown of SSAs and the indicator data at the same time as the settlement. The underpinning analysis will be published as soon as possible after 9 December.

Our officials will continue to liaise as the timetable develops.

A handwritten signature in black ink that reads "Leighton Andrews". Below the signature is a long horizontal arrow pointing to the right.

Leighton Andrews AC / AM
Y Gweinidog Gwasanaethau Cyhoeddus
Minister for Public Services

A handwritten signature in black ink that reads "Bob Wellington".

Councillor Bob Wellington
Leader of the WLGA
Arweinydd Cymdeithas
Llywodraeth Leol
Cymru (CLILC)

Proposed Budget Timetable for 2016-17

Date	Activity
25 November	UK Government Spending Review Announcement
8 December (last week of Autumn term)	Publish Welsh Government Draft Budget 2016-17
9 December	Publish Provisional Local Government Settlement Begin formal consultation on the Settlement
9 February	Debate on Draft Budget 2016-17
14 February	Indicative deadline for levying bodies (eg. National Parks Authorities and Fire and Rescue Authorities) to inform Principal Authorities of proposed levies
29 February	Indicative deadline for precepting bodies (ie. Police and Crime Commissioners and Community Councils) to inform Principal Authorities of precepts
1 March	Publish Welsh Government Final Budget 2016-17
2 March	Publish Final Local Government Settlement
8 March	Move Final Welsh Budget 2016-17 for Debate
9 March ^(a)	Move Final Settlement for Debate
10 March	Indicative deadline for Principal Authorities to set budgets and Council Tax for forthcoming year.

(a) Debate on Final Settlement can only take place after Final Budget has been approved.

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