

## Report of the Section 151 Officer

Council - 24 February 2015

### MEDIUM TERM FINANCIAL PLANNING 2016/17 - 2018/19

<b>Purpose:</b>	This Report sets out the rationale and purpose of the Medium Term Financial Plan and details the major funding assumptions for the period and proposes a strategy to maintain a balanced budget.
<b>Policy Framework:</b>	Sustainable Swansea – Fit for the Future
<b>Reason for decision:</b>	To agree a strategic framework for future service planning.
<b>Consultation:</b>	Legal, Access to Services, Cabinet Members and Executive Board
<b>Recommendations:</b>	It is recommended that:-  The Medium Term Financial Plan 2016/17 to 2018/19 be approved as the basis for future service and financial planning.
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#### ***Section 1 – Introduction and Background***

### **1. Introduction and Background**

1.1 Service and financial planning continues to be undertaken against a backcloth of reducing overall financial resources and increasing service pressures and demand.

The Medium Term Financial Plan (MTFP) is an overarching plan which:

- Covers 3 future years.

- Forecasts future known additional spending requirements, likely resources and potential funding shortfalls
- Links to the Council's adopted strategy '**Sustainable Swansea – Fit for the Future**' as a means of addressing future budget shortfalls.
- Links to the Council's revised Corporate Plan, "Delivering for Swansea" and the delivery of our top 5 priorities.

Future detailed Service planning will need to be undertaken within the financial assessments and forecasts contained within the Medium term Financial Plan.

- 1.2 It is important to understand that the MTFP does not constitute a formal budget in respect of the period 2016/17 to 2018/19 and as such the indicative annual assumptions included both within the projected spending pressures detailed in Section 2 of this report and the potential funding detailed in Section 5 will be subject to a full review and decision making process as part of each of the annual Revenue Budget and Council Tax setting decisions.
- 1.3 Instead, the MTFP is intended to outline, in broad terms, the specific service and funding issues over the three year period and how the Council will, within its financial constraints, fund its priorities and achieve major service change and savings.
- 1.4 It is essential as a planning and review tool in order to assess on an ongoing basis assumptions around service pressures and progress against delivery of savings.
- 1.5 The plan serves to highlight the trend for increasingly difficult times ahead in terms of funding for this Council and Local Government in general, as well as the service pressures that the Council faces from rising demands and increases in demography.
- 1.6 Importantly, it is essential that the MTFP becomes a 'living' document that is subject to regular review and revisions more information becomes available and risks are updated.. As such, it is anticipated that, along with close monitoring of the specific budget proposals and savings targets for 2015/16, further reports to Cabinet regarding the MTFP will be made as necessary. In particular, the Mid Term Budget Statement in the Autumn of 2015 will provide a key update on the financial outlook and delivery of savings.
- 1.7 The MTFP is one of many documents that are produced in terms of financial planning and control. These include:-
  - The annual Revenue and Capital Budgets of the Authority
  - The annual HRA Capital and Revenue Budgets

- The Formal quarterly budget monitoring reports that are presented to Cabinet
- The Mid-term Budget Statement intended to be produced each year as an aid to strategic review on progress.
- The Revenue and Capital outturn Statements taken to Cabinet following year end.
- The annual Statement of Accounts produced and approved by Council on an annual basis.

1.8 The MTFP is intended to form a logical flow from an assessment of forecast resources over the medium term through each step of a structured planning process for future years and as such it specifically details:-

Section 2 - Overview of financial planning environment 2016/17 to 2018/19

Section 3 - Detailed spending and resources forecast 2016/17 to 2018/19

Section 4 - Strategy to address future savings requirements

Section 5 – A summary of the medium term Financial Plan and Sustainable Swansea strategy.

Section 6 - Medium Term Financial planning for Schools

Section 7 - Risks and issues surrounding the MTFP

Section 8 - An assessment of reserves

Section 9 – Legal and Equalities implications

1.9 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 22<sup>nd</sup> October 2013 and subsequently updated, together with the 2014/15 Mid term budget statement approved by Council on 4<sup>th</sup> November 2014.

## **Section 2 – Overview of financial planning environment 2016/17 to 2018/19**

- 2.1 The Medium Term Financial Plan (MTFP) report considered by Council on 18<sup>th</sup> February 2014 included a service and financial overview. This was updated in terms of the Mid-Term budget statement taken to Council in November 2014 and is updated further below.

### ***Economic outlook and prospects for Public Finances***

- 2.2 The announcement of both the provisional and final Revenue and Capital Settlements for 2015/16 and beyond has led to a significant acceleration in regard to potential cuts to core revenue funding. In particular the recent settlement announcement for 2015/16, together with statements made by Welsh Government Ministers, suggests an ongoing and sustained reduction in both core funding levels and specific grant awards to Local Authorities throughout the planning period..
- 2.3 The UK Government's decision to cut public spending over several years is being implemented, and indeed commentary following the last Autumn Statement issued by the Chancellor suggests that the balancing of the UK's annual core funding deficit will require further prolonged and significant cuts in public expenditure.
- 2.4 Whilst Welsh Local Government has seen relative protection from cuts in Government grant since 2010, it is now clear that the Council faces a potential overall funding gap of at least £80m over the life of the MTFP (2016/17 to 2018/19) due to both reductions in Welsh Government Finance and Service pressures – and it may be more. Whilst elements of that deficit in respect of 2015/16 are dealt with in the detailed Revenue Budget proposals for 2015/16 elsewhere on this agenda, within Section 3 of this report Members will see the detailed assumptions regarding the resources forecast for the period 2016/17 to 2018/19 which quantifies significant further resource reductions throughout the period of the MTFP.
- 2.5 In addition to known core funding reductions, the Council also has a wide range of service and demographic pressures which will inevitably impact on demand for services. This has the potential to increase further in the light of the impact of potential changes at National Level in respect of cessation of Employers contracted out rates for National Insurance planned for 1<sup>st</sup> April 2016, coupled with any other measures which affect employers Pension and NI contribution rates.
- 2.6 Given the current Economic Climate both in the UK and the Eurozone it is likely that reductions in core funding will be exacerbated by further reductions in specific grant funding both for Revenue and Capital purposes. Some commentators, such as the Institute for Fiscal Studies, are predicting cuts in

public spending up until 2022, reducing the overall level of spending in the UK to immediate post Second World War levels.

- 2.7 A further complicating factor over the period of the MTFP are proposals to devolve tax varying powers from Westminster to the Welsh Government. Whilst this notionally impacts primarily on individual taxation, potential devolution of Business Rates (NDR) has the potential to impact directly on Local Authority budgets and risk.
- 2.8 In terms of core revenue funding, the Revenue and Capital settlement issued by the Welsh Government on 10th December 2014 did not give indicative settlement levels beyond 2015/16 as would normally have been the case in previous years. This leaves Authorities having to make their own assumptions regarding levels of Aggregate External Funding during the period of the Medium Term Financial Plan, based on an assessment of UK and Wales financial planning and announcements.
- 2.9 For the purposes of the planning assumptions within this Council further cash reductions of 4.5% have been assumed for all three years covered by the MTFP as shown in the following table.:-

Year	£'000	Cash reduction £'000	% reduction on previous year
2015/16	307,634	-10,590	-3.4%
2016/17	293,790	-13,844	-4.5%
2017/18	280,570	-13,220	-4.5%
2018/19	267,944	-12,626	-4.5%

Note that 2015/16 is shown in the table above as future reductions are based on the known 3.4% reduction for that year.

- 2.10 During the timescale of the MTFP there are a significant number of events which could impact on some of the major assumptions we have made:-

These include:-

- The outcome of the General Election to be held in May 2015
- The outcome of Welsh Assembly elections to be held in May 2016
- The outcome of any proposals regarding Local Government reorganisation in Wales

- Wider events that could impact on the Global economic position including Eurozone elections.

### **Support for Capital Programmes**

The settlement indicated support for future General Fund Capital programme for 2015/16 at a level of £10.129m, unchanged from 2014/15. This support is through a mix of General Capital Grant and support for borrowing.

Planning assumptions for both 2016/17, 2017/18 and 2018/19 are based on unchanged levels of support.

- 2.11 In addition, the Welsh Government has committed some £25.655m (50% of overall cost) towards the 21<sup>st</sup> Century Schools programme over the lifetime of this MTFP. The Council is required to meet its 50% share of the costs through the Capital Programme.
- 2.12 More significantly, the Capital programme detailed elsewhere on this agenda assumes a significant level of capital receipts in terms of future funding requirements. The position remains that should such receipts not materialise the Council will have no option but to consider reductions in spend, seek alternative sources of funding or, as a last resort, consider additional borrowing which will have a further adverse effect on revenue finances.
- 2.13 Over the past six years the Council has funded its entire borrowing requirement via the use of internal funds, which is entirely consistent with good Treasury Management policy given historic low interest rates on investments. The effect of that is internal borrowing as at 31<sup>st</sup> March 2014 totalled nearly £60m. Ongoing borrowing requirements and the depletion of Reserves and Provisions (including significant sums relating to equal pay settlements) means that some externalisation of this debt is now inevitable. It is clear that the Council has an opportunity to progress this at a time when external borrowing rates are at an all-time low and this strategy of externalising a proportion of debt will be undertaken in 2015/16 and beyond as opportunities arise.
- 2.14 It should be noted however, that even with borrowing rates as low as they are, externalising of borrowing is still likely to have a negative impact on revenue finances going forward

### ***Section 3 – Detailed Spending and Resources forecast 2016/17 to 2018/19***

- 3.1 The Capital Budget report forecasts capital spending and resources in the period covered by the MTFP.
- 3.2 In terms of the Revenue Budget, and in the context of financial planning

over the period of the MTFP, the overriding issue is likely to be the need to make significant ongoing savings in Service Expenditure in order to meet both projected reductions in core and specific funding from the Welsh Government together with known and anticipated spending pressures.

3.3 The following table represents the expected funding requirements (based on current policies and decisions) for the period of the MTFP:

**Projected spending pressures/funding deficiency 2016/17 – 2018/19**

		<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>
	Note	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Future cost of pay awards	1	1,700	3,400	6,800
Pay and grading scheme	2	2,700	5,400	8,100
Cumulative contract inflation	3	1,000	2,000	3,000
Capital charges	4	1,750	3,250	5,000
Schools pay award	5	1,200	2,400	4,800
Teacher's pension costs	6	700	700	700
National Insurance rebate	7	8,000	8,000	8,000
Use of General Reserves	8	1,200		
Demographic and Service pressures	9	3,000	6,000	9,000
<b>Total known pressures</b>		<b>21,250</b>	<b>31,150</b>	<b>45,400</b>
Aggregate External Finance movement		13,844	27,064	39,690
<b>Cumulative budget shortfall</b>		<b>35,094</b>	<b>58,214</b>	<b>85,090</b>

Note:

- 1) Assumed pay increases at 1% p.a. for 2016/17 and 2017/18, rising to 2% for 2018/19. Value of pay award remains relatively static based on falling staff numbers and costs relating to savings programme largely offset by increases in payroll costs due to single status implementation and cumulative effect of pay awards.
- 2) Predicted annual cumulative effect of current scheme due to be implemented on 1<sup>st</sup> April 2014 – no account taken of potential additional costs arising out of appeals process
- 3) Assumed minimum cumulative effect of known contract inflation
- 4) Presumed overall increase in borrowing due to delays in capital receipts on both general fund and schools programmes.
- 5) Presumed minimum addition to schools funding to cover base payroll cost increases. Includes calculation for pay awards in line with 1) above
- 6) Residual full year effect of employers funding increase re Teachers pension contributions following actuarial revaluation.
- 7) This is entirely dependent on a current Government policy commitment to introduce a universal state pension with effect from 1<sup>st</sup> April 2016 assumed to be funded from withdrawal of the current rebated Employer National Insurance costs for those employers with contracted out pension schemes.
- 8) Planned use of a further £1.2m for 2015/16 dependent on 2013/14 and 2014/15 outturn position.
- 9) Based on ballpark assumptions around a number of pressures including deprivation of liberty assessments and assumed pressures within both adult and children's services, together with a number of potential pressures within the areas of waste management and other services.

3.4 As stated, this forecast contains no provision for increases in net service costs, in particular:-

- a) Any increase in costs arising from decisions on Government taxation – other than potential costs relating to the scrapping of contracted out National Insurance rates - most significantly increases arising from upward increases in landfill tax costs
- b) Corporate costs in excess of budget provision in respect of single status implementation or other issues relating to employee costs.
- c) Any one off costs arising from changes to service delivery across the Council, including transformational change.
- d) Any general inflation provision relating to non-contractual issues.
- e) Any increased costs or reductions in income arising from ongoing changes to welfare reform, in particular the potential introduction of Universal Credit during the lifetime of the MTFP.
- f) Any budget changes arising from further regionalisation of Education and Social Services particularly where projected budget transfers may be in excess of current CCS service budgets.
- g) Any increases in Capital financing charges beyond those allowed for which is dependent on the Council achieving a level of capital receipts as detailed within the Capital budget submitted for approval elsewhere on this agenda.



- h) Future funding decisions in respect of protection for Social Services or Delegated Schools' budgets which may be specified by the Welsh Government in future budget settlements
  - i) Any potential downward movement in service specific grants, some of which we have experienced at short notice during the last year.
- 3.5 In addition the forecast does not allow for any potential increase in non-schools' employer superannuation rates for 2018/19 which will be based on a triennial valuation as at 31<sup>st</sup> March 2017.
- 3.6 In addition the recent publication of the Williams Commission report on the reform of the Public Sector in Wales raises the possibility of Local Government reorganisation involving the Council. However, both the potential to reorganise and the timing of that reorganisation are such that the MTFP as presented continues to forecast a scenario for the Council on an 'as is' basis. Clearly we will need to revise the MTFP if and when any definitive statement is made on this subject by Welsh Government.

**Section 4 – Strategy to address future savings requirements: Sustainable Swansea – fit for the future**

- 4.1 The scale of the financial, demographic and sustainability challenge requires the Council to adopt a radically different approach to previous years. An approach that focuses on:
- *The core future purpose of the Council*
  - *The transformation of services and the model of delivery*
  - *Greater collaboration with other councils and local organisations, community groups and residents*
  - *And, above all, sustainable solutions with prevention at its heart*
- This ambition is set out in *Sustainable Swansea – fit for the future*, our long term plan for change, underpinned by our Innovation Programme.
- 4.2 The Strategy was agreed by Cabinet and reported to Council in October 2013. The Delivery Programme was approved by Cabinet on 29 July 2014 (see link [here](#)). It is important that we continue to use the narrative in all our communication and that we apply the budget principles across all our thinking. The budget principles are reflected in the proposals set out in this report.
- 4.3 Since the July 2014 meeting of Cabinet we have:
- Started work on the delivery of the Savings Programme Workstreams
  - Started the next phase of engagement on *Sustainable Swansea – “Continuing the Conversation”* following agreement of a report to Cabinet on 16<sup>th</sup> December 2014

- Developed a range of additional proposals to meet a significant proportion of the Council's £25.7m shortfall in 2015/16, which result in further savings during the period of the MTFP which is relevant to this report, as reported to Cabinet on 16 December 2014.

### **Our Service Priorities for 2015/16 and the MTFP period**

- 4.4 Although the Council is currently focused on a plan to save an additional £86m over the period of the MTFP, it is vital that we continue to retain Member and management focus on the significant proportion of our budget that will remain. Our gross budget is approximately £737m (excluding Housing Services (HRA)) and we spend around £1.5m a day on services to residents.
- 4.5 The Council has clear and strong long term ambitions for Swansea and the proposals for savings must be seen in the context of the following:
- The Council's top 5 priorities and future plans for services (as they appear as a separate item on this agenda) (a revised Corporate Plan will be agreed by Council in February 2015)
  - The core objectives of *Sustainable Swansea* – which embrace all that we do
  - The application of the budget principles – which guide our decision making
- 4.6 The Council's overall aim is to protect frontline delivery of services as far as possible. However, whilst many things are important, not everything can be a priority. It is important, therefore - particularly in the current climate of significantly reduced resources - that we set out clearly our expectations on all services and relative priorities for funding in the context of the significant reductions that we face.
- 4.7 This requirement is illustrated sharply by the “gearing” effect of savings on services. In other words, if our current savings requirement of £86m over three years was applied, for example, just to Corporate Services (excluding Council Tax Reduction Scheme) and Place Services, the budgets for areas would be cut by around 90%. Consequently, other areas such as Schools and Social Care also need to face some level of reduction over the next 3 years, given the relative size of their budgets.
- 4.8 A statement of budget priorities and policy statements that flow from this is set out in **Appendix A**. This statement follows an assessment of services in relation to the following criteria:
- **Invest:** those Services where the Council will increase current levels of investment

- **Maintain:** those services where the Council will broadly maintain current level of spend in the medium term
- **Reduce:** those services where the Council will reduce the current level of spend over the medium term

Regardless of relative funding levels, there is also an absolute requirement that **all services** must transform and strive for maximum efficiency.

- 4.9 Based on the statement of priorities and having regard to the “gearing effect” when considering savings, the indicative 3 year saving/investment targets for each major block of services (including 2015/16), as reported to Cabinet on 16<sup>th</sup> December 2014, is set out in the Table below. This table is important at this stage only as it gives an indication of prioritisation of services.

<b>Service</b>	<b>Current Budget £m</b>	<b>Percentage Reduction/Increase over 3 Years</b>	<b>Amount Realised £m</b>
Schools & Education	159.5	-15	-23.9
Social Care – Child & Families	39.1	-15	-5.9
Social Care- Adults	65.6	-20	-13.1
Poverty & Prevention*	3.5	+5	+0.2
Place	54.0	-50	-26.5
Corporate Services	25.1	-50	-12.5
<b>Total</b>	<b>346.8m</b>		<b>-81.7m</b>

*\* Note that whilst this is the controllable budget for Poverty & Prevention, the Council spends **significantly more** on this area through the contribution of a wide range of other services*

- 4.10 This statement will form the basis of our future Medium Term Financial Plan, as well as individual service plans. It should be noted that the savings targets detailed above are for the period 2015/16 to 2017/18 and will need to be extended to 2018/19 as planning assumptions for that year become more predictable
- 4.11 A statement of General Principles to be adopted for all Services together with a summary of specific service priorities is given at appendix ‘A’ to this report.

**Section 5 – A summary of the Medium Term Financial Plan and Sustainable Swansea strategy**

5.1 The summary anticipated savings requirement over the period of the Medium Term Financial Plan is shown below and is extracted from the table shown at section 3.4 of this report.

		<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>
	Note	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
<b>Cumulative budget shortfall</b>		<b>35,094</b>	<b>58,214</b>	<b>85,090</b>

5.2 The assumptions surrounding the compilation of these figures are given in detail within the table at 3 above and, in particular, are heavily dependent on the assumption of an ongoing 4.5% reduction in AEF for each of the three years covered by the MTFP

Clearly there is the risk of significant volatility in future years arising from:-

- The cumulative effect of any variation in these assumptions in early years
- The uncertainty around assumptions surrounding the latter years of the forecast.

5.3 Notwithstanding that position, in addressing the ongoing budget deficit, the Council has a number of actions that it can take in terms of achieving a balanced budget.

These include:-

- Realisation of future years' budget savings arising out of previously agreed savings and 2015/16 consultation proposals
- Additional Directorate/Service Area targeted savings as detailed in Section 4.9 of this report
- Potential rises in Council Tax levels.

5.4 Bringing these items together, and assuming a balanced position for 2015/16, the following indicative position is envisaged:-

		<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>
	Note	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
<b>Cumulative budget shortfall</b>		<b>35,094</b>	<b>58,214</b>	<b>85,090</b>

<b>Directorate savings proposals/agreed</b>		<b>-12,772</b>	<b>-20,554</b>	<b>-20,554</b>
<b>Additional Directorate Savings required (including Schools delegated budgets)</b>		<b>-22,322</b>	<b>-37,660</b>	<b>-64,536</b>

The Directorate savings indicated above are largely in line with the Report to Cabinet taken on 16<sup>th</sup> December 2014 '*Sustainable Swansea – Fit for the Future – Budget proposals 2015/16 to 2017/18*' And will be subject to budget consultation and review as part of the strategic budget setting in respect of each future financial year.

- 5.5 By combining the indicative priorities regarding Directorate and Service Savings highlighted in the table at 4.9 above, with the savings requirements as shown above, it is possible to give an indicative savings target across Directorates for each year of the MTFP as shown below.

<b>Medium Term Financial Plan</b>						
<b>Indicative Departmental Savings targets</b>						
		<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>Target</b>	<b>2018/19</b>
					<b>to 2017/18</b>	
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Schools &amp; Education</b>						
	2015/16 and agreed 16/17, 17/18	7,178	1,216	575	23,900	
	<b>FURTHER SAVINGS REQUIRED</b>		<b>8,201</b>	<b>5,300</b>		<b>7,862</b>
<b>Social Services</b>						
	2015/16 and agreed 16/17, 17/18	4,879	4,184	4,145	19,000	
	<b>FURTHER SAVINGS REQUIRED</b>		<b>3,789</b>	<b>1,123</b>		<b>6,250</b>
<b>Poverty &amp; Prevention</b>						
		378	0	0	-200	
<b>Place</b>						
	2015/16 and agreed 16/17, 17/18	4,732	4,196	1,852	26,500	
	<b>FURTHER SAVINGS REQUIRED</b>		<b>7,891</b>	<b>6,349</b>		<b>8,717</b>
<b>Corporate Services</b>						
	2015/16 and agreed 16/17, 17/18	2,452	3,176	1,210	12,500	
	<b>FURTHER SAVINGS REQUIRED</b>		<b>2,441</b>	<b>2,566</b>		<b>4,047</b>
<b>Total</b>		<b>19,619</b>	<b>35,094</b>	<b>23,120</b>	<b>81,700</b>	<b>26,876</b>
<b>Cumulative savings over mtfp period</b>			<b>35,094</b>	<b>58,214</b>		<b>85,090</b>
<b>Cumulative MTFP gap</b>			<b>35,094</b>	<b>58,214</b>		<b>85,090</b>

In terms of the above table it should be noted that the Education additional savings requirement for all years of the MTFP includes potential reductions in delegated budgets.

It should also be noted that the table assumes NO rise in Council Tax levels during the period of the MTFP.

**5.6 THE TABLE SERVES TO HIGHLIGHT THE SCALE OF THE FINANCIAL ISSUES FACING THE COUNCIL OVER THE PERIOD OF THE MTFP AND THE SIGNIFICANT ADDITIONAL SAVINGS THAT WILL HAVE TO BE MADE FROM 2016/17 ONWARDS**

5.7 In terms of addressing the additional savings requirements, the Council will, as previously agreed, deliver the bulk of these through the Sustainable Swansea programme.

Details of the workstreams, including progress to date, are shown at appendix 'B' to this report.

5.8 It is essential that substantial and specific targets are agreed for the Workstreams and Delivery Strands in order to give scale, ownership and a measurability and confidence that we can deliver the level of change and savings required.

5.9 The projected targets shown below are NOT additional to the Directorate targets shown in the table at 5.5 above, but are intended to provide an indicative framework against which the additional savings shown within that table can be delivered

Indicative potential workstream targets						
		2016/17	2017/18	2018/19		
<u>Strand</u>		<u>£'000</u>	<u>£'000</u>	<u>£'000</u>		
<b>Efficiency</b>		5	10	15		
<b>New Models of Delivery</b>		10	20	30		
<b>Prevention</b>		2	6	8		
<b>Stopping services</b>		3	6	9		
		<b>20</b>	<b>42</b>	<b>62</b>		

**Note: see Appendix 'B' for more information on the workstreams**

5.10 Further work will take place on the development of a revised Sustainable Swansea Delivery Programme to replace the one agreed by Cabinet on 29 July 2014. This will need to include (amongst other things):

- Efficiency
  - Programming of savings from the review of third party spend and additional income
  - Additional management and support services savings

New Models of Delivery

- Savings resulting from the completion of the Commissioning Reviews
- Transforming customer contact

Prevention

- Modelling of the cost reduction in services from demand management and early intervention

## Stopping Services

- Feedback from residents about services which can be stopped or delivered through community action

### ***Section 6 – Medium Term Financial Planning for Schools***

- 6.1 The purpose of this section is to highlight the estimated effect of specific spending pressures and potential specific grant reductions on Schools' budgets in the light of funding assumptions detailed elsewhere within this report.
- 6.2 More specifically the Detailed Budget report to Council in respect of the 2105/16 Revenue Budget outlines the specific budget proposals for that year.
- 6.3 It is important to note that, given the size of the potential budget deficit facing the Council over the period of the MTFP, it is envisaged that Schools will continue to be required to contribute to ongoing savings targets during this period.
- 6.4 The table shown in Section 4.9 of this report details the proposed indicative Directorate Savings targets for the period 2015/16 to 2017/18 in respect of the Revenue Budget.
- 6.5 Those projected savings targets offer relative priority to Education and Schools budgets.
- 6.6 It would be prudent to assume, however, that reductions in real term budgets of around 5% p.a. will be required to meet the Council's budget needs going forward. The assumption is that an overall cash reduction of some 5% will be applied to Schools on an annual basis subject to spending pressures identified in Section 3.3 of this report being funded.
- 6.7 It is essential therefore that we engage with Schools on a strategic review of provision as simply cutting 5% per annum will not work.

### ***Section 7 – Risks and issues implicit within the MTFP***

- 7.1 As stated throughout this report the financial risks facing the Council include:-
- Assumptions around the Reductions in core funding from Welsh Government being incorrect, particularly if understated
  - Ongoing reductions in specific grants which require equivalent reductions in expenditure, often at short notice, which are both uncertain and unpredictable in terms of timing.



- Delay or non-delivery of key savings strands which are essential to meet the projected service reductions identified in this report
  - Significant further changes to Central Government fiscal policy with regard to the Public Sector.
- 7.2 The table at 3.3 of this report outlining the potential budget shortfalls over the period of the MTFP contains a significant number of assumptions around future cost pressures, particularly with respect to pay awards, which may have a significant cumulative effect if not settled at the levels indicated. This has the potential to change significantly the projected deficit towards the end of the planning period.
- 7.3 The assumptions contained within the plan specifically assume:-
- The Council will deliver a balanced revenue outturn in respect of the current and future financial years and, to that extent, no deficits are identified that would require additional funding in future years
  - The Capital programme is constrained to the extent that the maximum additional debt charges that are incurred (which should be considered temporary until capital receipts are achieved) do not exceed the sums included in the MTFP.
  - The Council continues to achieve its ambitious savings targets.
- 7.4 It is assumed that there will be no substantive change to the structure of service delivery, including additional regionalisation of services and, in particular, there will be no impact on later years in respect of Local Government reorganisation.

## ***Section 8 – Use of Reserves***

- 8.1 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.8.2 An analysis of the current position is given in sections 8.4 to 8.9 below.
- 8.3 Conclusions and recommendations in respect reserves usage is given in section 9.6 below.
- 8.4 The current 2014/15 Revenue Budget is underpinned by a proposed use of £2.2m from general reserves.
- 8.5 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.

- 8.6 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
- 8.7 In addition various sections highlighted throughout this report refer to significant ongoing risk around current activities – particularly single status and outstanding equal pay claims.
- 8.8 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.
- 8.9 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 9 – Legal and Equalities implications***

### **9.1 Legal Implications**

There are no legal implications arising from this report.

### **9.2 Equalities Implications**

- 9.2.1 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.
- 9.2.2 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 for those financial years.

**Appendix A - Statement of Budget Principles and Service Budget priorities**

**Appendix B - Sustainable Swansea work-streams and progress to date**

**Statement of Budget Principles and Service Budget priorities****GENERAL PRINCIPLES FOR ALL SERVICES**

4.11 There are a number of principles that apply to all the Council's services, regardless of the assessment of relative priorities. These are set out below.

**Budget Principles**

4.12 The Council has adopted a number of Budget Principles which underpin *Sustainable Swansea*:

<i>Everything is included</i>	<i>Increased income</i>
<i>Engagement</i>	<i>Different models of delivery</i>
<i>We will have less money</i>	<i>Supporting those at risk</i>
<i>Demonstrating efficiency</i>	<i>Evidence base</i>
<i>Cutting Red Tape</i>	<i>Sustainable outcomes/prevention</i>
<i>Full cost recovery</i>	<i>Personal Responsibility</i>

All Services must apply and be consistent with these Budget Principles.

All Services are also required to address these Principles as part of business planning and developing savings proposals.

**Service Transformation and Efficiency**

4.13 There are expectations upon all Services in relation to transformation and efficiency which must be met regardless of relative priority for funding:

<b>Transformation</b>	<p>All service must transform through a fundamental review of purpose, however services are commissioned, to:</p> <ul style="list-style-type: none"> <li>• deliver better outcomes</li> <li>• develop a sustainable delivery model, fit for the future</li> <li>• reduce costs and secure value for money</li> </ul>
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<b>Efficiency</b>	<p>All services must continue to strive for efficiency, in particular:</p> <ul style="list-style-type: none"> <li>• reduce management and other overheads</li> <li>• maximise opportunities for increasing income from charges, trading and external sources</li> <li>• reduce the cost of purchasing supplies and services</li> <li>• work with others to achieve better outcomes</li> <li>• look for opportunities for residents or community groups to take or share responsibility for services</li> </ul>
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## **STATEMENT OF BUDGET PRIORITIES: PEOPLE'S SERVICES**

### **4.14 Schools and Education**

Education is working towards a "one education budget" strategy across delegated and non-delegated budgets

Significant savings cannot be made without reductions in the Schools Delegated Budget over the next three years, including by transferring to schools functions that are currently funded centrally but are better managed locally. We are fully aware of the promises that the Minister has given regarding schools funding, and we are meeting our obligation on this in a number of ways, as outlined below.

Moreover, further severe cuts in the remaining non delegated education budgets will have a direct impact on areas of pupil specific support and further reduce the support that can be provided to schools from the department.

A further move towards a fundamentally different relationship between schools and the local authority is required. The future model for Education provision includes:

- Radically changing the way support for pupils is provided – more flexible earlier intervention and support, as local as possible
- A consistent approach to support the needs of all pupils through a continuum of support
- Integrating and aligning services with Social Services and other agencies such as Health
- Working more closely with communities, recognising the role of schools at the heart of their communities, seeking to minimise transport costs and, wherever feasible, co-locate other services on school sites to aid sustainability (where revenue and capital funding streams are at least sufficient to cover the costs involved).

We will deliver this through:

- Coherent revenue and capital strategies

- Optimising the level of delegation of funding and responsibilities to schools to allow the greatest flexibility in the use of the available resources
- Supporting earlier intervention and support for pupils:
  - Reducing the need for formal statements
  - Providing increasingly targeted specialist support, reflecting the findings of the recent independent behaviour review
  - Building capacity in mainstream educational provision
  - Empowering & facilitating more collaborative school to school support
- Delivery of significant financial savings through a continuing coherent 'one education budget' strategy:
  - Retaining an absolute core level of statutory and regulatory provision at the centre
  - Ensuring a full cost recovery of costs of any support provided to schools above this level and providing the minimum level of Council funding required to fully access the remaining available specific grants
  - Ceasing financial contributions to support the few remaining areas of discretionary educational provision

#### **4.14 Social Services- Child & Families**

No policy changes are proposed in Child and Family Services.

We will maintain the current Safe LAC Reduction Strategy to reduce the number of looked after children and achieve the planned savings of around £6m.

#### **4.15 Social Services – Adult Social Care**

A new approach has been proposed for Social Services based on the application of *Sustainable Swansea* principles and Workstreams and the national legislative requirements to the future model of social services. This is required to deliver savings of £13m over 3 years.

Our policy must be to:

- Promote greater independent living for longer, and reduce demand for long term care by investment in prevention and reablement
- Develop the Swansea model of Local Area Coordination to increase community-based support and change the current model of day and residential services
- Ensure our services are as efficient as possible by reviewing alternative models for delivering social care such as social enterprise, increased use of the voluntary sector, increase volunteering and community self help

- Drive forward the reshaping and integration of services with health and other key partners to achieve whole system change, including local commissioning and delivery
- Communicate the new vision, the long term benefits and our plan for safe and better care to residents, carers and partners

#### **4.17 Poverty & Prevention**

We have agreed a comprehensive Poverty Strategy, no changes are proposed to this.

Our policy must be to:

- Implement the strategy and provide additional investment **or** redirect existing spend in community based preventative programmes where evidence shows this works
- Ensure all Council services (as well as partners) contribute to combatting poverty by directing activity towards these objectives
- Invest in prevention through the Prevention Fund and development of a Council-wide Prevention Strategy

#### **4.18 STATEMENT OF BUDGET PRIORITIES: PLACE SERVICES**

Place based services will see a 50% reduction over the next 3 years, around £26m.

To deliver such a challenge our policy must be to:

- Accept that reductions of this scale will inevitably have a significant negative impact upon visible streetscene and environmental services
- Re-commission all services and in many cases focus on enabling other providers and the community to deliver our objectives in areas such as culture and parks
- Establish commercial and trading models where ever we can to offset the loss of Council funding eg: building services
- Introduce a radical approach to demand management and self-regulation in areas such as waste, enforcement
- Seek to maintain current levels of investment in roads focusing on preventive action to reduce future costs
- Meet national housing quality standards, with a particular emphasis on target areas
- Prioritise the Regeneration of the City Centre and the economy

#### **STATEMENT OF BUDGET PRIORITIES: CORPORATE SERVICES**

Corporate Services will see a 50% reduction over the next 3 years, around £12.5m.

To deliver such a challenge our policy must be to:

- Change the current model of delivery to increase self-service and reduce demand for transactional services
- Focus only on the critical functions of the corporate centre such as governance, financial control, core HR advice and commercial capability and stop doing other things
- Look for opportunities for shared services with other public sector organisations in the area and/or outsource
- Radically change our approach to customer contact and engagement, to shift to digital channels and reduce costs
- Consolidate and reduce the cost of all common support functions across the Council, such as financial processes, ICT, business support
- Maintain overall investment in ICT, on a business case basis, to support the transformation agenda, including on-line self-service, agile and mobile working and direct service innovation such as telecare

**Sustainable Swansea work-streams and progress to date**

<b>Efficiency Workstream (Sponsor Dean Taylor)</b>		
<b>Savings Strand</b>	<b>Lead</b>	<b>Current Position/Achievements to Dates</b>
Continuous Improvement	Alison Lewis	<ul style="list-style-type: none"> <li>• Systems Thinking training has commenced across the Council</li> <li>• First phase projects agreed for: Social Services Intake Team, Special Education Needs, Waste Management, Customer Contact and HR processes</li> </ul>
Workforce	Steve Rees	<ul style="list-style-type: none"> <li>• Additional management savings identified for next 3 years</li> <li>• Options to Reduce the Pay Bill evaluated and being considered</li> <li>• Revised Employee Performance Management Policy rolled out</li> <li>• Revised Workforce Planning process being piloted in Education</li> </ul>
Support Services	Steve Rees	<ul style="list-style-type: none"> <li>• <b>Transforming Business Administration</b> – opportunities for reducing posts, revised structures, processes &amp; technological improvements identified and being implemented for all Services</li> <li>• Other Support Services currently being scoped e.g. Policy and Performance</li> </ul>
Assets	Geoff Bacon	<ul style="list-style-type: none"> <li>• <b>Accommodation Strategy</b>- proposals to increase office accommodation densities, increase agile working and release assets are being implemented and achieving savings ahead of target. Marketing of Penllergaer Civic Centre has commenced for its release in Summer 2015.</li> <li>• <b>Service Assets</b> - Annual NNDR savings in excess of £300,000 pa achieved to date with rebates in excess of £500,000 received. Savings from asset closures being captured.</li> <li>• <b>Area Reviews</b> - Programme of area reviews</li> </ul>



		<p>ongoing and on target. Ward Members being contacted with wider consultation with Community/Town Councils early in New year. Specific opportunities identified and undergoing feasibility. Linking into service asset review.</p> <ul style="list-style-type: none"> <li>• <b>Depot Review</b> - Opportunities for reduced depot portfolio currently under investigation.</li> </ul>
Third Party Spend	Pat Arran	<ul style="list-style-type: none"> <li>• Action Plan agreed and embedded</li> <li>• Category Managers appointed, Category Hubs set up and operational</li> <li>• Central contracts register being populated</li> <li>• More accurate spend data generated and analysed</li> <li>• Range of cashable and non cashable savings realised, with a value of circa £1.7m</li> <li>• Social Services spend to be addressed as Phase 2</li> </ul>
Income & Trading	Pat Arran	<ul style="list-style-type: none"> <li>• New commercial team in place</li> <li>• Over 1500 charging opportunities identified and being explored</li> <li>• Advertising and Sponsorship protocol and approach developed</li> <li>• Income leads network established and operational</li> <li>• Significant income opportunities identified (<i>see elsewhere in this report</i>)</li> </ul>

<b>New Models of Delivery Workstream (Sponsor Phil Roberts)</b>		
<b>Savings Strand</b>	<b>Lead</b>	<b>Current Position/Achievements to Dates</b>
Customer Contact	Lee Wenham	<ul style="list-style-type: none"> <li>• New public website launched in September 2014. Further work is taking place to prioritise services to enable more online forms and payments to improve customer service and increase efficiencies.</li> <li>• Automated telephony system introduced in Benefits, Council Tax and Business Rates has significantly reduced the number of calls handled by staff and reduced waiting times. A 6 month review will be held in December 2014</li> </ul>

		<p>and will consider which other services would benefit from the automated system.</p> <ul style="list-style-type: none"> <li>• Analysis of Contact Centre configuration and customer journey being carried out to improve customer experience, reduce demand and reduce waiting times. The new-look contact centre could include self-serve e-zone, Wi-Fi and electronic queuing system. Recommendations are expected in January 2015.</li> <li>• The e-payments contract has been extended until Sept 2015 which will enable more services and payments to go online, reducing back-office workload, improving customer access and reducing face to face and telephone contact.</li> <li>• Initial mapping of the main customer contact areas completed to help identify potential linkages and to develop a consolidated service under a single management.</li> <li>• The £300k savings target will not be met. External health check of customer contact strategy completed and an action plan is being developed to address key issues.</li> </ul>
Commissioning	Martin Nicholls	<ul style="list-style-type: none"> <li>• Commissioning Process map agreed</li> <li>• Strategy for Cultural Services underway</li> <li>• A programme of reviews has been developed. Year 1 (2015) includes: <ul style="list-style-type: none"> <li>○ Libraries</li> <li>○ Waste Management</li> <li>○ Leisure</li> <li>○ HR/Finance/Legal/other support services</li> <li>○ Catering and Cleaning</li> <li>○ Employment Training</li> <li>○ Residential and Outdoor Centres</li> <li>○ Domiciliary Care, Day Care, Residential Care.</li> </ul> </li> <li>• Libraries review underway</li> <li>• Project delivery resource allocated</li> <li>• Integrated Fleet Management to be scoped</li> </ul>
Collaboration	Chris Howell	<ul style="list-style-type: none"> <li>• Work is progressing on the development of a toolkit for Collaboration to build the capacity of managers for effective collaborative arrangements in the future which links to work being developed by the Council's HR and Organisational development team</li> </ul>
Community Action	Tracey	<ul style="list-style-type: none"> <li>• Heads of Service populating specific ideas, examples of opportunities for Community</li> </ul>

	McNulty	<p>action by end of November</p> <ul style="list-style-type: none"> <li>• Community Action ideas/opportunities to be collated scoped and prioritised by 11th Jan 2015</li> <li>• Review of leisure opportunities for Mumbles underway with Mumbles Community Council</li> <li>• Agreement to lease Underhill Park reached</li> <li>• Terms agreed for the indoor Bowls Club</li> <li>• Consultation with existing leisure/arts providers underway</li> </ul>
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<b>Prevention Workstream (Sponsor Chris Sivers)</b>		
<b>Savings Strand</b>	<b>Lead</b>	<b>Current Position/Achievements to Dates</b>
Manage Demand	Sarah Caulkin	<ul style="list-style-type: none"> <li>• Closer working with the Demand Management strand and Continuous Improvement strand agreed and in progress</li> <li>• Awareness training design sessions with Project Leads arranged</li> <li>• Pilot group to be identified for Awareness Training rollout.</li> <li>• Toolkit to be developed to help Managers with Demand management.</li> </ul>
Early Intervention	Sarah Crawley	<ul style="list-style-type: none"> <li>• Child and Family Support Project Team have completed a draft model for remodelling C&amp;F Services to focus on prevention.</li> <li>• Desk top review of services supporting young people completed.</li> <li>• Agreement reached on investment in a range of preventative projects under the Prevention Budget. Communications and implementation plans are in place and have commenced.</li> <li>• Focus group meeting has been arranged to scope the Domestic Abuse project.</li> <li>• Local Area Co-ordination Implementation Manager appointed. Meeting with third sector on progressing wellbeing mapping.</li> </ul>

		<ul style="list-style-type: none"> <li>• Planning is in place for a series of activities or sessions with children, young people and families, as part of the consultation taking place which considers the <i>Sustainable Swansea: Fit for the Future</i> Programme.</li> <li>• Initial mapping of the Out of County placements has been completed. The project is seeking options for greater efficiency.</li> </ul>
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<b>Stopping Services Workstream (Sponsor Dean Taylor)</b>		
<b>Savings Strand</b>	<b>Lead</b>	<b>Current Position/Achievements to Dates</b>
Council Priorities	Dean Taylor	<ul style="list-style-type: none"> <li>• Revised Corporate Plan has been produced for Council approval in February 2015</li> <li>• Budget Activity Reviews have been undertaken; a number of proposals to stop or reduce services are contained in this report</li> <li>• “Continuing the Conversation” engagement about the future priorities of the Council and what residents can do for themselves has commenced</li> </ul>
Future Council	Dean Taylor	<ul style="list-style-type: none"> <li>• A programme of staff engagement has taken place on the future look and feel of the Council</li> <li>• Proposals for changing the way we work will be brought forward as part of the Innovation Programme</li> </ul>