

## Report of the Section 151 Officer

Council – 1 November 2016

### MID-TERM BUDGET STATEMENT 2016/17

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

**Policy Framework:** Sustainable Swansea

**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 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 Council endorses whatever actions are required in order to move towards a more balanced revenue outturn for 2016/17.
3. Comments in relation to the funding of the capital programme set out in the report are noted and the funding shortfall continue to be addressed by a policy encompassing all asset sales.

**Report Author:** Mike Hawes

**Finance Officer:** Mike Hawes

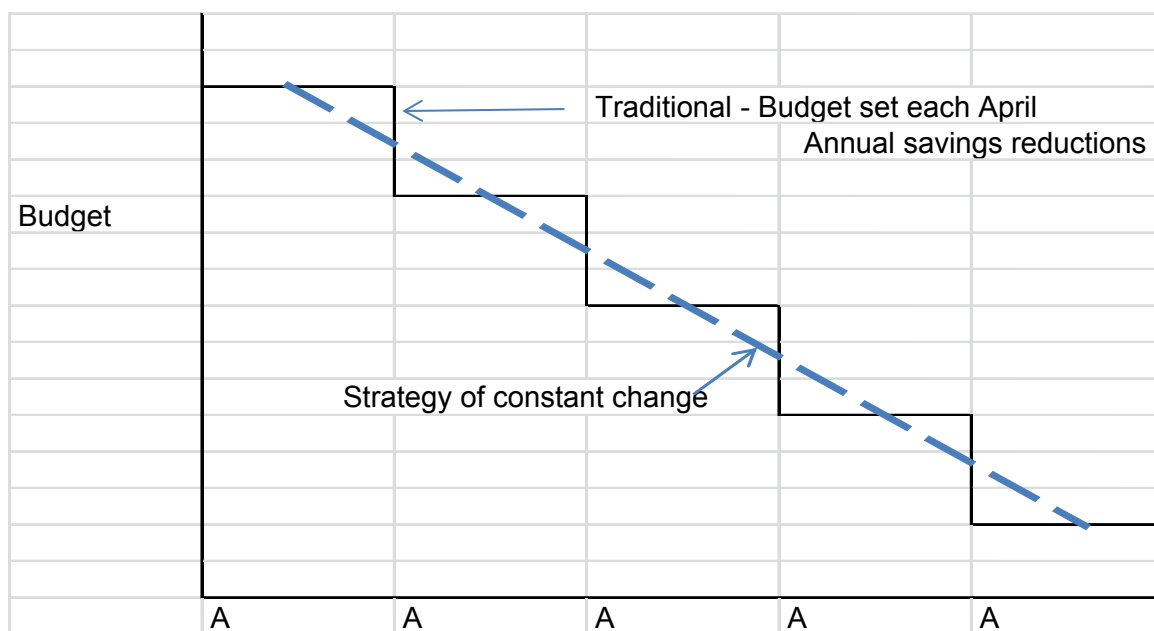
**Legal Officer:** Tracey Meredith

**Equalities Officer:** Sherill Hopkins

## **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 and will face moving forward.
- 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. This has been partly addressed via the introduction of Service Commissioning Reviews designed to look strategically at future service delivery options in order to develop outcomes that are sustainable operationally and financially.
- The scope of the Commissioning Reviews needs to be expanded as we move forward in order to far better address whole Council delivery of corporate priorities without the impediment of Directorate or Service boundaries.
- 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 There is some evidence that the Council is moving towards a strategy of constant change evidenced by its ability to meet in year budget challenges following early forecasts of significant overspend. However, this is a largely re-active rather than pro-active action at this stage.

1.7 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 2016/17

Section 3 - Service/Financial risks currently identified in relation to the delivery of the 2016/17 Revenue Budget

Section 4 - A revised Medium term Resource and Funding forecast for the period 2017/18 to 2019/20 based on latest known decisions and Council decisions

Section 5 – A brief 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

1.8 This report should be read in the context of the Council's overarching budget strategy – ***Sustainable Swansea – Fit for the Future.***

## **Section 2 – Revenue Financial Forecast 2016/17**

**The purpose** of this section is to provide a high level assessment of the projected 2016/17 revenue outturn position as an essential precursor to forward financial planning assumptions.

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

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

- 2.1 The first quarter budget monitoring report presented to Cabinet on 18<sup>th</sup> August 2016 highlighted a forecast service overspend for 2016/17 of £9.6m, with some immediate action proposed to offset £2.4m of that pressure. 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 2015/16 detailed a net Council underspend for 2015/16 of some £2.3m. 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 2016/17 budget position. The areas of overspend – particularly around Education and Mental Health and Learning Disability – continue to overspend in 2016/17. It is therefore essential that either the specific issues in these areas are addressed or the Council recognises a longer term funding pressure which simply adds to the overall Council forecast deficit going forward.
- 2.3 The first quarter budget monitoring report also highlighted the significant gap around the cross cutting savings relating to Terms and Conditions (£1m) and Stopping Services (£2m). Given the lead in time for both and appropriate consultation requirements it is extremely unlikely that these savings will be achieved in 2016-17 and will therefore have to fully roll into baseline gaps for 2017/18. With regard to further work on Terms and Conditions, it is considered necessary that the current exercise to introduce the single status pay model and associated appeals processes is completed before any further issues are addressed, this inevitably slows the pace at which any such future potential change can be implemented .
- 2.4 Work must be undertaken to try and mitigate projected overspends in the Directorates effected by savings elsewhere but it is very unlikely that a fully balanced outturn can be achieved for 2016/17 at this point in time.
- 2.5 The position regarding the use of the Contingency Fund and the Corporate Inflation provision is largely in line with that reported at first quarter, that is it is fully extinguished, or committed elsewhere, to help rebalance the in-year

budget position. The final Contingency Fund position, however, will be largely determined by the scale of ER/VR/Redundancy costs incurred later in the year, and if, as is likely, exceeds the amount available, the excess will be charged to the Restructuring Reserve.

- 2.6 Anticipating both current and future year spending pressures, the Section 151 Officer has, and will continue, to make 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 on the use, or otherwise, of earmarked reserves.
- 2.7 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 2016/17.
- 2.8 During 2016/17 the Council has reported on a detailed savings tracker which is designed to monitor delivery of specific savings proposals contained within the 2016/17 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 £22.513m the Council is anticipating less than 70% achievement which, given the scale of the challenge faced, is a significant achievement. However, whilst manageable in the short-term, this is outside of ongoing sustainable budget affordability. Work is in hand to try and identify in year savings to offset against this overspend.
- 2.9 **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 2016/17 and will need to significantly accelerate its efforts in terms of scale and pace in order to implement the *Sustainable Swansea* delivery programme into 2017/18 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 2016/17.**
- 2.10 **In determining the high level budget strategy for 2017/18 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 2016/17 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**

<b>Issue</b>	<b>Scale/Risk</b>	<b>Mitigation/Funding</b>
<b>Equal pay payments/Backpay</b>	£2.5m+/Medium	
<p>The Council is in the process of settling residual equal pay claims covering a number of categories of claimants.</p> <p>The current financial position suggest adequate funding exists subject to settlement rates on grievance claims.</p>		<p>Current analysis of settled and projected claims suggests inadequate 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.</p> <p>Any additional funding would be a call on one-off savings for 2016/17 or reserves. The latter is currently proposed with £2.5m reallocated from the Restructuring Reserve to the Job Evaluation Reserve</p>
<b>Pay awards</b>	£0/ Very Low	Effective 1% pay cap imposed nationally to 2020
A two year settlement including backdating was implemented in April 2016 covering the period to March 2018. Risks are		Would have to be met from contingency fund, one off savings identified during 2017/18 or reserves. Reduction in

minimal in terms of additional costs in current year although there has been a supplemental national pay claim made around national minimum wage levels.		service budgets would be difficult due to timing.
<b>Job Evaluation Appeals</b>		
The Council is continuing a significant appeals process following the introduction of Single Status from April 2014. The budget report approved by Council approved the Revenue Budget for 2016/17 which contained a clear statement that <b><i>'any additional costs that may potentially arise out of the appeals process will be met from within existing Directorate Budgets'</i></b> .	£2m+/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 2016/17, 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.

### 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.	£4m+ if not adequately resolved by planned management action being implemented to seek to fully rebalance the position	Discussed at Corporate Management Team. 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.	£1,700k	Progress is being made to deliver savings in these areas albeit delayed against original plan.
The size and scale of savings targets allocated to Corporate Services,	£1,200k latest estimate	Progress in delivering the Business Support Model is progressing in an initial



<p>including an additional £1m relating to Business Support savings, means that a balanced budget cannot be achieved in the Directorate. This is partly a timing issue and reflects also the fact that savings in the area of Business Support will inevitably flow from cross cutting measures.</p>		<p>three phases covering September and December 2016 and march 2017.</p>
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## 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 assumed annual medium term reduction of 2% in AEF (albeit there may be a less draconian, more flat settlement for 2017-18, with pain deferred to later years) 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 2016-17

The net revenue budget requirement set for 2016-17 excluding Community Councils was £413m. It was financed as follows:

2016-17	£m	%	Determined
Aggregate External Finance	308	75	By Welsh Government
Council Tax – Swansea	105	25	By CCS - with constraints
<b>Total Financing</b>	<b>413</b>	100	

This paper considers the strategic position regarding the budget for 2017/18 to 2019/20 and presents figures rounded to £m. A stylised presentation and assumption in all cases is made of a low, medium and high outcome, albeit the parameters of each component are different.

### 4.2 Implications of “Taking Wales Forward”

Recent announcements by the First Minister on ‘Taking Wales Forward’ make for interesting (and complex) reading as to their overall purpose, intent, and more crucially consequential service and financial impacts, as follows:

#### **Local Government**

***Build a shared understanding of the challenges facing local government and wider public services, and on the need for innovation, to develop a wider conversation about the reform needed, the models and pace of delivery and the pace of change.***

***Change the relationship between Welsh Government, WLGA and local government, slash numbers of performance indicators we collect, cut guidance and reform external audit and inspection.***

***Provide funding to put in place a floor for future local government settlements.***

***Reform local government funding to make councils more sustainable and self-sufficient using the findings of the independent commission on local government finance and Welsh Government's Finance Futures Panel.***

***Work with local government to review council tax to make it fairer so that people with low and moderately valued properties pay less than they do now.***

### **4.3 Aggregate External Finance**

#### **4.3.1 Prior announcements for 2017-18 - Autumn Budget Statement planning assumptions**

Previous UK government Autumn Budget Statements have predicated on all government departments making preparations for cuts scenarios for unprotected spending. On a national scale, there is a new Prime Minister and a new Chancellor of the Exchequer and the consequences and planning for Brexit will loom large in any future spending announcements.

If the austerity agenda is confirmed to be continued, then 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 2016/17 final Local Government grant settlement no indicative figures were given for 2017/18 and beyond.

It is understood that this year there will be an indicative local government finance settlement on or around the 19<sup>th</sup> October 2016.

The timing of the national Autumn Statement (23<sup>rd</sup> November 2016) means that Local Government in Wales is unlikely to have indicative consequential implications for in year 2017-18 changes or future funding levels available until the end of December 2016 when the final settlement will be confirmed.

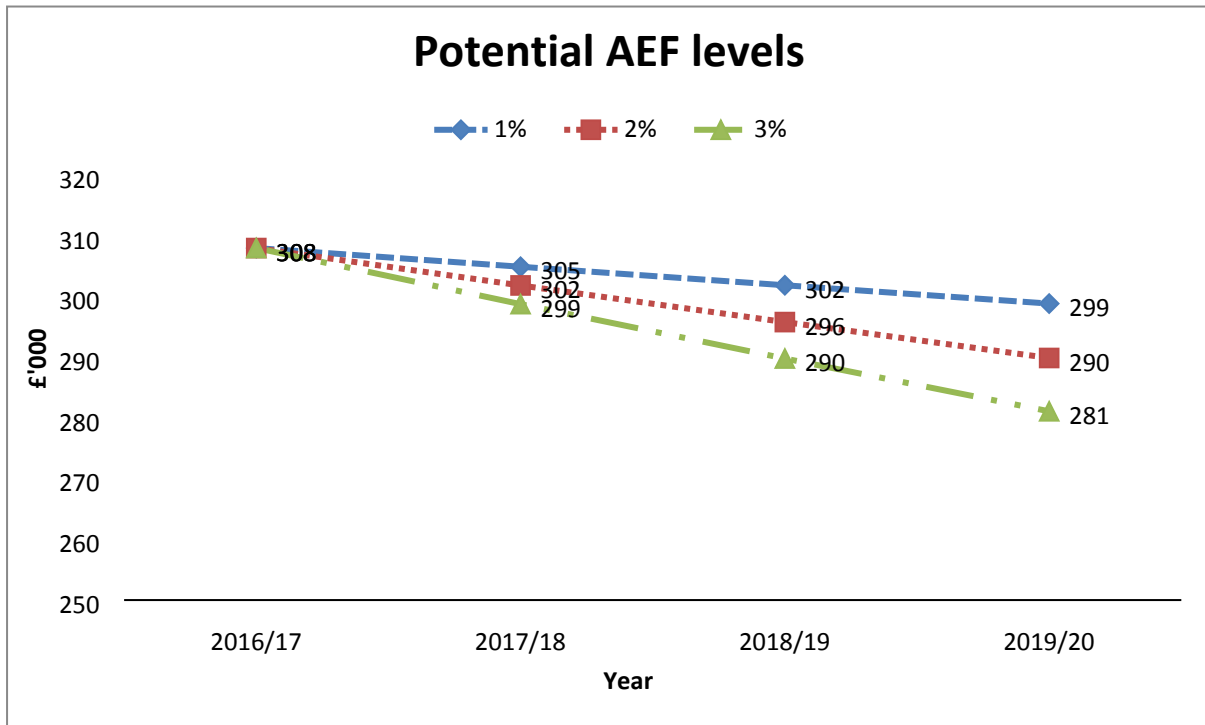
#### **4.3.2 Assumptions around 2017/18 and beyond**

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 1%, 2% and 3% per annum respectively:-



At the present time it would be realistic to assume the middle funding scenario – i.e. a compounded annual reduction of 2% although this is simply a planning assumption. There remains great risk attached to this assumption and, indeed, an assumed upper reduction limit of an average 3% p.a. cuts could be perfectly possible over the medium term. 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 2016-17 is £104,833,000, which we have rounded up to £105 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

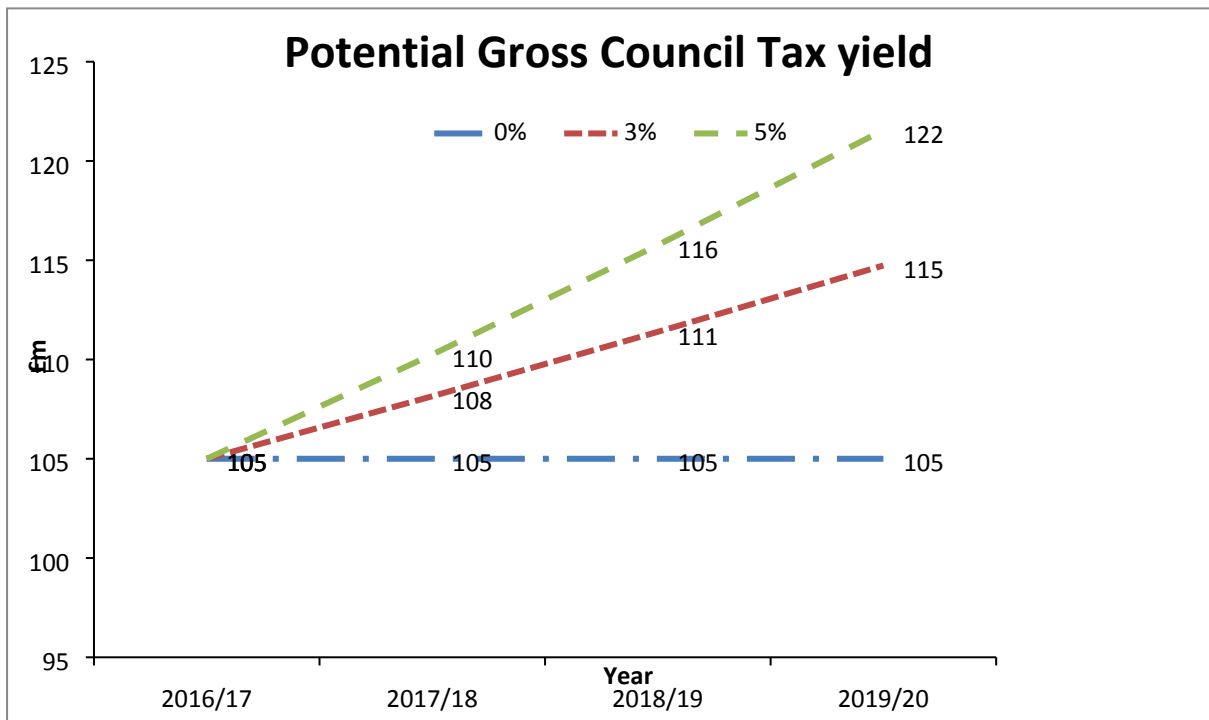
cost of the Council Tax Support Scheme, and that will have to be met as expenditure by the City and County of Swansea. This will be flagged as a spend pressure when we consider the spend side of the budget plan.

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.



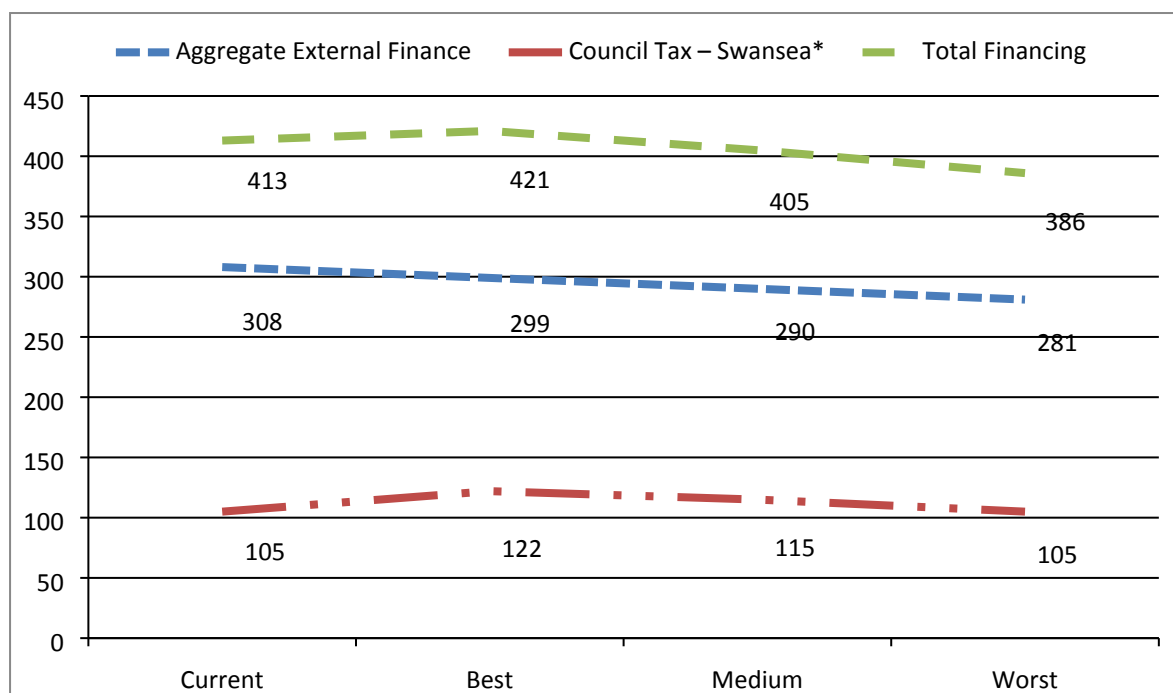
#### 4.5 Combining the assumptions around the resource forecasts

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 3% per annum reduction per annum in Aggregate external Finance then we face a £27 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 £8 million.
- The best case resources scenario, of low 1% reductions in Aggregate External Finance, combined with an implausibly high 5% per annum Council Tax increase, could mean a theoretical cumulative increase of cash resource of £8 million, before factoring in inflation and spend pressures.

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, it would be prudent to assume an average annual reduction in AEF of 2%, and hope for a more flat settlement in 2017-18, with probably pain deferred to future years.

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 £8m 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 2016-17

Underpinning the net budget set for 2016-17 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 2016-17 budget, with broadly matched expenditure were £166,840,000.

2016-17	£m	Determined
Specific Grants	167	By Welsh Government
<b>Total Specific Grants</b>	<b>167</b>	

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 £14m;
- Education Improvement Grant £10m;
- Concessionary fares £6m;
- Bus Services £6m;
- Waste Grant £5m;
- A range of very small grants worth a few thousand pounds each.

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

## 5.2 Past history and recent announcements

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

## 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	10	?	Delegated
Families First	3	?	People
Post 16 schools provision	6	?	Delegated
Pupil Deprivation Grant	7	?	Delegated
Concessionary Fares	6	?	Place
Bus Services Support	6	?	Place
Supporting People	14	?	People
Flying Start	6	?	People
Community Housing	4	?	Place
Work Based Learning	2	?	People
Waste Grant	5	?	Place

European Rural Development Plan	2	?	Place
Housing Benefit (inc. admin subsidy)	89	?	Corporate/HRA
Other	7	Miscellaneous	
<b>Total</b>	<b>167</b>		

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

- A reduction of 3% per annum;
- A reduction of 2% per annum;
- A reduction of 1% per annum;

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	2017-20 – cumulative 3 year effect £m		
		-1% pa	-2% pa	-3% pa
Grant income	167	162	157	152
Assumed spend*	-167	-162	-157	-152
<b>Net cost</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

\* 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 grants fell on average by 2% per annum, £10 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 externally influenced decisions regarding levels of the Apprenticeship Levy, the National Living Wage and likely increased employers LGPS 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 25<sup>th</sup> February 2016.

### **Existing published projected spending pressures 2017/18 – 2019/20**

		<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>
		<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Future cost of pay awards		1,700	4,100	7,500
Pay and grading scheme		2,700	5,400	5,400
Cumulative contract inflation		1,000	2,000	3,000
Capital charges		1,750	3,250	5,000
Schools pay award		1,200	3,600	6,000
Use of General Reserves		0	0	0
Demographic and Service pressures		3,000	6,000	9,000
Apprenticeship Levy		1,000	1,000	1,000
<b>Total known pressures</b>		<b>12,350</b>	<b>25,350</b>	<b>36,900</b>
Aggregate External Finance movement at 2% reduction		6,155	12,247	18,279

<b>Cumulative budget shortfall</b>		<b>18,505</b>	<b>37,597</b>	<b>55,179</b>
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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 1% pay awards for staff and a similar pay award for teachers for 2018/19 and 2019/20. 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. Of course the risk of shocks to the economy re Brexit also pervade. 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. All efforts should be made to seek to contain contract increased through a more commercial approach with suppliers and accordingly no general inflation provision is planned to be made. Any actual inflationary pressures will fall to be met from the contingency fund.

### **6.2.4 Capital charges**

No reason to change existing assumptions at this stage but there will be a need to fully review and consider options around the overall approach to capital charges having due regard to emerging practices adopted in other

authorities and regard to the Wellbeing and Future Generations ACT to ensure there is a fair and equitable allocation of future costs for paying for capital schemes of benefit to current and future generations

#### **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 New pressures**

Directorates have been asked to identify new pressures and emerging themes are already apparent.

#### **6.3.2 Items identified**

**Are as follows (summary to date):**

City Centre Regeneration

LDP Examination costs – one off

Equalising Fostering Allowances in Social Services

Deprivation of Liberty Safeguards in Social Services

Social Services and Wellbeing Act implementation

Prevention Strategy implementation costs for People Directorate

Waste Vehicle Replacement – on going costs following lost grant

None of these are specifically included additionally at this stage in the mid-term plan. Some will be covered as part of demographics pressures in social services in particular. The rest will have to be considered as additional budget bids for additional resources in the budget round but given the overall budget

position they are only likely affordable if equal and opposite budget reductions are made elsewhere.

### **6.3.3 National Living Wage**

The stepped increases in the 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 2019-20 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 2019-20 this is forecast to add £5m to contract costs over and above inflationary pressures (£2m provided for in 2016-17).

### **6.3.4 Older people demographics**

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

### **6.3.5 Childrens services**

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

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

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



### 6.3.6 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 Employer Pension Contributions

Based on the current triennial valuation of the Pension Fund the current assumption is an annual increase in Employers contributions of some 1.3% (£1.7m) each year for the period 2017/18 to 2019/20. This will be refined as final valuation advice is received but will not differ materially from the indicative figures.

### 6.3.10 Reassessing the spending pressures

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

		<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>
		<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Future cost of pay awards		<b>1,700</b>	<b>3,400</b>	<b>5,100</b>
Pay and grading scheme		2,700	5,400	5,400
National Living Wage – own pay bill		<b>0</b>	<b>700</b>	<b>2,400</b>

National Living Wage – contracts		<b>1,000</b>	<b>2,000</b>	<b>3,000</b>
Capital charges		1,750	3,250	5,000
Schools pay award		1,200	3,600	6,000
Use of General Reserves		0	0	0
Demographic and Service pressures		3,000	6,000	9,000
Apprenticeship Levy		1,000	1,000	1,000
<b><i>Increased Employers Pension Cost</i></b>		<b>1,700</b>	<b>3,400</b>	<b>5,100</b>
Council Tax Support Scheme		600	1,200	1,900
<b><i>Total known pressures</i></b>		<b>14,650</b>	<b>29,950</b>	<b>43,900</b>

**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 - 7.8 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 2017/18 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>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>
		<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Total known pressures (as above)		14,650	29,950	43,900
Loss of block grant AEF		6,155	12,247	18,279
<b>Loss of specific grant (ultimately assumed funded by reduced</b>		<b>3,000</b>	<b>6,000</b>	<b>10,000</b>

<i>spend to match grant)</i>				
<b>Resource gap</b>		<b>23,805</b>	<b>48,197</b>	<b>72,179</b>

7.4 We can set against this revised resource gap existing and agreed measures, including the existing proposals set out in the medium term financial plan approved in February 2015, the updated assessment to Cabinet in July and the assumptions set out in this paper on future levels of Council Tax.

		<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>
	Note	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Council tax increase (gross)		3,145	6,384	9,721
Reduction in spend on services funded by specific grant (ultimately to match grant reductions)		3,000	6,000	10,000
Specific savings proposals already agreed and set out in MTFP*		0	0	0
<b>Resource gap currently addressed at best</b>		<b>6,145</b>	<b>12,384</b>	<b>19,721</b>

\*Currently shown as nil as there are no specific agreed proposals though in reality this will be heavily informed by and influenced by existing Sustainable Swansea plans so will include all mapped commissioning review savings (including business support), senior staff savings (year 2), more commercial approach (third party savings and income generation), existing agreed budget plans re stopping services.

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

		<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>
		<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
<b>Remaining minimum resource gap</b>		<b>17,660</b>	<b>35,813</b>	<b>52,458</b>

As stated, 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

**This is entirely consistent with the forecast MTFP**

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

<b>Service</b>	<b>Current Budget £m</b>	<b>Percentage Reduction/Increase over 3 Years</b>	<b>Amount Realised £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
Total	342.0m		-57.0m

It is clear that the overall savings target is in line with expectations and the above table effectively quantifies and re-iterates the broad 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.

7.7 However, it remains the case that plans for additional expenditure particularly in the areas of Education and Social Services continue to be developed despite the explicit and real pressures on the Councils overall budget. Without specific and real mitigating savings it is difficult at best to contemplate additional spend for whatever reason.

**7.8 It is increasingly and abundantly clear that the only options available to this Council to address this continuing scale of gap are:**

- **Different services**
- **Provided fundamentally differently**
- **Cross cutting reviews across all areas of the Council (no exceptions or exemptions)**
- **Maximising use of digital solutions**
- **With a radical, transformative, commercial agenda**

**OR**

- **Wide scale service reduction and ultimately service cessation of probably all bar minimal statutory provision in the longer term**

## **Section 8 – Medium term Financial Planning for Schools**

**The purpose** of this section is to initially 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 2017/18 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 2017/18 to 2019/20 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:-

	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Schools pay award	1,200,000	3,600,000	6,000,000
Contribution to capital charges	1,000,000	2,000,000	2,000,000
<b>Total budget strain</b>	<b>2,200,000</b>	<b>5,600,000</b>	<b>8,000,000</b>

- 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 2017/18 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.) 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 to determine whether any special treatment of schools funding is to continue either on a national or local level.

## **Section 9 – Use of Reserves**

**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 9.1 to 9.5 below.

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

- 9.1 The current 2016/17 Revenue Budget is underpinned by no proposed use of general reserves.
- 9.2 The likelihood of this continuing to be the case will entirely hinge on the ability or otherwise to bring the forecast 2016-17 budget position back into balance. At this stage the risks are on the downside, i.e. that **there will be** a residual over spend position and **some need to draw from** general reserves to cover the in-year shortfall.
- 9.3 In terms of planning assumptions, there is no assumption of ongoing availability, or use, of General Reserves for next year or beyond.
- 9.4 With respect to earmarked revenue reserves, a separate report to Council has will be 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.
- 9.5 It remains the position that until these significant risks are fully mitigated then any additional planned use of earmarked reserves to support general revenue budget deficits would be inappropriate.
- 9.6 At this point in time, in line with previous years, any consideration regarding use of reserves should relate to General Reserves only and previous planning assumptions remain extant. That is, there **should be no planned (budgeted) take** from General Reserves.



## **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 10.1 to 10.9 below.

**Conclusions and recommendations** in respect reserves usage is given in section 10.10 - 10.14 below.

- 10.1 The General Fund Capital Programme approved at Council on 25<sup>th</sup> February 2016 highlighted potential in year funding deficits for both Directorate Services and Schools improvement programme of some £11.156m for 2016/17 assuming achievement of budgeted capital receipts of some £11.533m.
- 10.2 The overall deficit in financing highlighted for the period covered by the forward capital programme is some £38.680m after allowing for assumed capital receipts of some £24.965.
- 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 continuing 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 There may be some mitigation possible in terms of reviewing the lifetime over which we provide for debt repayment through the minimum revenue provision. This has the effect of either increasing or reducing up front costs of borrowing, albeit with an opposite effect in later years.
- 10.9 Some councils have modified their approach to MRP and there is increasing interest from outside stakeholders in the emerging disparity of treatment between Councils. Some financial re-engineering can appear attractive when faced with potentially more unpalatable short term decisions but it will be necessary to strike the correct balance, based on professional advice, between consistency, prudence and having due regard to the Well Being and Future Generations Act to ensure that the costs of paying for the benefits of capital schemes are appropriately matched to the beneficiaries, now, and in the future.
- 10.10 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.
- 10.11 Aggressive pursuit of asset sales is essential to funding both the current and future capital programmes
- 10.12 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.
- 10.13 This funding position is thus challenging when set in the context of an aspiration to invest substantially into the City Centre and a wider Swansea Bay City Region unless there is substantial additional, viable private sector and/or Welsh Government funding made available on top of any resources the authority could itself realistically muster on top of existing capital commitments.
- 10.14 Notwithstanding this, as an indication of the level of commitment towards the developing city centre regeneration plans a nominal amount has been identified in the revenue pressures section of this report.

## **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 2016/17 in line with overall approved budget totals.
- 11.2 Rebalancing the 2016/17 budget position is key to being able to have a firm base from which to build a credible budget strategy in what remain challenging financial circumstances through 2017/18 – 2019/20 and, in all likelihood, beyond.
- 11.3 The Council has adopted a clear 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, as reported and repeated, needs to be increased in both scale and pace if the Council is to remain financially sound.
- 11.4 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

### **Equality and Engagement implications**

There are no direct implications arising from this report. The Equality Impact Assessment process and requirements for consultation and engagement continue to be legal requirements and are applied to budget proposals at the service level.