

Report of the Section 151 Officer

Cabinet - 15 October 2015

MID-TERM BUDGET STATEMENT 2015/16

Purpose: To present to Corporate briefing a statement which outlines current year financial performance together with an updated assessment of savings requirements over the period of the Medium term Financial Plan.

Policy Framework: Sustainable Swansea Budget Plan 2015/16.

Reason for Decision: The report is presented in order to provide Members with a view of current financial performance and the likely financial planning scenarios that will influence budget and service decisions over the period of the MTFP.

Consultation: Cabinet Members, Executive Board, Legal Services and Access to services.

Recommendation: It is recommended that:-

1 the comments made in this report are noted and that the revised Resources forecast and forecast of spending pressures are adopted in terms of future budget planning.

2. The financial forecast in relation to the current year is noted and that Cabinet endorses whatever actions are required in order to move towards a balanced revenue outturn for 2015/16.

3. Comments in relation to the funding of the Capital programme set out in the report are noted and the funding shortfall continues to be addressed by a policy encompassing all asset sales.

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Section 1 – Introduction and background

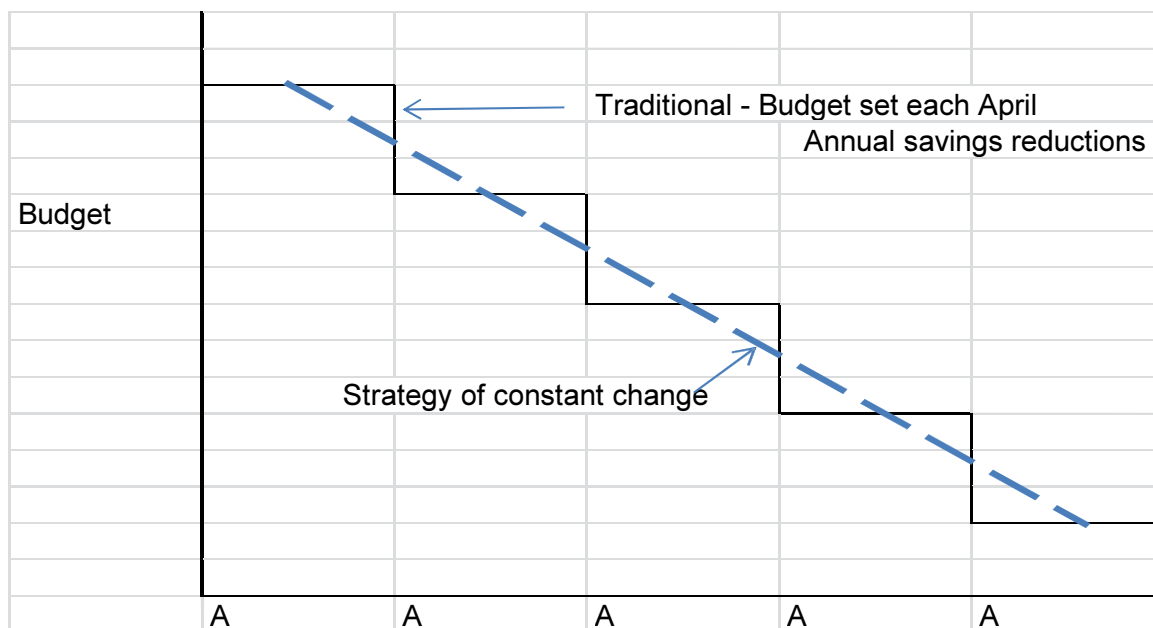
1.1 This statement is intended to provide a strategic and focussed assessment of current year financial performance and an update on strategic planning assumptions over the next three financial years. The clear benefits of this statement are:-

- **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 increase the pace in dealing with identified budget and/or savings variances

1.2 The Council has a clear and accepted strategy for addressing the budget savings it needs to achieve – ***Sustainable Swansea – Fit for the Future***. However, it is clear that the strategy has to increase in both scale and pace if the Council is to address the very real financial challenges that it currently faces.

1.3 It is also clear that at present the Council remains attached to a policy of addressing its financial affairs via the annual budget cycle rather than accepting the medium term financial outlook and, in doing so, moving to a position where it operates in advance of annual savings targets.

1.4 It is clear that those Councils who are successfully dealing with savings requirements highlighted in the MTFP, in all forms, are doing so by adopting a strategy of constant in year savings implementation set against the annual budget cycle. The inevitable result of that is a tendency to achieve annual in year budget underspends due to actions being taken early to address the long term downward trend in net expenditure.



- 1.5 The above table contrasts Councils that operate via traditional annual budget cycles with an annual April budget reduction with the expenditure path taken by those who adopt a strategy of constant change. Those that adopt the strategy recognise and accept a net reduction in expenditure as a certainty over the medium term financial plan period.
- 1.6 The Council does have a successful track record of implementing savings requirements on an annual basis. For the period 2008/09 to 2013/14 the Council achieved cumulative savings of some £42m in order primarily to offset budget pressures; crucially, however, during that period it did so against the background of a net expenditure increase (allowing for changes in funding to Council tax support costs) of some £30m
- 1.7 The 2014/15 and 2015/16 financial years have seen further cumulative savings targets totalling some £38m. This is set against a net reduction in overall spend of some £11m over the two year period – i.e. a real cash reduction in Council spend.
- 1.8 It is clear, as stated above, that the Council faces unprecedented challenge in delivering future required savings targets.
- 1.9 This 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 2015/16
 - Section 3 - Service/Financial risks currently identified in relation to the delivery of the 2015/16 Revenue Budget

Section 4 - A revised Medium term Resource and Funding forecast for the period 2016/17 to 2018/19 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 – Summary of Actions and Decisions required/Legal implications/Access to services implications

1.10 This report should be read in the context of the Council's overarching budget strategy – ***Sustainable Swansea – Fit for the Future*** – and the revised Delivery Programme as agreed by Cabinet on 16th July 2015

Section 2 – Revenue Financial Forecast 2015/16

The purpose of this section is to provide a high level assessment of the projected 2015/16 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 2.7 below.

Conclusions and recommendations are given in sections 2.8 and 2.9 below.

- 2.1 The first quarter budget monitoring report presented to Cabinet on 17th September 2015 highlighted a forecast service overspend for 2015/16 of £8.2m. Whilst it is implicit within the Council's Financial Procedure Rules that it is the duty of responsible Officers to manage budgets within agreed limits, that report highlighted that it is unlikely that recovery of overspends in the areas of Education and Social Services can be delivered in the current year.
- 2.2 The Revenue outturn report for 2014/15 detailed a net Council underspend for 2014/15 of some £3m. The report highlighted the one-off impact of Corporate items on this outturn position and also drew attention to the fact that overspends within adult services and education, unless addressed, were likely to impact adversely on the 2015/16 budget position. The areas of overspend – particularly around Mental Health and Learning Disability – continue to overspend in 2015/16
- 2.3 The first quarter budget monitoring report also highlighted the need to resolve the allocation of work stream savings against specific service budgets as an in year process. This is in hand..
- 2.4 Given the ongoing spending pressures facing the Council it is important that, where possible, local expenditure is prioritised in order to best reflect community needs and priorities. To this extent consideration needs to be given to the potential to further involve Local Ward Members to influence spending decisions specific to their individual wards.
- 2.5 Work must be undertaken to try and mitigate projected overspends in the Directorates affected by savings elsewhere but it is unlikely that a balanced outturn can be achieved for 2015/16 at this point in time.
- 2.6 It is also likely that the projected underspend of £0.1m on Corporate Services Directorate will increase in scale due to:-
 - Ongoing management action being taken to address both 2015/16 and 2016/17 savings targets
 - Likely savings arising from the Council Tax Support Scheme

- 2.7 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.
- 2.8 Anticipating both current and future year spending pressures, the Section 151 Officer has made formal reports to Cabinet and Council highlighting the significant escalation in risks arising from projected funding reductions and known spending pressures and informing Council, based on his view of the changing risk profile, of his recommendation at this point to reclassify earmarked reserves in order to set aside some £7.8m towards future costs of downsizing the organisation.
- 2.9 The Council is continuing to undertake a challenging review of Single Person Discounts in respect of Council Tax. Early indications are that, whilst some element of savings may arise from this exercise, they will be nowhere near the scale of those achieved for 2014/15.

In addition, the Council continues to pursue claims through HMRC in relation to VAT, although at the current time there are no anticipated receipts from these claims in 2015/16.

- 2.10 During 2015/16 the Council has reported on a detailed savings tracker which is designed to monitor delivery of specific savings proposals contained within the 2015/16 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 £26.774m the Council is anticipating less than 80% achievement which, given the scale of the challenge faced, is a significant achievement. However, whilst manageable in the short-term, this is outside of sustainable budget affordability. Work is in hand to try and identify in year savings to offset against this overspend.
- 2.11 **Overall the key message is that the Council, subject to the high level risks and issues below, will struggle to deliver within the overall resources identified to support the budget in 2015/16 and will need to significantly accelerate its efforts in terms of scale and pace in order to implement the *Sustainable Swansea* delivery programme into 2016/17 and beyond. In terms of projected outturn, much will depend on the willingness and ability of the Council to reduce and restrict ongoing expenditure across all areas for the remainder of 2015/16.**
- 2.12 **In determining the high level budget strategy for 2016/17 onwards the MTFP discussed later in this report considers the impact of specific variances in year.**

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 2015/16 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 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/Backpay	£1m+/Medium	
The Council is in the process of settling equal pay claims covering a number of categories of claimants. The current financial position suggest 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 2015/16 or reserves.
Pay awards	£0/ Very Low	
A two year settlement including backdating was implemented in January 2015 covering the period to March 2016. Risks are minimal in terms of additional costs in current year although there has		Would have to be met from contingency fund, one off savings identified during 2015/16 or reserves. Reduction in service budgets would be difficult due to timing.

been a supplemental national pay claim made around national minimum wage levels.		
Job Evaluation Appeals		
The Council is continuing a significant appeals process following the introduction of Single Status from April 2014. The budget report approved by Council on 24/2/15 approved the Revenue Budget for 2015/16 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	No corporate provision exists to meet the ongoing costs of successful JE appeals. Whilst the majority of appeals will be heard by the end of 2015/16, the ongoing incremental effect of successful appeals will inevitably impact on revenue costs going forward. In effect this translates into an additional savings requirement on each service of the Council.
Welsh Government Grant Funding	£3m+	There remains the potential for Welsh Government to passport Central Government in-year budget cuts across Services in Wales including Local Government. The current assumption is that this will not be implemented until 1 st April 2016 but will form the first tranche of funding cuts for 2016/17.

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.	£3.5m+	Discussed at Executive Board. Action being taken to manage demand in the current year with long term plans in place to further manage demand.

Key areas of education spend around out of school tuition show continued signs of overspend without current mitigation.	£1,200k	Progress is being made to deliver savings in these areas albeit delayed against original plan.
The Council continues to incur costs above budget in respect of Employment Training	£400k	Discussed at Executive Board – action being taken to downsize cost 15/16 – 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 2015-16

The net revenue budget requirement set for 2015-16 excluding Community Councils was £409m, consisting of gross expenditure of £676m and associated revenue of £267m, comprising specific grants and trading income. It was financed as follows:

2015-16	£m	%	Determined
Aggregate External Finance	308	75	By Welsh Government
Council Tax – Swansea	101	25	By CCS - with constraints
Total Financing	409	100	

This paper considers the strategic position regarding the budget for 2016/17 to 2018/19 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.

4.3 Aggregate External Finance

4.3.1 Prior announcements for 2016-17 - Autumn Budget Statement planning assumptions

The UK government Autumn Budget Statement is predicated on all government departments making preparations for two scenarios for unprotected spending:

25% reduction in funding OR
40% reduction in funding

There will be consequential reductions for the Welsh Government of similar magnitude. Given UK Government relative protection to the NHS and Education there is likely to be some similar degree of prioritisation in Welsh Government

budgets and local government can therefore continue to expect to fare relatively badly in any settlement.

Any mitigation in the scale of reduction will only be likely if schools continue to receive further funded relative protection which will in turn limit our ability to make savings in our largest area of spend.

In announcing the 2015/16 final Local Government grant settlement no indicative figures were given for 2016/17 and beyond. This followed the position in 2014/15 where initial indicative settlement figures proved to be wildly optimistic.

The timing of the Autumn Statement (17th November 2015) means that Local Government in Wales is unlikely to have indicative funding levels for 2016/17 available until mid January 2016.

4.3.2 Known funding reductions to Welsh Government

Following the outcome of the General Election in May 2015, the Chancellor of the Exchequer announced specific in-year budget reductions to non protected areas of Government expenditure within England. The consequent effect of that ,through the impact the Barnett funding formula, results in a net reduction in the Welsh Government budget of some £50m for 2015/16 with a proviso that for devolved administrations implementation of those cuts could be delayed until 1st April 2016.

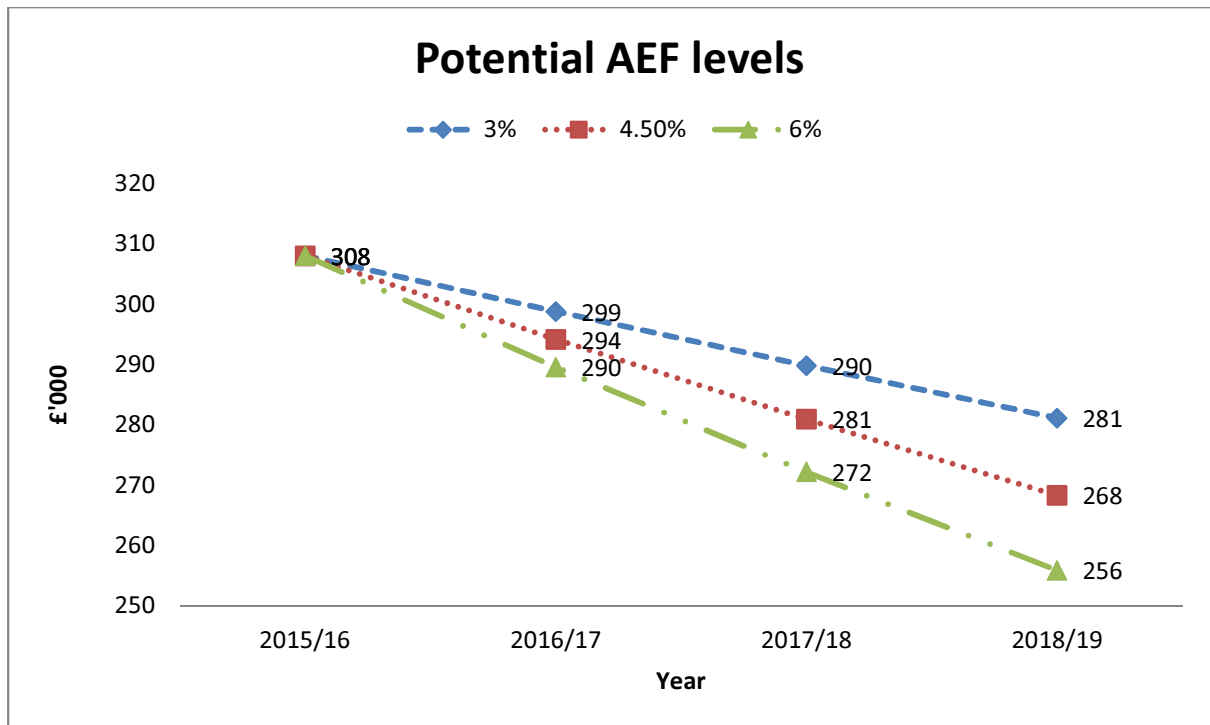
There has been no announcement by Welsh Government as to the distribution of these savings across the components of Welsh Public Sector Expenditure but the reality is that, should that sum be allocated across Local Authority expenditure, then CCS would incur a reduction of some £3.5m for 2016/17 solely as a result of that decision.

4.3.3 Assumptions around 2016/17 and beyond

There are uncertainties around the **SCALE** of reductions and **TIMING** of budget announcements. The latter cannot be influenced but it is essential that, in planning future spend, account is taken of what will inevitably be a significant and sustained reduction in Welsh Government core funding. The question is not **IF** there will be a reduction it is **HOW MUCH** that reduction will be.

We cannot plan in a vacuum. Therefore it is clear that at the present time we have to make assumptions around future core funding.

The following graph illustrates annual and cumulative effects of reductions of 3%, 4.5% and 6% respectively:-



At the present time it would be realistic to assume the middle funding scenario – i.e. a compounded annual reduction of 4.5% although this is simply a planning assumption. There remains great risk attached to this assumption and, indeed, an assume upper reduction limit of 6% p.a. cuts. The reality of the situation is that the Council remains dependent on the outcome of funding decisions both by the Westminster Government and Welsh Government with absolutely no guarantee that these decisions will be made in a timescale that offers sensible planning timetables.

4.4 Council Tax – Swansea

Budgeted gross council tax yield for Swansea for 2015-16 is £100,807,000, which we have rounded up to £101 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.

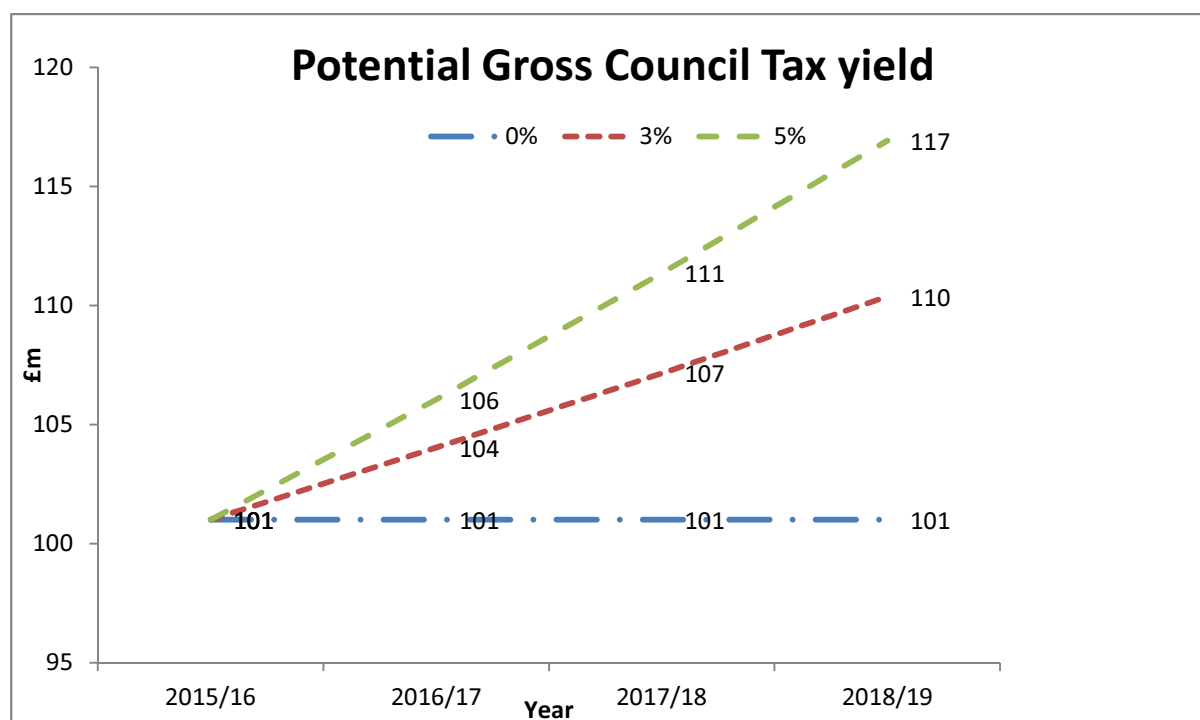
This remains the gross yield on Council Tax and it must be borne in mind that any Council Tax increases results in a corresponding increase in the local cost of the Council Tax Support Scheme, and that will have to be met as expenditure by the City and County of Swansea. This will be flagged as a spend 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. This is essential in that the allocation of Local Authority block grant takes account of relative changes to the Council tax base for individual Councils on an annual basis.

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.



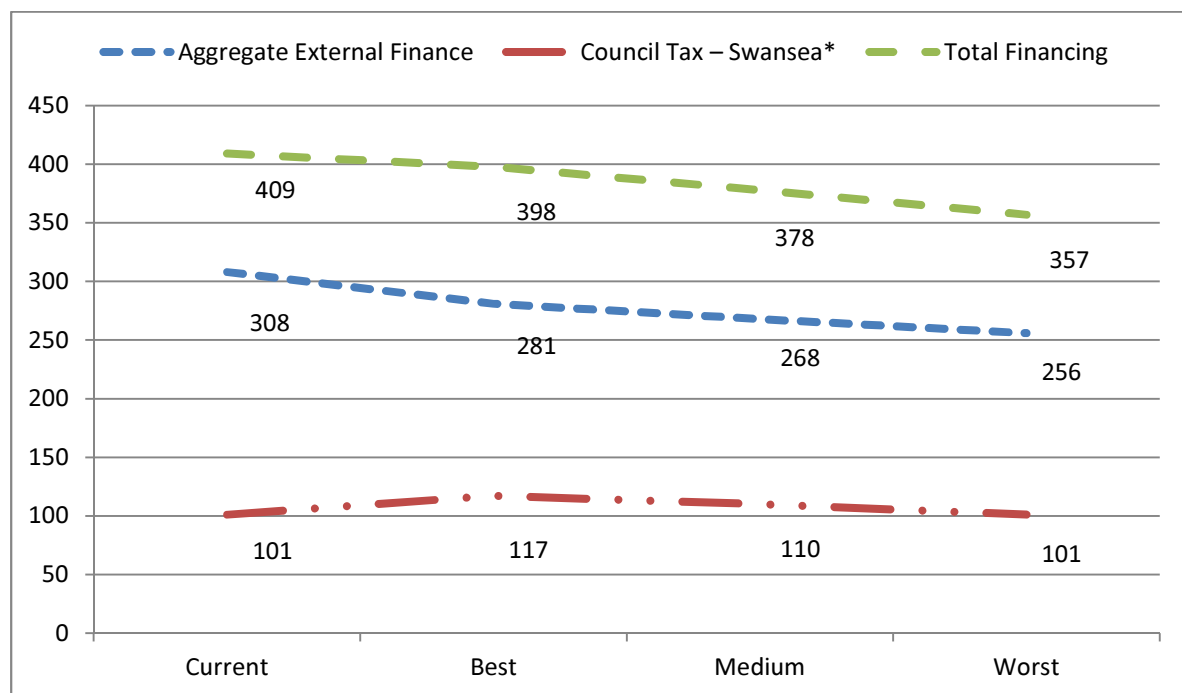
4.5 Combining the assumptions around the resource forecasts

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 - Cumulative three year effect



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

4.6 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 6% per annum reduction per annum in Aggregate external Finance then we face a £52 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 £31 million.
- The best case resources scenario, of low 13% reductions in Aggregate External Finance, combined with high 5% per annum Council Tax increases, could mean a cumulative loss of resource of £11million, before factoring in inflation and spend pressures. So even in the most optimistic scenario possible resources will have reduced.

Note: the Council has a clear policy to be more commercial and to increase income to seek to offset some of the financial pressures that we face. Although this should mitigate the position in the medium term, it is unlikely that the level of increased income that we can achieve will make a significant contribution in the next 1/2 years. It is equally clear that in terms of the scale of the savings requirements facing the Council then any increase in Commercial activity will potentially contribute to the solution but in no way will it provide the solution on its own.

4.7 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%.

At an average rise of 3% in Council Tax per annum, the net reduction in funding over the three year period, not taking into account spending pressures detailed elsewhere in this report, would be £31m 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 2015-16

Underpinning the net budget set for 2015-16 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 2015-16 budget, with broadly matched expenditure were £169,009,000.

2015-16	£m	Determined
Specific Grants	169	By Welsh Government
Total Specific Grants	169	

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

- Private sector and HRA housing benefit subsidy £89m;
- Supporting People £12m;
- Education Improvement Grant £12m;
- Concessionary fares £6m;
- Bus Services £5m;
- 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.

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.

The following table shows the current level of specific grant funding to CCS together with the specific area of impact per Directorate/delegated budget.

Possible outcomes at the moment cannot be individually guessed at and, following the table, overall assumptions around potential reductions are exemplified.

Specific grants – Swansea - £ millions

	Current value £m	Possible outcome	Impact on
Education Improvement Grant	12	?	Delegated
Families First	3	?	People
Post 16 schools provision	6	?	Delegated
Pupil Deprivation Grant	6	?	Delegated
Concessionary Fares	6	?	Place
Bus Services Support	5	?	Place
Supporting People	12	?	People
Flying Start	6	?	People
Community Housing	3	?	Place
Work Based Learning	2	?	People
Waste Grant	5	?	Place

Outcome Agreement	2	?	Corporate
European Rural Development Plan	2	?	Place
Housing Benefit (inc. admin subsidy)	90	2% per annum increase	Corporate/HRA
Other	9	Miscellaneous	
Total	169		

5.4 On balance it is felt prudent to model the following three outcomes based on ASSUMPTIONS only at this stage:

- 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	2016-19 – cumulative 3 year effect £m		
		-2% pa	-4% pa	-6% pa
Grant income	169	159	150	140
Assumed spend*	-169	-159	-150	-140
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 the propensity to need to remove spending and activity and this will have consequential impacts on residents and communities. However, this assumption is caveated in two ways:-

- To the extent that specific grant underpins services considered to be essential in contributing to the Council's agreed priorities, decisions to cut expenditure in those areas may be difficult and potentially subject to challenge.

- The ad-hoc nature of funding announcements means that remedial action often cannot be taken in time to meet any reduction that occurs. There is both a service and timing risk that exists.

If specific, non housing benefit grants fell on average by 3% per annum, £7 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.
- 5.7 Equally from the tables above it is clear that the impact of grant reductions should they occur will fall heavily on Schools' delegated budgets. This will have to be taken account of when forecasting the potential Schools position regarding the allocation of future core CCS funding.

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. To make clear, the savings targets that the Council will have to make in the coming years arises due to funding reductions detailed in the previous two sections of this report together with the need to fund additional spending pressures which are detailed in this section.

An analysis of the current position is given in 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 as approved by Council on 24th February 2015.

Existing published projected spending pressures 2016/17 – 2018/19

		<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>
		<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Future cost of pay awards		1,700	3,400	6,800
Pay and grading scheme		2,700	5,400	8,100
Cumulative contract inflation		1,000	2,000	3,000
Capital charges		1,750	3,250	5,000
Schools pay award		1,200	2,400	4,800
Teacher's pension costs		700	700	700
National Insurance rebate		8,000	8,000	8,000
Use of General Reserves		1,200		
Demographic and Service pressures		3,000	6,000	9,000
Total known pressures		21,250	31,150	45,400

Aggregate External Finance movement		13,844	27,064	39,690
Cumulative budget shortfall		35,094	58,214	85,090

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 for 2017/189 and 2018/19. 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 year's experience which is an effective public sector pay freeze or pay cap of 1% each year (the last being a 2.2% two year deal), and the Budget 2015 announcement of a renewed effective cap at 1% until 2020. 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 £2.9m per annum including schools.. Compounding 1% less for the latter two 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. However, all efforts should be made to seek to contain contract increased through a more commercial approach with suppliers.

6.2.4 Capital charges

No reason to change existing assumptions.

6.2.5 Schools pay award

Same comments apply to pay generally as stated above.

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.

6.3 New considerations to factor in to the forecast

6.3.1 Changes to Teachers Pensions

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.

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.

6.3.3 National Living Wage

The announcement of a stepped increase in a new National Living Wage by 2020 doubly complicates things. There will be a need to bottom load national pay awards for local government and implement locally at a level up to almost

the whole of Grade 4. By 2018-19 this is forecast to cost an additional £3m on the direct pay bill. More significant will be the cost on contracts predominantly incurring costs on staffing by contractors at or near minimum wage, especially in the care sector. By 2018-19 this is forecast to add £6.5m to contract costs over and above inflationary pressures.

6.3.4 Older people demographics

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

6.3.5 Children's services

Notwithstanding the demographic trends in the older 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.

6.3.6 Taxation

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

6.3.7 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.

6.3.8 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.

6.3.9 Change in ICT contract arrangements

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

6.3.10 Reassessing the spending pressures

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

		<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>
		<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Future cost of pay awards		1,700	3,400	5,100
Pay and grading scheme		2,700	5,400	8,100
National Living Wage – own pay bill		0	700	1,700
National Living Wage – contract inflation		2,500	4,000	5,500
Cumulative contract inflation		1,000	2,000	3,000
Capital charges		1,750	3,250	5,000
Schools pay award		1,200	2,400	3,600
Teacher's pension costs		700	700	700

National Insurance rebate		8,000	8,000	8,000
Use of General Reserves		1,200		
Demographic and Service pressures		3,000	6,000	9,000
Council Tax Support Scheme		600	1,200	1,900
<i>Total known pressures</i>		<i>24,350</i>	<i>37,050</i>	<i>51,600</i>

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 Workstream 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 some £20m in excess of current savings plans for 2016/17 alone as set out in the Sustainable Swansea update in July 2015. None of these are yet assured.

- 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)		24,350	37,050	51,600
Loss of block grant AEF		14,000	27,000	40,000
<i>Loss of specific grant (ultimately assumed funded by reduced</i>		<i>6,000</i>	<i>12,000</i>	<i>19,000</i>

<i>spend to match grant)</i>				
Resource gap		44,350	76,050	110,600

7.4 W

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 2015, the updated assessment to Cabinet in July and the assumptions set out in this paper on future levels of Council Tax.

	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>
Note	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Council tax increase (gross)	3,024	6,139	9,348
Reduction in spend on services funded by specific grant (ultimately to match grant reductions)	6,000	12,000	19,000
Specific savings proposals already agreed and set out in MTFP	12,772	20,554	20,554
Resource gap currently addressed at best	21,796	38,693	48,902

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>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Remaining minimum resource gap	22,554	37,357	61,698

This remaining minimum resource gap needs to be delivered via the various work-streams within the 'Sustainable Swansea – Fit for the Future' work programme as detailed in previous reports to Cabinet and Council

7.6 Crucially, adding the specific proposals already agreed and set out in the MTFP to the remaining minimum resource cap produces the following result:-

	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Remaining minimum resource gap	22,554	37,357	61,698
Specific savings proposals already agreed and set out in MTFP	12,772	20,554	20,554
Total savings identified	35,326	57,911	82,252

This is entirely consistent with the forecast MTFP

7.7 In terms of addressing the shortfall, Council identified within the mtfp an indicative three year savings target across Directorates as follows:-

Service	Current Budget £m	Percentage Reduction/Increase over 3 Years	Amount Realised £m
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
Total	346.8m		-81.7m

It is clear that the overall savings target is in line with expectations and the above table effectively quantifies the scale and distribution of savings required. Any subsequent decision to lower savings targets in one area will carry a requirement for an equal (but potentially disproportionate) increase in others

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 2016/17 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 2016/17 to 2018/19 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 spending pressures identified as part of the overall funding pressures that are applicable to delegated budgets:-

	2016/17	2017/18	2018/19
	£'000	£'000	£'000
Schools pay award	1,200,000	2,400,000	3,600,000
Contribution to Capital charges	1,000,000	2,000,000	2,000,000
Teachers Pensions	700,000	700,000	700,000
National Insurance Rebate	2,500,000	2,500,000	2,500,000
Total budget strain	5,400,000	7,600,000	8,800,000

- 8.4 These budgets pressures are based on current assumptions and reflect realistically the spending pressures that Schools are likely to face at the current time.

- 8.5 Whilst there would appear to be no specific Ministerial guarantee on funding for schools for 2016/17 such a guarantee cannot be ruled out during the budget process.
- 8.6 It is important to note that the above table assumes NO reduction in specific grants which may form part of the delegated budgets to Schools.
- 8.7 The budget strategy adopted by the council as part of its MTFP assumed a 15% reduction in overall education funding (i.e. 5% p.a.), including schools' delegated budgets, over the MTFP period. Specific decisions on levels of school funding will have to be considered by Council as part of the coming budget round.

Section 9 – Use of Reserves

The purpose of this section is to highlight the current planned use of General Reserves to support the 2015/16 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 2015/16 Revenue Budget is underpinned by a proposed use of £1.2m from general reserves.
- 9.2 In terms of planning assumptions the assumption is that this creates a spending pressure for 2016/17 as there is no assumption of ongoing availability of General Reserves for that year or beyond.
- 9.3 With respect to earmarked revenue reserves, a separate report has been presented by the Section 151 Officer outlining the reclassification of reserves following an updated assessment of risks currently facing the Council. Based on that report it is not envisaged any support for the Revenue budget being provided by the use of earmarked reserves at this time.
- 9.4 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.
- 9.5 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 in 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 24th February 2015 highlighted potential in year funding deficits for both Directorate Services and Schools improvement programme of some £9.736m for 2015/16 assuming achievement of budgeted capital receipts of some £8.1m.
- 10.2 The overall deficit in financing highlighted for the period covered by the forward capital programme is some £57.038m after allowing for assumed capital receipts of some £14.856.
- 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 includes substantial funding requirements relating to the Schools Improvement 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 A further and developing pressure on annual Revenue Capital charges is arising from the need to extend the need for additional external borrowing to replace current internal borrowing as the levels of general and earmarked reserves of the Council – and hence cash backed balances – are expected to decrease over the current year.
- 10.6 By way of explanation, where the Council carries surplus cash funding, largely arising from the existence of cash backed reserves and provisions, then rather than invest such surpluses at current historically low interest rates it makes sense as part of good financial management and best practice to use such surpluses instead of using additional external borrowing to support the Capital programme.

However, given the financial outlook of the Council it is likely that the level of cash backed balances is likely to decrease substantially over the period of the MTFP resulting in increased replacement external borrowing with a consequent increase in capital charges.

- 10.7 Future Capital charges are forecast to increase as part of the MTFP as shown in Section 6 of this report. The potential increases shown in that section are considered no better than a best assessment at this time and are dependent wholly on the shape and funding of the future capital programme going forward and the profile of Capital receipts.. It is clear however, that a move to externalise current internal borrowing alone would add some £3.5m p.a. to annual interest charges if fully implemented..
- 10.8 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.
- 10.9 Aggressive pursuit of asset sales is essential to funding both the current and future capital programmes
- 10.10 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 – Summary of actions required

- 11.1 There needs to be immediate and sustained action to control and reduce budgeted spend across the Council in order to achieve a balanced revenue outturn for 2015/16 in line with overall approved budget totals.
- 11.2 The Council has adopted a clear and deliverable strategy in order to address savings requirements going forward coupled with the need to continue to provide sustainable services to the public. However, the delivery of that plan needs to be increased in both scale and pace if the Council is to remain financially sound.
- 11.3 The Council needs to adopt a clear methodology of identifying and delivering savings as part of normal in year business rather than as part of an annual budget cycle. That requires implicit acceptance of the mtfp as a firm planning document. This acceptance allows the Council to be proactive rather than reactive to announcements on funding reductions and known budget pressures.

Legal implications

There are no legal implications arising from this report other than the need for the Council to set and maintain a balanced budget

Access to Services implications

While there are no direct implications arising from this specific report, it remains essential that where service levels are affected by budgetary changes (including savings options), robust consideration is given to the equality impact of such decisions. The corporate Equality Impact Assessment process (which includes engagement and children's rights amongst other equality issues) must continue to be used in order to ensure our compliance with the Public Sector Equality Duty for Wales.

Background Papers: None.

Appendices: None.