

## Report of the Section 151 Officer

Council – 25 February 2016

### MEDIUM TERM FINANCIAL PLANNING 2017/18 TO 2019/20

|                                    |  |
|------------------------------------|--|
| <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 Services, Access to Services, Cabinet Members and Executive Board  |
| <b>Recommendations:</b>            | <p>It is recommended that:-</p> <p>The Medium term Financial Plan 2017/18 to 2019/20 be approved as the basis for future service and financial planning.</p>                                     |
| <b>Report Author:</b>              | Mike Hawes   |
| <b>Finance Officer:</b>            | Mike Hawes   |
| <b>Legal Officer:</b>              | Tracey Meredith  |
| <b>Access to Services Officer:</b> | Sherill Hopkins  |

## **Section 1 – Introduction and Background**

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

- 1.1 Service and financial planning continues to be undertaken against a backdrop 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 2017/18 to 2019/20 and, as such, the indicative annual assumptions included both within the projected spending pressures detailed in Section 3 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 difficulties inherent in terms of attempting to forecast, in particular, the likely levels of core funding that will be provided by Welsh Government over the period of the MTFP. **However, whatever the difficulties the Council must be in a position whereby it is able to plan both its finances and service delivery levels over the medium term.**

1.6 Importantly, it is essential that the MTFP becomes a 'living' document that is subject to regular review and revision as 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 2016/17, further reports to Cabinet regarding the MTFP will be made as necessary. In particular, the Mid Term Budget Statement in the Autumn of 2016 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 2017/18 to 2019/20

Section 3 - Detailed spending and resources forecast 2017/18 to 2019/20

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 It should be noted that the period covered by this MTFP, which deals solely with the Council, takes us to the point of Potential Local Government

Reorganisation as outlined in both the Local Government (Wales) Act 2015 and the Draft Local Government (Wales) Bill.

## **Section 2 – Overview of financial planning environment 2017/18 to 2019/20**

- 2.1 The Medium Term Financial Plan (MTFP) report considered by Council on 24<sup>th</sup> February 2015 included a service and financial overview. This was updated in terms of the Mid-Term budget statement taken to Council in November 2015 and is updated further below.

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

- 2.2 The announcement of the provisional Revenue and Capital Settlements for 2016/17 has resulted in a reduction in core Welsh Government funding at a level substantially below that which had been anticipated taking into account clear indications previously given by Welsh Government.
- 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. However, it is difficult at this point in time to assess the impact of UK wide public spending restrictions, given the indication by the Chancellor as part of the Autumn Statement on 19<sup>th</sup> November 2015 that cuts to Welsh Government Block Grant would be limited to 4% in real terms over the life of this Parliament.
- 2.4 Of course, the level of Welsh Government devolved Block Grant is not the only determinant of Welsh Government support for Local Authorities. It is likely that further delegation and transfer of powers and rights from Westminster to Cardiff may impose greater or lesser financial risks to Welsh Government than is currently the case.

There is also, of course, the fact that Welsh Government has to decide on its own cross-sectoral allocation of devolved funding to public services in Wales.

- 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. Equally clearly, there is a potential for further UK Government announcements to impact on costs borne by the Council, particularly in respect of any changes to taxation. The clear example in 2016/17 of increased costs in Employers National Insurance contributions linked to the ending of the contracted out rate, which will be followed in 2017/18 and onwards by the proposed Apprenticeship levy which, if applied to Local Authorities, will add around £1m to the Council's paybill on an annual basis. Equally, proposed annual rises in the National Minimum Wage will impact on the Authority over the period of the MTFP, although the more immediate effect is likely to be seen on terms of third party supply and service contracts

- 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.
- 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. Latest proposals, for example, propose devolving the cost of welfare provision in Wales to the Welsh Government with all the risk that might entail regarding cost movement.
- 2.8 In terms of core revenue funding, the provisional Revenue and Capital settlement issued by the Welsh Government on 9th December 2015 did not give indicative settlement levels beyond 2016/17 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 All this of course has to be set against a backdrop of significant global instability where events can impact significantly – and at short notice – on the UK economy and the overall UK economic outlook.
- 2.10 For the purposes of the planning assumptions, it is simply not possible to forecast with any certainty the level of funding that is likely to be received from Welsh Government on an annual basis over the period of the MTFP. Instead, it is intended to forecast a range of potential funding scenarios, each of which will result in differing financial forecasts for the Council over the period covered. The forecasts will be updated using the mid term budget statement to Council each year to reflect the best information available on a rolling basis.

For the purposes of the MTFP, forecasts will be based around cumulative reductions of 1%, 2% and 4% although, of course, reductions will fluctuate on an annual basis.

It is not considered likely that there will be a cash flat position over the period of the MTFP and even less likely that there will be any form of increase.

| Year              | AEF<br>Reduction<br>@ 1%<br>£'000 | AEF<br>Reduction<br>@ 2%<br>£'000 | AEF<br>Reduction<br>@ 4%<br>£'000 |
|-------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| 2017/18           | 3,077                             | 6,155                             | 12,310                            |
| 2018/19           | 3,046                             | 6,092                             | 12,184                            |
| 2019/20           | 3,016                             | 6,032                             | 12,064                            |
| <b>Cumulative</b> | <b>9,139</b>                      | <b>18,279</b>                     | <b>36,558</b>                     |

Note that the above reductions are based on the provisional AEF for 2016/17 of £307.754m as announced on 9<sup>th</sup> December 2015.

The above represents a significant spread in terms of potential overall reductions over the life of the MTFP which as stated previously will have to be updated on a regular basis.

2.11 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 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.

2.12 In terms of potential Local Government reorganisation, if current proposals continue then future Council Finances may well be subject to review and consultation through Transition Committees to be established by the end of June 2017 with, more importantly, a transactions regime being established by Welsh Government requiring approval for transactions, including reserve movements, above certain values.

The potential timetable for LGR is as follows:-

|                     |  |
|---------------------|--|
| <b>Jan-Apr 2016</b> | <b>Engage with local government and Welsh Government policy leads, draft guidance</b>      |
| May 2016            | Amend guidance following Assembly elections  |
| Jul-Oct 2016        | Consult on draft guidance  |
| Nov 2016            | Introduce Local Government (Wales) Bill; transactions regime comes into force by direction |
| Nov-Dec 2016        | Make TC regulations and publish final guidance   |
| May 2017            | Local Government elections – 3 year term; establish Transition Committees                  |
| May 2019            | Elections to shadow authorities  |
| 1 April 2020        | Vesting Day; existing authorities abolished, except Powys                                  |

### 2.13 Support for Capital Programmes

The settlement indicated support for future General Fund Capital programme for 2016/17 at a level of £10.242m, a slight increase from 2015/16. This support is through a mix of General Capital Grant and support for borrowing.

Planning assumptions for both 2017/18, 2018/19 and 2019/20 are based on unchanged levels of support.

- 2.14 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.
- 2.15 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.
- 2.16 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 2016 is anticipated to be some £90m. 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 2016/17 and beyond as opportunities arise.

- 2.17 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 2017/18 to 2019/20**

- 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 2017/18 – 2019/20**

|  |      | <u>2017/18</u> | <u>2018/19</u> | <u>2019/20</u> |
|--|------|----------------|----------------|----------------|
|  | Note | <u>£'000</u>   | <u>£'000</u>   | <u>£'000</u>   |
|  |      |                |                |                |
| Future cost of pay awards              | 1    | 1,700          | 4,100          | 7,500          |
| Pay and grading scheme                 | 2    | 2,700          | 5,400          | 5,400          |
| 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          | 3,600          | 6,000          |
| Use of General Reserves                | 6    |                |                |                |
| Demographic and Service pressures      | 7    | 3,000          | 6,000          | 9,000          |
| Apprenticeship levy                    | 8    | 1,000          | 1,000          | 1,000          |
| <b>Total known pressures</b>           |      | 12,350         | 25,350         | 36,900         |
|  |      |                |                |                |
| Aggregate External Finance movement at |      | 6,155          | 12,247         | 18,279         |

|                                    |  |               |               |               |
|------------------------------------|--|---------------|---------------|---------------|
| 2% reduction                       |  |               |               |               |
|                                    |  |               |               |               |
| <b>Cumulative budget shortfall</b> |  | <b>18,505</b> | <b>37,597</b> | <b>55,179</b> |

Note:

- 1) Assumed pay increases at 1% p.a. for 2017/18, rising to 2% for 2018/19 and 2019/20. 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 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) Currently nil but dependent on decisions re use in 2016/17
- 7) 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.
- 8) Based on outline proposals announced in the Chancellors Autumn Statement November 2015.

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 and recent announcements on potential apprenticeship levies - 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 or movements in minimum statutory wage.
- 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 and is wholly dependent on decisions around potential externalising of internal borrowing.
- 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 the period of the MTFP which will be based on a triennial valuation as at 31<sup>st</sup> March 2016 affecting contribution rates for the period 2017/18 to 2019/20.

3.6 As highlighted in Section 2, the Local Government (Wales) Act 2015 became law in Wales on 25 November 2015. This new law will enable preparations to be made for the programme of local government mergers and reform.

A second Local Government (Wales) Bill was published in draft for consultation on 24 November. The Draft Bill will complete the programme of local authority mergers and set out a new and reformed legislative framework for local democracy, accountability, performance and elements of finance. It will also establish a statutory Public Services Staff Commission.

Formal consultation on the proposals for local authority mergers announced in June has also started. The consultation closes on 15 February 2016. No account of the effect of these proposals has been built into the MTFP which runs until 31<sup>st</sup> March 2020, the effective date that this Council would cease under the proposals as drafted.

3.7 However, it is highly likely that under the provisions contained within the current legislation the Council's ability to make decisions around Capital expenditure and Reserve usage will be constrained and will require approval and consultation.

**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 It is equally clear that if the Council wishes to prioritise investment in priority services then the actions being taken under the Sustainable Swansea programme represent good practice irrespective of the current financial environment.

4.3 The Strategy was agreed by Cabinet and reported to Council in October 2013. The Delivery Programme was reviewed, refreshed and re-approved by Cabinet on 16 July 2015. 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.

4.4 Since the July 2015 meeting of Cabinet we have:

- Started delivering the Savings Programme Workstreams
- Completed a number of commissioning reviews and moving to implementation phase
- Started the next phase of engagement on *Sustainable Swansea* –following agreement of a report to Cabinet on 10<sup>th</sup> December 2015.
- Developed a range of additional proposals to meet a significant proportion of the Council's £21.5m shortfall in 2016/17, which result in further savings during the period of the MTFP which is relevant to this report, as reported to Cabinet on 10 December 2015.

## **Our Service Priorities for 2016/17 and the MTFP period**

- 4.5 Although the Council is currently focused on a plan to save an additional £55m (excluding schools) 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 £700m (excluding Housing Services (HRA)) and we spend around £1.5m a day on services to residents.
- 4.6 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
  - The core objectives of *Sustainable Swansea* – which embrace all that we do
  - The application of the budget principles – which guide our decision making
- 4.7 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.
- 4.8 This requirement is illustrated sharply by the “gearing” effect of savings on services. In other words, if our current savings requirement of £55m (excluding schools) 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 nearly 75% removed. Consequently, other areas such as Social Care also need to face some level of reduction over the next 3 years, given the relative size of their budgets. We are now assuming there will be repeated extensions of the Ministerial protection afforded to schools which will prevent savings of any significance to be applied there, which will add further pressure on all remaining services.
- 4.9 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.

4.10 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 2016/17), as reported to Cabinet on 10<sup>th</sup> December 2015, is set out in the Table below. This table is important at this stage only as it gives an indication of prioritisation of services, as currently adopted by Council, although it is clear that there are many combinations around Service expenditure reduction that would potentially achieve the same saving.

| <b>Service</b>                 | <b>Current Budget<br/>£m</b> | <b>Percentage Reduction/Increase<br/>over 3 Years</b> | <b>Amount Realised<br/>£m</b> |
|--------------------------------|------------------------------|---|-------------------------------|
| Schools \$                     | 135.2                        | 2.3   | +3.2                          |
| Rest of Education              | 21.1                         | -15   | -3.2                          |
| Social Care – Child & Families | 38.3                         | -15   | -5.8                          |
| Social Care - Adults           | 66.4                         | -20   | -13.3                         |
| Poverty & Prevention *         | 4.8                          | +5  | +0.2                          |
| Place                          | 52.7                         | -50   | -26.4                         |
| Corporate Services +           | 23.5                         | -50   | -11.7                         |
| <b>Total</b>                   | <b>342.0m</b>                |   | <b>-57.0m</b>                 |

*\$ Assumes schools protection continues limiting any material scope for reduction and reflects the assumed funding guarantee INCREASE for 16/17*

*\* 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*

*+ Corporate Services is £44.4m less £20.9m Council Tax Reduction Scheme*

- 4.11 This statement will form the basis of our future Medium Term Financial Plan, as well as individual service plans although no formal assumptions should be made around annual budget changes based on this MTFP. Presentationally, it is materially different in scale to last year's Medium Term Financial Plan which set out an over £81m requirement because the continued Ministerial funding guarantee for schools effectively removes £24m of planned future savings. Crucially as it effectively inhibits making savings in schools and ring fences their budgets the remaining £57.0m is broadly exactly the same remaining figure as that which would have been expected to fall on non-education budgets anyway.
- 4.12 It should be noted that the savings targets detailed above are for the period 2017/18 to 2019/20 which could represent the end of the Council's existence as a separate entity. Work will continue to need to be undertaken to plan for all eventualities including potential local government reorganisation from April 2020.
- 4.13 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 3.3 of this report.

|   |  | <u>2017/18</u> | <u>2018/9</u> | <u>2019/20</u> |
|---|--|----------------|---------------|----------------|
|   |  | <u>£'000</u>   | <u>£'000</u>  | <u>£'000</u>   |
| <b><i>Cumulative budget shortfall</i></b> |  | <b>18,505</b>  | <b>37,597</b> | <b>55,179</b>  |

5.2 The assumptions surrounding the compilation of these figures are given in detail within the table at 3.3 above and, in particular, are heavily dependent on the assumption of an ongoing 2.0% 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 2016/17 consultation proposals
- Additional Directorate/Service Area targeted savings as detailed in Section 4.10 of this report
- Potential rises in Council Tax levels.

5.4 Bringing these items together, and assuming a balanced position for 2016/17, the following indicative position is envisaged:-

|   |  | <u>2017/18</u> | <u>2018/19</u> | <u>2019/20</u> |
|---|--|----------------|----------------|----------------|
|   |  | <u>£'000</u>   | <u>£'000</u>   | <u>£'000</u>   |
| <b><i>Cumulative budget shortfall</i></b>   |  | <b>18.505</b>  | <b>37,597</b>  | <b>55,179</b>  |
| <b><i>Directorate savings proposals/agreed</i></b>  |  | -              | -              | -              |
| <b><i>Additional Directorate Savings required (excluding Schools delegated budgets)</i></b> |  | <b>-18.505</b> | <b>-37,597</b> | <b>-55,179</b> |

5.5 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.

5.6 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.

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

5.7 Further work will take place on the development of a revised Sustainable Swansea Delivery Programme to replace the one agreed by Cabinet on 16 July 2015. This will need to include (amongst other things):

#### Efficiency

- Programming of further savings from the review of third party spend and additional income
- Additional senior staff 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 and Leadership Team 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 2016/17 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. However, the Council will continue to take into account annual requests from the Minister for Public Services in respect of annual funding guarantees and the extent to which these can be met based on annual resources available and spending needs.
- 6.4 The table shown in Section 4.10 of this report details the proposed indicative Directorate Savings targets for the period 2017/18 to 2019/20 in respect of the Revenue Budget.
- 6.5 Those projected savings targets offer relative priority to Education and Schools budgets in particular.
- 6.6 It would be prudent to assume, however, that despite the notional 'flat' position for schools highlighted in Section 4.10 of this report, reductions in real term budgets of around 2% p.a. will be required to meet the Council's budget needs going forward.
- 6.7 It is essential therefore that we continue to engage with Schools on a strategic review of provision as simply cutting in real terms by 2% 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:-

- The volatility of settlements received from Welsh Government from indicative planning stage to provisional settlement and the absence of any future year guidance on levels of likely settlement
- 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.
- The introduction of new legislation and statutory requirements which impose additional burdens on the Council
- The impact of current legislation such as the Wellbeing of Future Generations (Wales) Act 2015.
- The impact of Welsh Government controls being imposed should Local Government re-organisation in Wales proceed.
- Specific issues surrounding the implementation of Local Government re-organisation, including Council Tax equalisation, equalisation of schools funding formulae, harmonisation of charges and more importantly, introduction of a harmonised pay and grading scheme.

There may also be consequences arising from formula distribution changes pre and post reorganisation.

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.

## **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 2016/17 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 8.4 to 8.9 below.
- 8.2 Conclusions and recommendations in respect of reserves usage is given in section 8.6 below.
- 8.3 The current 2015/16 Revenue Budget is underpinned by a proposed use of £1.2m from general reserves.
- 8.4 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, and this is reflected in the revenue budget proposals presented elsewhere on this agenda.
- 8.5 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
- 8.6 In September 2015 Council received and approved a report which re-allocated earmarked reserves based on known changes to the risk profile of the Council and it is anticipated that a similar report, probably for inclusion in the mid year budget statement, will be taken on an annual basis.
- 8.7 Allowing this consideration outside of the annual budget process and after previous year outturn is known will give elected Members better opportunity to reflect on the level of General and earmarked reserves in line with the guidance detailed in 8.10 below.
- 8.8 In addition various sections highlighted throughout this report refer to significant ongoing risk around current activities – particularly single status and outstanding equal pay claims.
- 8.9 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.
- 8.10 On 12<sup>th</sup> January 2016 the Welsh Government issued guidance to Local Authority Members on matters to be taken into consideration when scrutinising the level of Local Authority Reserves held at any point in time.

This has been circulated to all Members and any recommendation relating to the holding or release of reserves will be undertaken with reference to the principles underpinning best practice as issued by the Chartered Institute of Public Finance and Accountancy and this guidance.

## **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 2015/16 approved budget were subject to the corporate an appropriate Equality Impact Assessment process, which was considered as part of the overall budget process.

9.2.2 Where additional budget savings requirements are identified as part of the 2016/17 and Medium Term Financial Plan budget processes they will again be subject to the Equality impact assessment process (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**

Mike Hawes

Head of Finance and Delivery, Tel 01792 636423

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

- 1 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**

- 2 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**

- 3 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> |
|-----------------------|--|

|                   |  |
|-------------------|--|
| <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> |
|-------------------|--|

## **STATEMENT OF BUDGET PRIORITIES: PEOPLE'S SERVICES**

### **Schools and Education**

4. Education is continuing to work 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 continuing to meet Welsh Government expectations through the continuing prioritisation of the delegated schools budget. Nevertheless, schools face serious challenges to contain the cost pressures facing them, the anticipated further reduction in areas of specific grant funding, and the uncertainty regarding national protection beyond April 2017.

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 further 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

### **Social Services- Child & Families (no change needed)**

5. 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.

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

- 6 Adult Services has revisited its transformation programme to ensure that it can transform services to meet future needs within the budget available.

In 2016/17, Adult Services will need to save £500,000 and during the year the service is undertaking commissioning reviews in domiciliary care, residential care and day services for older people as well as provision for younger adults and people with mental health needs, learning and physical disabilities. In doing this Adult Services will develop a model of future care for its service

users and carers that is fit for purpose, affordable and responds to the new requirements of the Social Services and Wellbeing Act.

Everything that Adult Services does will encourage people to reach their potential, live as independently as possible for as long as possible and reduce demand for long term care through investment in prevention and reablement. We will continue to build on the strong partnerships that we have through our ongoing integration with health and key initiatives such as Local Area Coordination through which we will build on people's strengths to allow them to have a good life. Safeguarding vulnerable people will also be at the heart of everything that we do.

### **Poverty & Prevention**

- 7 Poverty & Prevention as a service is working towards a more sustainable budget which relies less on Welsh Government grant funding, set on an annual basis, and more on core funding, but this can only be achieved through evidenced based early intervention and prevention services which are managing demand prior to social services. Investment through the prevention budget has shown that high quality early intervention and prevention activities can be embedded into mainstream practice. The development of a Council-wide prevention strategy is continuing with proposals for investment. A number of key areas have been delivered in the Poverty strategy, and it is in the process of being reviewed.

Our policy must be to:

- Finalise and implement the prevention strategy and provide additional investment **or** redirect existing spend into preventative programmes where evidence shows this works
- Ensure all Council services (as well as partners) contribute to combatting poverty through the tackling poverty strategy and action plan
- Deliver the Council's Early Years strategy in partnership with Health
- Drive forward the family support commissioning review and on-going development of the Family Support continuum, improving outcomes for children, young people and their families
- Develop a new integrated approach to the delivery of Communities First to tackle poverty at a community level, prioritising engagement, learning and employment
- Continue to embed the UNCRC council-wide and develop our Children and Young People's plan
- Deliver a Night Time Economy strategy which diversifies and develops the cities offer, and ensures retention of Purple Flag status

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

- 8 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 e.g.: 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, provide more affordable housing including the commencement of a pilot programme for new build housing
- Prioritise the Regeneration of the City Centre and the economy

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

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

To deliver such a challenge Cabinet has approved a new model for Business Support across the Council. The key feature of this new model are as follows:

- We will have ONE WAY of delivering business support across the Council
- We will strengthen the critical functions of the Council's strategic centre: including governance, performance, business intelligence
- We will integrate corporate advisory functions including: finance, legal, HR, property and commercial
- We will develop an internal shared service model for business support that everyone will use
- We will apply common design principles to ensure the most efficient and cost effective approach, consistent with customer needs
- We will invest 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
- We will adopt a digital first presumption to all business support functions
- We will enable self-service and reduce demand
- We will implement the new model in phases to manage the change effectively and ensure sustainability
- We will be open to opportunities to deliver future business support functions delivered jointly with others

- We will look for opportunities to generate income from business support

## Appendix 'B'

### Sustainable Swansea workstreams and progress in 2015/16

| Efficiency Workstream (Sponsor Dean Taylor) |               |   |
|---|---------------|---|
| Strand                                      | Lead          | Current Position/Achievements to Date   |
| Continuous Improvement                      | Khan Prince   | <ul style="list-style-type: none"> <li>• 2 x reviews are complete – HR, Domestic Abuse</li> <li>• 2 x reviews are near completion – Waste Management, Customer Contact</li> <li>• 1 x review is due to begin LAC/NEET/SEN</li> <li>• Training is scheduled for a core group of staff to be developed to undertake reviews</li> <li>• Service improvements have been identified and are now being implemented</li> </ul>   |
| Workforce                                   | Steve Rees    | <ul style="list-style-type: none"> <li>• A Corporate Workforce Strategy is drafted and ready for its final iteration before it goes to decision makers and then implementation.</li> <li>• Performance appraisals have been updated, standardised and rolled out and are now being audited and reviewed – this should help improve performance, engagement and staff development.</li> <li>• The innovation community are near completion of task &amp; finish groups including employee behaviours – improved employee engagement and cultural change evident attendance and contribution to the staff engagement event.</li> <li>• Employee Behaviour Framework has been developed.</li> <li>• £343k of efficiencies been achieved</li> </ul> |
| Senior Staff Review                         | Jack Straw    | <ul style="list-style-type: none"> <li>• An approach has been agreed</li> <li>• Communications are underway</li> </ul>  |
| Modernising Business Support                | Steve Rees    | <ul style="list-style-type: none"> <li>• Recommendations for savings have been implemented</li> <li>• £757k of efficiencies have been delivered</li> <li>• Savings will continue to be delivered as part of Business Support Commissioning Review Implementation</li> </ul>   |
| Modernising ICT                             | Sarah Caulkin | <p><b>Everyone's IT:</b></p> <ul style="list-style-type: none"> <li>• Successful in-sourcing of external ICT contract</li> <li>• New team developed and integrated</li> <li>• New helpdesk in place</li> <li>• On track to deliver 2016/17 savings (£1.5m) from 1 April</li> </ul> <p><b>Employee Self Service:</b></p> <ul style="list-style-type: none"> <li>• Self-service of planned leave has been piloted and rolled out – reduced processing and manual handling of information.</li> <li>• The Digital Strategy is now in place supported by an ICT programme</li> </ul>  |

|               |                |  |
|---------------|----------------|--|
| Assets        | Geoff Bacon    | <p><b>Accommodation Strategy:</b></p> <ul style="list-style-type: none"> <li>• Ongoing centralisation of accommodation.</li> <li>• Services continue to migrate to the Civic Centre</li> <li>• Properties are being prepared for market</li> <li>• A leaner and more commercial portfolio is being developed</li> <li>• Agile working continues to roll out</li> <li>• £291k of efficiencies have been achieved</li> </ul> <p><b>Community Asset Plans:</b></p> <ul style="list-style-type: none"> <li>• A better understanding of the community asset portfolio has been developed</li> <li>• Some assets have been transferred to the community</li> </ul>   |
| Commercialism | Chris Williams | <p><b>Income:</b></p> <ul style="list-style-type: none"> <li>• Increased data and understanding of existing income streams</li> <li>• Benchmarking complete</li> <li>• Opportunities identified and delivered creating an increase in income for the organisation</li> <li>• New services developed e.g. knotweed service</li> <li>• Increased commercial awareness</li> <li>• £416k has been achieved</li> </ul> <p><b>Sponsorship &amp; Promotion:</b></p> <ul style="list-style-type: none"> <li>• Opportunities and 'sales' material developed</li> <li>• Relationships with businesses developed</li> <li>• Increased income through sponsorship and promotion</li> <li>• £215k of has been achieved</li> </ul> <p><b>Third Party Spend:</b></p> <ul style="list-style-type: none"> <li>• Greater data and understanding of third party spend and most significant contracts</li> <li>• Opportunities identified and delivered</li> <li>• Category plans are in place with further opportunities for savings and efficiencies identified</li> <li>• Increased e-invoicing and e-catalogue use</li> <li>• £3.3m of efficiencies achieved (£438k cashable)</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>• Successful channel shift through the expansion of online services</li> <li>• Increase in volume of on-line transactions</li> <li>• Reduction in telephone calls</li> <li>• New customer services offer is being developed and implemented including infrastructure and staff development</li> <li>• Successful transition of phase 1 staff and services into a central contact service</li> <li>• On track to achieve £185k savings on 1 April</li> </ul> |
| Commissioning   | Martin Nicholls | <ul style="list-style-type: none"> <li>• 4 x Commissioning Reviews complete, now in implementation</li> </ul>  |

|                  |                |  |
|------------------|----------------|--|
|                  |                | <ul style="list-style-type: none"> <li>• £366k of efficiencies have been achieved</li> <li>• Savings of £5.2m identified through the reviews for 16/17</li> <li>• Review process developed based on lessons learned</li> <li>• 16/17 reviews agreed, ready to begin in February &amp; March</li> </ul>   |
| Community Action | Tracey McNulty | <ul style="list-style-type: none"> <li>• Community Action Transformation Fund in place to support public initiatives</li> <li>• Principle for working with the community have been developed</li> <li>• A framework for engagement has been developed</li> <li>• A toolkit has been developed to support and enable groups to become established, run and consider taking over assets</li> <li>• A marketing campaign is underway to build awareness and appetite for community action initiatives; #voices&amp;choices</li> <li>• Glais community are ready to take over management of a local community centre from 1 April</li> <li>• The savings for this strand have been included with the Cultural Services Commissioning Review</li> </ul> |

| <b>Prevention Workstream (Sponsor Chris Sivers)</b> |               |  |
|---|---------------|--|
| <b>Strand</b>                                       | <b>Lead</b>   | <b>Current Position/Achievements to Dates</b>  |
| Manage Demand                                       | Sarah Caulkin | <ul style="list-style-type: none"> <li>• Recommendations have been made to reduce demand in areas such as FOI requests</li> <li>• Projects have been supported in key areas e.g. understanding a rise in demand for domiciliary care demand</li> <li>• Opportunities are being explored for developing GIS mapping of demand</li> <li>• An organisation-wide Demand Management Strategy is in drafting phase for completion shortly</li> <li>• Training is being developed</li> <li>• £432k of efficiencies have been achieved</li> </ul>  |
| Early Intervention                                  | Sarah Crawley | <ul style="list-style-type: none"> <li>• Closer working between partners including Health, Police etc.</li> <li>• Service re-design is being implemented following a review of Domestic Abuse which should improve outcomes for victims and perpetrators of domestic abuse.</li> <li>• Cost Benefit Analysis tool developed to demonstrate the value of early interventions</li> <li>• Prevention pilot projects have been successfully trialled new ways of working with 4 projects being taken forward into business-as-usual</li> </ul> |

|                             |                          |  |
|-----------------------------|--------------------------|--|
|                             |                          | <ul style="list-style-type: none"> <li>• A Prevention Strategy for the whole organisations is in its final draft phase, to be rolled out shortly.</li> </ul>   |
| Safe LAC Reduction Strategy | Julie Thomas             | <ul style="list-style-type: none"> <li>• The Family Support Continuum has developed a whole new team and approach to supporting complex families</li> <li>• The looked after children population continues to reduce as people get the right support at the right time</li> <li>• Youth Workers are now working with the whole family, not just young people, to provide better support and better outcomes</li> <li>• £1.9m of efficiencies have been achieved</li> </ul> |
| Promoting Safe Independence | Dave Howes/Alex Williams | <ul style="list-style-type: none"> <li>• Recently added to the programme this strand has been identifying the key projects</li> </ul>  |
| Education Strategy          | Lindsay Harvey           | <ul style="list-style-type: none"> <li>• Recently added to the programme this strand has been identifying the key projects</li> </ul>  |

| <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>• The Corporate Plan, outcomes and performance measures have been developed</li> <li>• Budget plans have been developed for consultation</li> <li>• Opportunities are being explored around stopping lower priority services</li> </ul> |
| Future Council  | Dean Taylor | <ul style="list-style-type: none"> <li>• Organisation culture and expected behaviours have been developed</li> <li>• The senior staff review has been launched</li> </ul>  |