

Report of the Section 151 Officer

Council - 4 November 2014

MID-TERM BUDGET STATEMENT 2014-2015

Purpose:	This report sets out the latest position with regard to the 2014/15 Revenue and Capital Budgets together with an initial assessment of the 2015/16 Revenue and Capital Funding positions and updates the Medium Term Financial Plan
Policy Framework:	Sustainable Swansea – Fit for the Future
Reason for decision:	This report is presented to Council for Information purposes in order to fully explain the background to the current budget issues facing the Council.
Consultation:	Legal, Access to Services and Executive Board
Recommendations:	It is recommended that:- 1) Council note the position in Section 2 of this report in respect of the 2014/15 Revenue Budget and actions being taken to achieve a balanced outcome for the year. 2) Council note the forecast Revenue position for 2015/16 and the MTFP period as shown in Section 7 of the report. 3) Council note the indicative funding position re Delegated Schools' budgets as set out in Section 8 of this report.
Report Author:	Mike Hawes
Finance Officer:	Mike Hawes
Legal Officer:	Tracey Meredith
Access to Services Officer:	Sherill Hopkins

Section 1 – Introduction and Background

1. Introduction and Background

1.1 This statement is intended to provide a strategic and focussed assessment of current year financial performance and an update on strategic planning assumptions over the next three financial years. The clear benefits of this statement are:-

- **Enhanced Local Accountability:** it will enable the Council to have a “state of the nation” type debate, increasing accountability about what has been achieved and what is planned
- **Clear Strategic Direction:** it will enable the Council to update and/or confirm strategic direction in response to in year external and internal changes, providing clear direction for the development of budgets and savings options prior to the Annual budget meeting of Council
- **Better Medium Term Financial Planning:** it will enable the Council to publically update its financial assessment mid-year, in response to national announcements or changing assumptions, rather than wait until February
- **In Year Budget Changes:** it will enable the Council to make in year changes to budgets to respond to the increasing financial challenges – we cannot wait until February each year to do this
- **Transparency:** it will enable a clear and unambiguous public assessment of savings performance against targets
- **Remedial Action:** it will enable the Council to take remedial action in respect of identified budget and/or savings variances

1.2 The Statement is intended to form a logical flow from an assessment of current year anticipated performance through each step of a structured planning process for future years and as such it specifically details:-

Section 2 - Revenue financial forecast 2014/15

Section 3 - Service/Financial risks currently identified in relation to the delivery of the 2014/15 Revenue Budget

Section 4 - A revised Medium term Resource and Funding forecast for the period 2015/16 to 2017/18 based on latest known decisions and Council decisions

Section 5 – An assessment of risk and potential movements on specific grants

Section 6 - An assessment of medium term spending pressures

Section 7 - The medium term financial forecast

Section 8 - Medium Term Financial planning for Schools

Section 9 - An assessment of reserves

Section 10 - Capital programme and funding

Section 11 – Legal and Equalities implications

- 1.3 This report should be read in the context of the Council’s overarching budget strategy – ***Sustainable Swansea – Fit for the Future*** – as agreed by Council on 22nd October 2013 and subsequently updated.

Section 2 – Revenue Financial Forecast 2014/15

The purpose of this section is to provide high level assurance around the projected 2014/15 revenue outturn position as an essential precursor to forward financial planning assumptions.

An analysis of the current position is given in sections 2.1 to 2.8 below.

Conclusions and recommendations are given in sections 2.9 and 2.10 below.

- 2.1 The first quarter budget monitoring report presented to Cabinet on 26th August 2014 highlighted a forecast service overspend for 2014/15 of £1.8m. That report highlighted the need to deliver Services within the overall set budget for 2014/15 in line with the Councils Financial Procedure Rules.
- 2.2 Following the report to Cabinet, Executive Board have considered reports from the Director of People concerning the projected overspends on Social Services and Education. On the basis of those reports and agreed actions it is forecast that overspends across both areas will be reduced by year end.
- 2.3 It is also likely that the projected underspend of £0.4m on Corporate Services Directorate will increase in scale due to:-
 - Ongoing management action being taken to address both 2014/15 and 2015/16 savings targets
 - Likely savings arising from the Council Tax Support Scheme
- 2.4 The position regarding the use of the Contingency Fund and the Corporate Inflation provision is largely in line with that reported at first quarter. The Contingency fund position, however, will be largely determined by the scale of ER/VR/Redundancy costs incurred later in the year on the basis of savings requirements in respect of 2015/16 and beyond.
- 2.5 The Council is currently undertaking a challenging review of Single Person Discounts in respect of Council Tax. Early indications are that there may well be substantial in-year and ongoing savings accruing in this area which will yield a potentially higher Council Tax than originally budgeted. In addition, the Council continues to pursue claims through HMRC in relation to VAT which may result in one-off receipts during 2014/15 and possibly 2015/16.
- 2.6 During 2014/15 the Council has reported separately on a detailed savings tracker which is designed to monitor delivery of specific savings proposals contained within the 2014/15 budget report. This activity is separate but entirely complimentary to the standard budget monitoring process. The clear indication at this point is that against an extended savings target of £28.235m the Council is anticipating performance in the range of around 90% achievement which is within budget affordability.

- 2.7 Based on the first quarter budget monitoring and savings tracker reports presented to Cabinet on 26th August, Executive Board issued an additional £2m Full Year Effect savings target across all Directorates in terms of staff reductions which is intended to bolster delivery of the 2014/15 overall target in the short term. Current estimates are that this will deliver an additional £1.8m saving in the next full financial year and beyond with a smaller saving of approximately £300k in the current year.
- 2.8 It is clear that the position with regard workstream savings is largely behind target and this area will need to be subject to specific review, challenge and support.
- 2.9 Overall the key message is that the Council, subject to the high level risks and issues below, remains on track to deliver within the overall resources identified to support the budget in 2014/15. This is contingent on a continued robust delivery of Directorate and workstream savings targets.**
- 2.10 In determining the high level budget strategy for 2015/16 onwards the MTFP discussed later in this report considers the impact of specific variances in year and the potential use of any one-off underspends that arise.**

Section 3 – Current year Financial and Service risks

The purpose of this section is to provide an overview of the identified high level financial and service risks which could impact on the 2014/15 revenue outcome as detailed in section 1 above. It is critical in understanding the potential for in year variances

An analysis of the current position is given within the tables in section 3.1 below.

Conclusions and recommendations are that the Council remains at some risk around the identified areas and where appropriate further assessments of likelihood and scale of impact have been undertaken.

3.1 The Council continues to carry a number of financial risks arising out of both Corporate and Service issues:-

Corporate Financial Risks

Issue	Scale/Risk	Mitigation/Funding
Equal pay payments	£1m+/Medium	
The Council is in the process of settling equal pay claims covering a number of categories of claimants. The current financial position suggests adequate funding exists subject to settlement rates on grievance claims.		Current analysis of settled and projected claims suggests adequate funding exists based on agreed settlement rates. Any movement upwards on these rates introduces a potential additional cost over and above sums currently set aside. Any additional funding would be a call on one-off savings for 2014/15 or reserves. This may however change if the basis of settlement moves.
Pay awards	£1m+/Low	
The employers proposed 2014/15 1% pay award has yet to be agreed by the relevant Unions. Any increase above this level – built into budgets for 2014/15 – would lead to		Would have to be met from contingency fund, one off savings identified during 2014/15 or reserves. Reduction in service budgets would be difficult due to timing.

unbudgeted additional cost.		
J.E. Appeals		
The Council is commencing a significant appeals process following the introduction of JE from April 2014. The budget report approved by Council on 14/2/14 approved the Revenue Budget for 2014/15 which contained a clear statement that ' any additional costs that may potentially arise out of the appeals process will be met from within existing Directorate Budgets '.	£1m+/Medium	Notwithstanding the statement on meeting costs from Departmental budgets, given the period that may elapse from agreement of any successful appeal and the implementation date (subject to backpay) the Council will need to have a contingency plan in place to meet backdating costs to 1/4/14 where appeals are decided after year end.
Sustainable Swansea Workstream savings There is some delay in delivery of current year planned workstream savings which will require increased support and challenge in the areas concerned.	£1m+High	The current analysis suggests that there is a timing issue implicit in the delivery of these workstreams rather than an strategic inability to deliver. As such the mtfp going forward continues to assume that they will be fully delivered over the medium term.

Service Financial/operational risks

Issue	Scale	Mitigation/Funding
Key areas of spend around Social Services (particularly at this stage in adult services/Mental Health services) remain volatile in terms of demand.	£1m+	Discussed at Executive Board. Action being taken to manage demand in the current year with long term plans in place (ICF etc.) to further manage demand.
Key areas of education spend around out of school tuition show	£500k	Discussed at Executive Board and alternative reductions across

continued signs of overspend without current mitigation.		education budget being pursued.
Employment training grants continue to reduce ahead of downsizing of service.	£500k	Discussed at Executive Board – action being taken to downsize cost 14/15 – timing issue at present.

Section 4 – Revised Medium Term Core Funding Forecast

The purpose of this section is to provide an update on the latest known position regarding the potential levels of Aggregate External Funding Going Forward together with an impact across a range of assumptions both in terms of Aggregate External Finance and potential Council Tax levels.

An analysis of the current position is given in sections 4.1 to 4.5 below.

Conclusions and recommendations in respect of planning assumptions are given in section 4.6 below and are based around an annual reduction of 4.5% in AEF and an indicative annual 3% rise in Council tax which is consistent with assumptions contained within the Medium term Financial Plan.

4.1 Existing position 2014-15

The net revenue budget requirement set for 2014-15 excluding Community Councils was £414m, consisting of gross expenditure of £681m and associated revenue of £267m, comprising specific grants and trading income. It was financed as follows:

2014-15	£m	%	Determined
Aggregate External Finance	318	77	By Welsh Government
Council Tax – Swansea	96	23	By CCS - with constraints
Total Financing	414	100	

This paper considers the strategic position regarding the budget for 2015/16 to 2017/18 and presents figures rounded to £m. A stylised presentation and assumption in all cases is made of a low, medium and high outcome, albeit the parameters of each component are different.

4.2 Aggregate External Finance

4.2.1 Prior announcements for 2015-16

In announcing the 2014-15 final local government grant settlement indicative figures were provided for Aggregate External Finance (the combination of Revenue Support Grant and redistributed Non Domestic Rates) for 2015-16. The average reduction was predicated on a broad further 1.5% reduction across Wales. The figure for Swansea at £314,385,000 was equivalent to a 1.2% reduction.

Great caution must be taken with such announcements as the prior year's announcements about indicative figures have swung wildly (adverse) for all Councils at actual settlement and Welsh Government has subsequently announced future grant reductions can be expected to be substantially more challenging.

4.2.2 Ministerial letter of 24 June 2014

The Minister for Local Government and Government Business letter to all Council Leaders set out fundamentally worse funding projections for block grant going forward. Whilst referencing the existing indicative average 1.5% reduction, the message is clear that this has been overtaken by events and there is reference to consider how authorities should respond to an up to 4.5% reduction for the forthcoming year (2015/16).

In addition there is reference to requiring scenario planning for a range of challenging settlements beyond 2015-16 based on continuing and repeated scales of reductions in the order of the same magnitude.

On 8th October 2014 the Welsh Government announced the provisional settlement for Local Government in Wales for 2015/16. This report is constructed on the basis of numbers contained within the provisional settlement in respect of 2015/16..

It is felt prudent to scenario plan over the medium term for three ranges:

- A highly optimistic assumption sticking to the original indicative targets of a broad 1.5% per annum reduction for years beyond 2015/16;
- A flagged possible worst case (but could actually get worse still) 4.5% per annum reduction;
- An assumed middle ground case of 3% per annum reductions

The stylised assumptions are assumed to hold for the following two years of the medium term financial plan, i.e. if the middle assumption is used, then it is the provisional settlement followed by a further 3% and then a further 3% reduction in block grant. In all scenarios based around economic research and forecasts it is inevitable that public sector austerity will continue until at least 2022, which reinforces the planning assumptions around sustained and continuing core funding reductions.

Aggregate External Finance - £ millions

		2015/16	2016-18 – cumulative 2 year effect £m		
	Current	Provisional	-1.5% pa	-3% pa	-4.5% pa
AEF	318	307	298	289	280
Reduction		-11	-20	-29	-38

4.3 Council Tax – Swansea

Budgeted gross council tax yield for Swansea for 2014-15 was £95,435,000, which we have rounded up to £96 million. This remains prudent as we are seeing reductions in single persons discounts, following a targeted and forensic reassessment of eligibility, and we have not seen any reduction in collection rates (as we might have first feared) as a result of the all Wales Council Tax Support Scheme.

This remains the gross yield on Council Tax and it must be borne in mind that any Council Tax increases results in a corresponding increase in the local cost of the Council Tax Support Scheme, and that will have to be met as expenditure by the City and County of Swansea. This will be flagged as a spend pressure when we consider the spend side of the budget plan.

To be prudent and err on side of caution we will not, for broad strategic planning purposes at this stage, make any assumption about additional growth in the Council Tax base beyond the slight increase implied by rounding the starting point up to the nearest £1 million.

Policy decisions on the level of Council Tax will of course remain a matter for full Council to determine on an annual basis and it is always relatively challenging to set out a published range of Council Tax options years in advance, so what follows can only be an indicative assumption to give a plausible range of planning scenarios, to aid the overall understanding of the financial plan.

The following stylised planning assumptions are made:

- As in the past, there is no formal published upper limit to annual Council Tax increases but Welsh Government reserve powers and hints of action taken against what could be deemed to be excessive rises, place an effective top end cap at 5% per annum. This is assumed to be the absolute high end of any potential increases for scenario planning;
- Given the sheer scale of spending reductions needed to set a future balanced budget it is considered equally implausible (albeit theoretically not impossible) that Council Tax levels will be cut. This provides a lower limit of 0% per annum;
- To provide a middle ground option, the stylised assumption is 3%. This provides continued consistency with the current single assumption set out in the existing medium term financial plan.

Council Tax - Swansea - £ millions

	Current	2015-18 – cumulative 3 year effect £m		
		0% pa	+3% pa	+5% pa
AEF	96	96	105	111
Increase			+9	+15

4.4 Combining the assumptions around the resource forecasts

We have set out a range of low, medium and high stylised assumptions for each of the core components of the overall resources available, which does ultimately constrain and determine the budgets we can anticipate setting.

Whilst all or none of these three stylised assumptions may come to pass and indeed it is more likely that the final outcome is one that is either a mix of all permutations,

or none at all rather than any one single stylised set of low, medium or high outcomes. It provides a bounded range and a mid point to try to capture relative sensitivities, for the first time in our planning assumptions.

In sensibly combining the components it must be borne in mind, there is a need to align running orders of the three scenarios. So a worst overall case scenario is one which combines high scenario cuts in Aggregate External Finance and low scenario increases in Council Tax income. The converse is also true, an overall best case (solely in terms of resource availability) is one which combines high increases in Council Tax income with low reductions in Aggregate External Finance. This realignment is marked in the following table by *.

Future Resources - £ millions

		2015-18 – cumulative 3 year effect £m		
	Current	Best	Medium	Worst
Aggregate External Finance	318	298	289	280
Council Tax – Swansea*	96	111	105	96
Total Financing	414	409	394	376
Reduction		-5	-20	-38

* Running order reversed so best increase aligned to worst cut and vice versa

4.5 Commentary on the resource scenarios

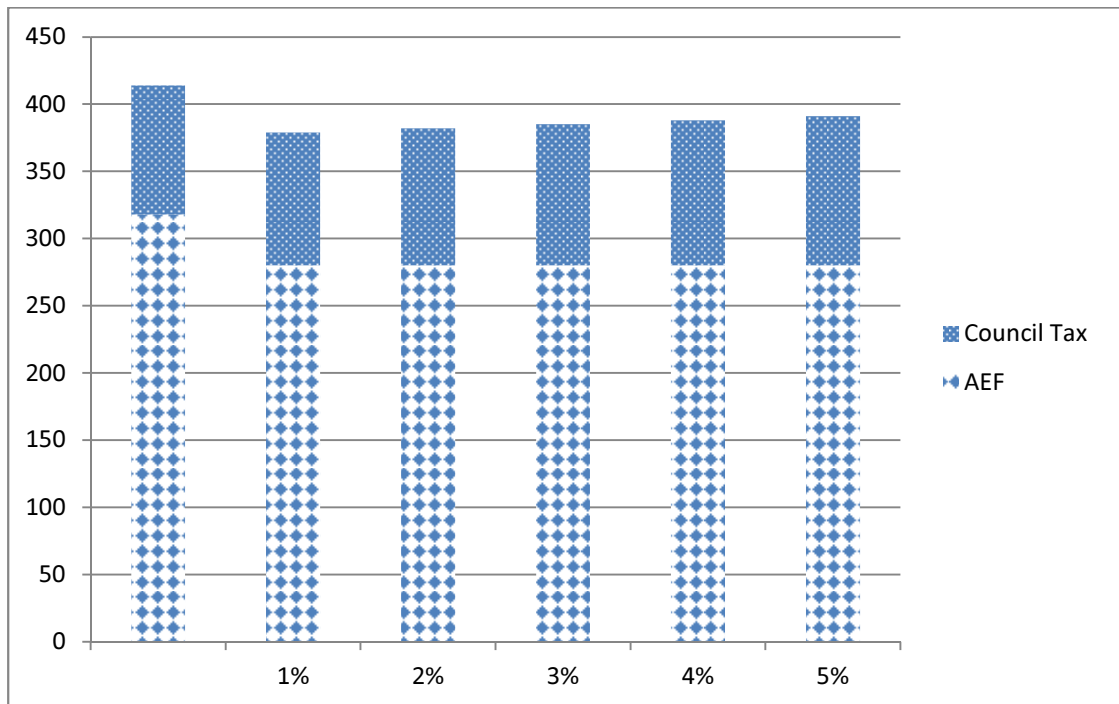
In combining the three sets of stylised assumptions, crucially in the correct order, we are saying:

- If there is no change in Council Tax levels for three years, and there is a 4.5% per annum reduction per annum in Aggregate external Finance beyond 2015/16, then we face a £38 million cumulative reduction in resources, before we even factor in any spend and inflation pressures whatsoever.
- The mid range scenario results in a loss of resources, before any spend and inflation pressures of a cumulative £20 million.
- The best case resources scenario, of low 1.5% reductions in Aggregate External Finance, combined with high 5% per annum Council Tax increases, could mean to the nearest £1 million we face a £5 million cumulative reduction in resources, before we even factor in any spend and inflation pressures whatsoever.

4.6 Prudent planning assumptions.

At this point, given the clear message contained in the letter from the Minister, it would be prudent to assume an annual reduction in AEF of 4.5% for 2016/17 and 2017/18.

The following graph illustrates this reduction set against an annual Council Tax rise ranging from 1 to 5%



At an average rise of 3%, which was the indicative figure given in the MTFP approved by Council on 14th February, the net reduction in funding over the three year period would be £32m and this forms the basis of planning for the rest of this report.

Section 5 – Updating assessments of specific grants

The purpose of this section is to provide an assessment of the potential impact on the Councils medium term resources in respect of potential reductions in specific grants.

An analysis of the current position is given in sections 5.1 to 5.4 below.

Conclusions and recommendations in respect of planning assumptions are given in section 5.5 below.

Our successive budgets and medium term financial plans have made one assumption about specific grants: effectively that spend plans are aligned to specific grants and if specific grants reduce, expenditure will reduce to neutralise the loss of grant. That remains an explicit assumption but emerging evidence in terms of the pace and scale of reductions in specific grants requires us to more robustly capture and model risks around specific grant reduction and indeed cessation.

5.1 Existing position 2014-15

Underpinning the net budget set for 2014-15 were substantial specific grants. The most consistent method for capturing and reporting specific grants is to utilise the statutory budget returns (RA returns) which all local authorities have to complete. There are some inherent risks in such an approach:

- Not all grants are firmly agreed at the time of the return
- New grants emerge
- Some grants change (in terms of focus or target or amount) after the budget is set
- Some smaller and ancillary grants can be omitted from the data collection process

The total specific grants underpinning the 2014-15 budget, with broadly matched expenditure were £174,492,000.

2014-15	£m	Determined
Specific Grants	174	By Welsh Government
Total Specific Grants	174	

The nature and range of grants is incredibly diverse. They range in size from, through and to:

- Private sector and HRA housing benefit subsidy £88m;
- Supporting People £12m;
- Foundation phase (education) £7m;
- Concessionary fares £6m;
- Waste Grant £5m

- A range of very small grants worth a few thousand pounds each.

A stylised presentation and assumption in all cases is made of a low medium and high outcome, albeit the parameters of each component are different.

5.2 Past history and recent announcements

A raft of announcements and experiences lead us to conclude it remains wholly inappropriate to not recognise the scale of specific grants underpinning our spending and work. Particularly given the size of some of the reductions proposed or to come.

Our current Work Based Learning contracts with employment training have recently just been cut by 26%

Adult Education had announced a 37.5% reduction in learning grants.

Pupil Deprivation Grant (currently worth over £5m per annum) is currently pegged for 2014-15 at a one off £918 per child. The provisional settlement as announced on 8th October shows the following position for 2015/16 and 2016/7:

	Current	2015/16	2016/17	2017/18
	£'000	£'000	£'000	£'000
PDG	5,300	6,100	6,700	6,700
Increase		800	1,400	1,400
%		15%	26%	26%
Per child	918	1,050	1,150	1,150

Summer announcements regarding £20m going into the new Schools Challenge Cymru programme whilst on the face of it positive look less so when the detail is analysed. It looks likely nationally £4.4m will come from existing education grant under School Effectiveness, Minority Ethnic Achievement Grant and 14-19 Network Grant. This would be equivalent to a near 10% cut nationally and we can assume the equivalent locally.

5.3 Taking a view on specific grants

The most likely scenario is there will be further reductions in specific grants in total value. Some will reduce, some will cease and some new ones will spring up. Given their nature and the timing of announcements it is problematic to capture these in a forward strategic plan given they direct resources to Ministerial priorities which ebb and flow over time.

Having due regard to the large grants the following are considered possible scenarios (the assumptions vary from fact, informed, to presumption to guess):

Specific grants – Swansea - £ millions

	Current value £m	Possible outcome	Impact on
Families First	3	Frozen	People
MEAG	1	10% cut	Delegated
Post 16 schools provision	6	5% cut	Delegated
Flying Start	6	Frozen	Delegated
Foundation Phase	7	Slight increase	Delegated
School Effectiveness Grant	2	10% cut	Delegated
Pupil Deprivation Grant	5	15% increase	Delegated
Concessionary Fares	6	Frozen	Place
Bus Services Support	5	10% cut	Place
Supporting People	12	7.5% cut	People
Community Housing	4	5% cut	Place
Work Based Learning	5	26% cut	People
Waste Grant	5	Frozen	Place
Outcome Agreement	2	10% cut	Corporate
Substance Misuse	2	Frozen	People
European Rural Development Plan	2	Frozen	Place
Communities First	2	Frozen	People
Outcome agreement grant	2	Frozen	Corporate
Housing Benefit	88	2% per annum increase	Corporate/HRA
Other	9	Miscellaneous	
Total	174		

5.4 On balance it is felt prudent to model the following three outcomes:

- A reduction of 6% per annum excluding housing benefit related grants;
- A reduction of 4% per annum excluding housing benefit related grants;
- A reduction of 2% per annum excluding housing benefit related grants;

In all cases the explicit assumption is that the overall loss of grant will be offset by a range of reductions in service expenditure equivalent to the overall loss of grant.

Specific Grants - Swansea - £ millions

	Current	2015-18 – cumulative 3 year effect £m		
		-2% pa	-4% pa	-6% pa
Grant income	174	169	164	159
Assumed spend*	-174	-169	-164	-159
Net cost	0	0	0	0

* This ignores the relatively small number of cases where there is an obligation to match fund specific grants with core resources. There are also instances where the authority voluntarily spends more on services currently than the level of specific grant and this is then recorded as net spend within the overall cost of services.

Specifically, whilst there is no overall financial impact if spend is reduced at the same rate as grant is reduced, we are recognising explicitly for the first time the propensity to need to remove spending and activity and this will have consequential impacts on residents and communities.

If specific, non housing benefit grants fell on average by 3% per annum, £8 million of less spending will need to be undertaken by the authority by year three. That would be in addition to any spend reductions relating to loss of core funding and spend pressures highlighted elsewhere in this report.

5.5 Of course by their very nature each grant is considered and awarded through a different section of Welsh Government. Each of those separate Departments will be subject to varying overall reductions in core funding and will separately have the ability to vire funding across various service areas on an annual basis.

5.6 The result is that reductions in specific grant funding may be far more draconian than the initial modelling suggests.

Section 6 – Revised Medium Term spending pressures forecast

The purpose of this section is to provide an update on the known and assumed spending pressures which will impact the Councils Revenue Budget in the medium term.

An analysis of the current position is given within the tables in sections 6.1 to 6.3.9 below.

Conclusions and recommendations in respect of planning assumptions are given in section 6.3.10 below which results in a significantly larger level of spending pressures largely as a result of National Decisions regarding levels of National Insurance and Teachers Pension contributions.

6.1 The starting position is a review of the stated included and excluded assumptions in the published MTFP.

Existing published projected spending pressures 2015/16 – 2017/18

		<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>
		<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Future cost of pay awards		3,400	6,800	10,200
Pay and grading scheme		3,000	5,700	8,400
Cumulative contract inflation		2,000	3,000	4,000
Capital charges		2,750	4,250	4,250
Schools pay award		2,400	4,800	7,200
Contribution to capital charges		-2,000	-2,000	-2,000
Use of General Reserves		2,200	1,200	
Total known pressures		13,750	23,750	32,050
AEF movement		3,545	6,745	6,745
Cumulative budget shortfall		17,295	30,495	38,795

The above spending pressures were accompanied by extensive notes not included for brevity in this paper but they remain extant.

6.2 Assessment of the assumptions and material changes to make

6.2.1 Pay awards

It was prudent to provide for 2% pay awards for staff and a similar pay award for teachers. Recent commentary by the Governor of the Bank of England indeed indicates that pay growth is likely to accelerate over the next few years as slack is eroded from the economy. Nonetheless this potential for pay growth has to be contrasted with the past six years experience which is an effective public sector pay freeze or pay cap of 1% each year and indeed no agreement nor seemingly agreement on the current year pay award offer of 1% at all. Having due regard to our employee budgets it is considered equally likely that future pay awards could be at nil or 1% as opposed to the current 2%. Each 1% less is worth £1.7m per annum. Compounding 1% less for each of three years is over £5 million.

On balance it feels that an appropriate solution is to assume the mid point 1% per annum and if increases go higher then the cost of those increases will have to be mitigated by agreeing to budget for yet lower numbers of staff employed

6.2.2 Pay and Grading Scheme

This provides an estimate of the cost of implementing a pay scale where the majority sit on the bottom of the new pay scale and progress up to the top of pay scale. There is no material reason to modify the assumptions made.

6.2.3 Contract inflation

Inflation has proven muted and lower than expected. Given the scale of purchased services the current increases are modest and it would be prudent to keep them unchanged.

6.2.4 Capital charges

No reason to change existing assumptions

6.2.5 Schools pay award

Same comments apply to pay generally above – the expected range is 0, 1 or 2%. If the same mid point approach is used then each 1% saved is worth £1.2m per annum or £3.6m over the three years. The same explicit assumption that budgets will be capped at a 1% increase means if actual pay awards are higher as slack is removed from the economy then less staff will be employed as the mitigating factor.

6.2.6 Schools capital charges contribution

No reason to change the assumptions

6.2.7 Use of Reserves

No reason to change the assumptions

6.2.8 AEF Movement

This should be removed as a spend pressure as it has been more accurately reclassified and separately considered as part of resource availability elsewhere in this paper. Having said this the assumed 1.5% then static settlements has of course been totally transformed by the Ministerial advice to model up to 4.5% per annum reductions. The scale of reduction is significantly larger than previous forecast.

6.3 New considerations to factor in to the forecast

6.3.1 Changes to Teachers Pensions

After setting the budget and medium term financial plan the government announced likely changes to employer contribution rates for the teachers pension scheme. A long standing 14.1% employer rate is now confirmed to be replaced by a 16.4% rate with effect from September 15 and triennial revision thereafter. Accommodating the difference between academic and financial years we can reasonably estimate the additional employer cost to be £1m in 2015-16 and a full year cost of £1.7m (i.e additional £0.7m) in 2016-17. This is an additional unavoidable pressure falling on schools. In light of continued Ministerial protection for Schools this will have to be funded by Schools own resources.

6.3.2 Changes to National Insurance

The government intends to progress the single state pension with effect from 1 April 2016. Linked to this is an unavoidable removal of the current 3.4% national insurance rebate to providers of contracted out pension schemes. Both the Local Government Pension Scheme and Teachers Pension Schemes are such schemes. Whilst there will be statutory provisions for savings to be made to pension arrangements for private sector employers to offset these increased costs there is no mechanism offered for public sector schemes and HM Treasury forecasts an extra £5 billion plus in national insurance receipts which must imply no offsetting additional funding to public bodies to neutralise the cost. This will fall to all employers. We estimate the cost to be a worst case £8m in 2016-17 split £2.5m schools and £5.5m non schools. In light of continued Ministerial protection for Schools the Schools element will have to be funded by Schools own resources.

6.3.3 Older people demographics

It is recognised the population in Western Europe, the UK and Wales is getting increasingly elderly and even more so at the higher dependency higher cost over 85 level. Further more detailed and sophisticated work needs to be done on elderly demographics but it is reasonable to flag the need for additional volume spending, growing at a stylised rate of £2m per annum.

6.3.4 Childrens services

Notwithstanding the demographic trends in the elderly population, there is also an emerging theme of longer term demographic pressures in childhood ages and this is forecast to particularly affect three Welsh authorities, including Swansea. This has implications for both children's social services and for schools, albeit the latter to some extent have the benefit of surplus capacity places so it is expected the overall impact for education is somewhat deferred (because in the short run extra school places can be accommodated in existing schools and the formula grant allocation will respond relatively to increasing school age populations).

Furthermore there is an inevitability that given well documented serious child protection failures in some English authorities that there is a likelihood of increased spend pressures flowing from reporting of concerns by the wider public, vigilance by staff within and without social services and by other stakeholders and law enforcement bodies and systems assurance required in our own aspects of child protection.

Overall it is considered reasonable to make a stylised assumption of a further spend pressure at a growing rate of an additional £1m per annum.

6.3.5 Taxation

There are no significant pressures, beyond normal measures (e.g. land fill tax), to require additional and specific large scale uprating of our spend pressures.

6.3.6 Council Tax Support Scheme

Elsewhere in this paper we have separately considered three scenarios for annual increases in Council Tax. It is emphasised these were on the gross Council Tax yield. Under the Council Tax Support Scheme a sum was transferred into aggregate external finance to pay for the costs of the support scheme. All future increases in costs have to be met locally. Crucially as we have budgeted for gross increase in Council Tax income we need to budget for the increased local costs of providing Council Tax support to those on low incomes. CTSS amounts to approximately £20 million. A 1% per annum Council Tax increase for three years adds about £0.6 million to our spending

cumulatively. A 5% per annum increase adds £3.2 million cumulatively. A mid range 3% per annum adds £1.9 million cumulatively.

6.3.7 Specific grants

We have separately factored in elsewhere in this report an explicit assessment of specific grants and the likelihood of loss of resources for the first time.

6.3.8 Change in ICT contract arrangements

The Council will be changing the model of ICT service delivery during 2015/16 which may result in additional transition costs for ICT services during that year.

Given the effective start date for the new arrangements (January 2016) and the likelihood that there will be ongoing cost reductions from that date, no sum has been factored in for additional transition costs for 2015/16 which, should they materialise, will have to be met from Contingency/one-off use of reserves. Provision for savings arising from the contract cessation has already been built into Departmental savings targets for 2015/16 and beyond.

6.3.9 Western Bay Partnership/Intermediate Care Fund

The Council is committed to ongoing partnership arrangements with Neath Port Talbot CBC, Bridgend CBC and Abertawe Bro Morgannwg Health Authority regarding the future provision of common services. The immediate impact of the agreed strategy is a known increase in costs arising from the Intermediate Care Fund proposals of some £1.6m for 2015/16. The business plan for the ICF assumes no additional funding requirement beyond 2015/16 and this is reflected in the MTFP.

6.3.10 Reassessing the spending pressures

Combining the various assumptions and updates above we have the following updated assessment:

		<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>
	Note	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
<i>Future cost of pay awards at 1%</i>		1,700	3,400	5,100
Pay and grading scheme		3,000	5,700	8,400
Cumulative contract inflation		2,000	3,000	4,000
Capital charges		2,750	4,250	4,250
Schools pay award		1,200	2,400	3,600
Contribution to capital charges		-2,000	-2,000	-2,000
Use of General Reserves		2,200	1,200	0
<i>Teachers Pensions</i>		1,000	1,700	1,700
<i>ICF funding requirement</i>		1,600	0	0
<i>National Insurance rebate</i>			8,000	8,000
<i>Demographics – Elderly</i>		2,000	4,000	6,000
<i>Demographics and pressures - Children</i>		1,000	2,000	3,000
Council Tax Support Scheme		600	1,200	1,900
Total known pressures		17,050	34,850	43,950

Where each of these items represents a new or increased burden then it will be necessary to stretch the targets in relation to the appropriate delivery stream within the Sustainable Swansea programme.

Items in bold italic above represent areas of changes in assumptions/new items compared to the original mtfp and are open to debate and potential change.

Section 7 – The Medium Term Financial Forecast

The purpose of this section is to combine the assumptions highlighted in Sections 4, 5 and 6 above to provide a high level set of planning assumptions around resource requirements going forward.

An analysis of the current position is given in sections 7.1 to 7.4 below.

Conclusions and recommendations in respect of the forecast are given in section 7.5 below which identifies a potential minimum additional funding deficit for the period of the MTFP critically assuming that:-

- All current planned savings both at Directorate level and through workstreams are achieved
- Any specific grant reductions are matched by equivalent specific service reductions
- All other planning assumptions remain valid.

Specifically it would be prudent at this time to envisage savings of around £10m in excess of current savings plans for 2015/16 alone.

- 7.1 Having assessed the potential spending pressures and likely resourcing scenarios we need to combine the two to determine the overall resource gap.
- 7.2 Whilst the resourcing side has been sensitivity tested with a range of scenarios, for the purposes of establishing both a single medium term forecast and an annual target for each year the explicit assumption is made that the mid range forecast is used.
- 7.3 The forecast resource gap is as follows:

		<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>
	Note	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Total known pressures (as above)		17,050	34,850	43,950
Loss of block grant AEF		10,721	24,957	38,154
Resource gap		27,771	59,807	82,104

- 7.4 We can set against this revised resource gap existing and agreed measures, including the existing proposals set out in the medium term financial plan

approved in February 2014, the updated assessment to Cabinet on 29 July and the assumptions set out in this paper on future levels of Council Tax

		<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>
	Note	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Council tax increase (gross)		2,880	5,846	8,902
Specific savings proposals already agreed and set out in MTFP		8,990	17,143	18,706
Planned future workstream savings including those already set out in the MTFP and refreshed and updated with additional proposals to Cabinet on 29 July 2014		4,095 to 5,850	11,445 to 16,350	18,620 to 26,600
<i>Resource gap addressed at top end of savings range</i>		17,720	39,339	54,208

7.5 This leaves the following gap to be addressed by further savings measures.

	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>
Note	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
<i>Remaining minimum resource gap</i>	10,051	20,468	27,896

7.6 However, it is clear that an element of the identified spending pressures would normally fall on Delegated Schools Budgets. These pressures would include any sums relating to Teachers Pensions, Teachers pay awards and National Insurance costs attributable to teaching staff.

7.7 Assuming the above and NO CHANGE in the current level of delegated budget (Other than a potential contribution to Capital Charges in respect of the Schools improvement programme of £2m) then the following would remain as a general fund costs to the Council:-

		<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>
		<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
<i>Remaining minimum resource gap (as above)</i>		10,051	20,468	27,896
<i>Less pertaining to schools and not funded</i>		-2,200	-6,600	--7,800
<i>Remaining minimum General Fund resource gap</i>		7,851	13,868	20,096

Note that this does not imply any policy in respect of funding delegated schools budgets which will form part of detailed budget work prior to February 2015.

Whatever resource gap arises from this process will result in stretched targets within the appropriate work streams within the Sustainable Swansea Programme.

Section 8 – Medium term Financial Planning for Schools

The purpose of this section is to highlight the estimated effect of specific spending pressures and potential specific grant reductions on Schools budgets as a precursor to any debate around additional savings targets for 2015/16 and beyond.

An analysis of the current position is given in sections 8.1 to 8.3 below.

Conclusions and recommendations in respect of schools budgets given in sections 8.4 and 8.5 below.

The additional potential budget reductions to schools arising out of the areas described above form PART OF the overall budget deficit as highlighted.

- 8.1 The annual projected funding deficit for the period 2015/16 to 2017/18 shown in section 7 above reflects the Gross funding requirement for the Council as a whole including expenditure relating to the Schools' delegated budgets.
- 8.2 In understanding the potential pressure on Schools budgets prior to any allocation of potential budget reductions it is important to understand the implications of both reductions in specific grants and estimated spending pressures
- 8.3 The following table, building upon information given in sections 5 and 6 above, shows the potential effect on Schools budgets in relation to specific items:-

	2014/15	2015/16	2016/17	2017/18
	£'000	£'000	£'000	£'000
Delegated Schools Budget	138,304,100	138,304,100	138,304,100	138,304,100
Schools pay award		-1,200,000	-2,400,000	-3,600,000
Contribution to Capital charges		-2,000,000	-2,000,000	-2,000,000
Teachers Pensions		-1,000,000	-1,700,000	-1,700,000
National Insurance Rebate			-2,500,000	-2,500,000
Pupil deprivation grant		800,000	1,400,000	1,400,000
School Effectiveness Grant		-150,000	-150,000	-150,000
Total budget strain		-3,550,000	-7,350,000	-8,550,000
Real terms budget	138,304,100	134,754,100	130,954,100	129,754,100
% reduction Against current base		-2.5%	-5.3%	-6.18%

8.4 The clear effect is that if Schools accept only those pressures/reductions that are applicable to that service and accept no part of core AEF funding reductions then there would need to be a net reduction in schools relative spending power of some 7% by 2017/18 assuming no cash delegated funding increase.

8.5 The provisional Local Government Settlement for 2015/16 implies a protection level for Schools linked to the overall Welsh Government funding changes in respect of overall Central Government funding. This requires further clarification from Welsh Government in due course.

Section 9 – Use of Reserves

The purpose of this section is to highlight the current planned use of General Reserves to support the 2014/15 Revenue Budget and to outline the relationships between known risks and earmarked reserves and its effect on planning assumptions.

An analysis of the current position is given in sections 9.1 to 9.5 below.

Conclusions and recommendations in respect reserves usage is given in section 9.6 below.

- 9.1 The current 2014/15 Revenue Budget is underpinned by a proposed use of £2.2m from general reserves.
- 9.2 In terms of planning assumptions the assumption is that this creates a spending pressure for 2015/16 as there is no assumption of ongoing availability of General Reserves for that year or beyond.
- 9.3 Whilst the Council maintains a number of specific reserves they are not factored into planning assumptions based on the following:
 - They are either ring-fenced under statute or scheme of delegation (e.g. Schools' delegated reserves)
 - They are earmarked to meet known liabilities
- 9.4 In addition various sections highlighted throughout this report refer to significant ongoing risk around current activities – particularly single status and outstanding equal pay claims.
- 9.5 It remains the position that until these significant risks are fully mitigated then any additional planned use of earmarked reserves to support general revenue budget deficits would be inappropriate.
- 9.6 At this point in time, in line with previous years, any consideration regarding use of reserves should relate to General Reserves only and previous planning assumptions remain extant.

Section 10 – General Fund Capital programme and financing

The purpose of this section is to highlight the continuing funding deficit across the period of the current capital programme and to reaffirm the need for accelerated and increased Capital receipts to support the programme.

An analysis of the current position is given within the tables in sections 10.3 to 10.5 below.

Conclusions and recommendations in respect reserves usage is given in section 10.6 below.

- 10.1 The General Fund Capital Programme approved at Council on 14th February 2014 highlighted potential in year funding deficits for both Directorate Services and Schools improvement programme of some £18.705m for 2014/15 assuming achievement of budgeted capital receipts of some £3.242m.
- 10.2 The overall deficit in financing highlighted for the period covered by the forward capital programme is some £43.396m after allowing for assumed capital receipts of some £13.144m.
- 10.3 Previous reports have highlighted the need to accelerate the rate and scale of asset disposals in order to mitigate the above requirement which is substantially made up of funding requirements relating to the Schools Programme.
- 10.4 Again as highlighted in previous reports the revenue effect of the above has to be taken in conjunction with the annual debt repayment being made by the Council and, in particular, the level of net debt held at any point in time.
- 10.5 Until such time as additional asset sales materialise both spending pressures and recovery of debt charges arising from the schools programme via reductions in delegated budgets remain part of the revenue funding planning of the Council.
- 10.6 It remains the case that other than further receipt of capital grants or a substantial increase in asset disposals there is no headroom going forward in terms of the general fund capital programme.

Section 11 – Legal and Equalities implications

11.1 Legal Implications

11.1.1 There are no legal implications arising from this report.

11.2 Equalities Implications

11.2.1 The budget reductions implicit in the 2014/15 approved budget were subject to an appropriate Equality Impact Assessment which was considered as part of the overall budget process.

11.2.2 Where additional budget savings requirements are identified as part of the 2015/16 and Medium Term Financial Plan budget processes they will again be subject to an appropriate Equality impact assessment (including relevant consultation and engagement) as part of the budget considerations.

Mike Hawes

Head of Finance and Delivery, Tel 01792 636423