

**Report to:** Communities Scrutiny Committee

**Date of Meeting:** 10<sup>th</sup> September 2015

**Lead Member / Officer:** Lead Member for Finance, Corporate Plan and Performance /Chief Finance Officer (Section 151 Officer)

**Report Author:** Chief Finance Officer (Section 151 Officer)

**Title:** Financial Planning

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**1. What is the report about?**

The report highlights some of the funding decisions taken by Welsh Government in the last year and outlines the impact on the council's financial planning.

**2. What is the reason for making this report?**

To illustrate the difficulties that short term or unexpected funding decisions cause and the impact on the council's ability to deal with the financial challenges facing the public sector.

**3. What are the Recommendations?**

To consider the report and comment as appropriate.

**4. Report details**

The council's gross revenue funding in 2015/16 is £282.6m and broken down as follows:

<b>Budget</b>	<b>Detail</b>	<b>Value</b>
<b>Gross Revenue Budget</b>		<b>£283m</b>
Funded by:	Fees/Other Income	£48m
	Government Grants	£50m
<b>Net Revenue Budget</b>		<b>£185m</b>
Funded by:	Revenue Settlement	£140m
	Council Tax	£45m

Government funding accounts for around 67% of the council's gross budget, with the most significant element being the Revenue Support Grant which provides 40% of the council's total funding.

In 2015/16, the Revenue Support Grant is £112.9m (£115.5m last year) and taken with NNDR funding forms the council's 'Final Settlement' from the Government. The Settlement represents 77% of the council's net revenue

budget of £188m. A percentage change to the Settlement has roughly the same impact as a 3.4% change in Council Tax funding. Given the impact changes to the Settlement have on the council's funding, robust medium term financial planning information is essential. The council maintains a rolling three-year medium term financial plan that relies on informed planning assumptions, including around the most significant element of the annual Local Government Revenue Settlement.

Until May 2013, Settlement values had been broadly consistent with the forward indications published in 2011. These forward indications meant that Welsh councils were planning for an average increase in cash terms of 0.5% and this was the central case in medium term plans. In May 2013, the then Minister warned that the forward indications provided were no longer a basis on which to plan. The eventual published reduction in the Final Settlement for local government in 2014/15 was -3.4%. This Final Settlement included an indicative settlement value for 2015/16 that showed a reduction in funding of -1.55%. In June 2014, the former Minister announced again that indicative figures could not be used for forward planning and that the reduction could be as high as -4.5%. In the absence of anything more specific, many councils changed planning assumptions to include a reduction of -4.5%.

The financial range of impacts of these scenarios was plotted in the council's Medium Term Financial Plan at the time to inform the budget process. The table below quantifies the financial impact of the range of settlement values quoted above. The Council's Final Settlement for 2015/16 was a cash reduction of 3.6% and along with other assumptions created a budget gap of £8.3m.

Year	Formal Settlement	Impact	Mid-Year Announcements	Impact	Final Settlement	Impact	Range of Impact	
	Indications	£'000		£'000		£'000	£'000	
14/15	0.50%	761	-4.00%	(6,088)	-3.40%	(5,175)	760.99	(6,088)
15/16	-1.55%	(2,323)	-4.50%	(6,533)	-3.60%	(5,226)	(2,323)	(6,533)

It is accepted that there is currently a degree of uncertainty at UK and Welsh national levels in respect of public finances, pending the outcome of Spending Reviews at both UK and Welsh Government levels. However, the lack of reliable multi-year local government settlements presents a real risk to financial planning and the council's ability to manage the financial challenges ahead. As competing funding decisions become more and more difficult for elected members, it is likely that the lead-in time to deliver savings will increase and decisions will have to be taken on the best available information at the time, which based on the last two financial years, could differ significantly from the final position.

While changes to the RSG clearly have a significant impact, because it is a single value, at least the impact of a range of scenarios can be modelled in financial plans. This is not the case however in respect of grants and the

decisions (or in some cases, the lateness of decisions) affecting grants funding.

Attached as appendix 1 are some examples of unplanned changes, positive or negative, affecting grant funded activity. Before considering the examples, the wider point about the number of specific grants and the added bureaucracy and cost that accompanies them ought to be made. A review undertaken on 13/14 grants highlighted 86 specific revenue grants. These ranged in value from £900 to £6.5m with no obvious cohesion in the application of grant conditions. For example, some require a full audit of the grant expenditure and others do not, without reference to the value of the grant.

There has been some movement on this recently but last year the council still received approximately £34m of revenue grants from the Welsh Government, albeit some via the regional education consortium. These range from largest (£6m Supporting People Grant) to around ten that were less than £10k in value. Changes for 2015/16 have been confirmed in two areas. Firstly, the Education Improvement Grant (£4.4m) has now incorporated eleven former grants and audit arrangements for this grant have been relaxed significantly, focusing on outputs rather than the details of the spend. So administratively an improvement but the consolidation came with a reduction in funding.

Secondly, the new Environment and Sustainable Development Grant (c£2.3m) has incorporated the Sustainable Waste Management Grant, Tidy Towns and Flood Defences grants – no indications yet whether this will be cut. However, as of the end of August, the final allocation had not been approved and could be amended, after five months of the financial year have elapsed.

In addition, the Outcome Agreement (£1.0m) will also transfer into RSG next year.

So there has been some improvement but room for much more. The changes above mean the total number of grants has reduced and some of the audit approaches have been relaxed but there is still inconsistency in the audit approach between funding streams. Un-hypothecating £34m would most definitely cut bureaucracy and cost. Welsh councils are more highly dependent on grant funding than their English counterparts as a proportion of overall funding and therefore cuts to grant funding have a bigger impact. The English model of de-hypothecation should be followed in Wales to mitigate this risk and allow councils more freedom to deal with diminishing budgets in a planned way

Specific grants are a means to deliver national government departmental priorities through local government infrastructure, outside of the main RSG. Most grants fund specific posts or support a range of posts and uncertainty about future funding or lateness in notification of allocation causes risk to service delivery and financial planning

Unplanned additional in-year funding, while on the one hand can be welcome, can also be problematic. Often, the announcements are made in February or

March with instructions to spend the money before the year-end. For example, the council received notification on 31<sup>st</sup> March 2014 that funding for 'winter pressures' was being awarded for 2013/14. In that example, at least it was feasible because of the grant conditions, to fund costs already incurred but where the funding arrives late in the year in support of a specific priority, it can be problematic to spend before the end of the year and often it distorts the council's reported revenue position. In the current challenging financial climate, awarding specific grants unexpectedly can lead to funding potentially being channelled to an activity subject to wider financial cuts or is incongruous with other council priorities or decisions.

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

Robust financial planning underpins all council activity.

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

The range of financial impacts is set out in Section 4.

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

Not required for this report. All budget decisions are subject to individual EqIA and wider impact assessments.

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

The WLGA and Society of Welsh Treasurers continue to lobby for multi-year settlements and increased de-hypothecation of grant funding.

**9. Chief Finance Officer Statement**

The lack of reliable multi-year financial settlements hinders the council's financial and service planning and poses a significant risk. Budget decisions will become more difficult and the lead-in time to make changes will increase. While there have been improvements to the level of bureaucracy around grants, following the English model of de-hypothecating revenue grants would provide councils with more flexibility to deal with the challenges ahead and would reduce costs across all layers of government.

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

These are set out in Section 4.

**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.

Article 6.3.2(c) outlines scrutiny's powers with respect to examining any matter which affects the area or its inhabitants and Article 6.3.2(d) stipulates its

powers in dealing with matters referred to it by Council or Cabinet. County Council at a meeting in February 2015 asked scrutiny to examine this particular matter.

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## Appendix 1

Grant	Value	Issue
Supporting People Grant	£6.1m	Range of cuts advised throughout 14/15: <ul style="list-style-type: none"> <li>• Indicative cut 5.8%</li> <li>• Advised in May of 15%</li> <li>• Final cut 10.4%</li> </ul>
Education Grants (14-19 Grant, School Effectiveness Grant and Minority Ethnic Achievement Grant)	£3.0m	Cuts applied in-year 2014/15. Initially instructed that cuts would be 5% and could only be applied to the three grants listed but subsequently this was changed to give councils discretion. Eventual cut was an average of 4.3%.
Free Swimming Grant	£112k	Allocation for 2015/16 cut by £20k with five weeks' notice.
Play Opportunities Grant	(£48k)	Announced 12 <sup>th</sup> Feb with instruction to spend the grant by 31 <sup>st</sup> March.
Animal Licensing Movement Recording	£37k	Informed some time ago that animal licence movement recording would be subject to 'self-service' by the farmers, reducing the need for councils to employ staff to do it, therefore budgets were removed. The council planned for this and relevant staff left or will be leaving on 31 <sup>st</sup> March.  It has become clear recently though that the 'self-service' regime will not be introduced in time, leading WG to say that councils may need to continue with the function/responsibility until 'self-service' is introduced – but the budget is still being removed. This led to LA's contacting WG, who have now indicated that there will be some additional funding available to cover LAs until 'self-service' is introduced.
Regional Collaboration Fund	£2.3m	The RCF was established in 2013/14 as a £10m fund across Wales to promote collaborative projects. The projects were approved on the basis of a three-year funding guarantee. In 2014/15, half of this fund was rebadged as part of the Intermediate Care Fund, aimed specifically at funding social care projects. However, the ICF was introduced as a one-year funding programme only, meaning the final year of the original RCF funding has been cut by half.
Social Services - Delivering Transformation Grant	£284k	The issue with this grant is often the lateness of notification of the allocation – grant awards received in October and December in the last two financial years.
Waste Management Grant	£2.2m	Lateness of notification of the final grant figure. Usually April but has been August.