

Report of the Section 151 Officer

Cabinet - 9 February 2017

MEDIUM TERM FINANCIAL PLANNING 2018/19-2020/21

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| Purpose: | 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. |
| Policy Framework: | Sustainable Swansea – Fit for the Future |
| Reason for decision: | To agree a strategic framework for future service planning. |
| Consultation: | Legal Services, Access to Services, Cabinet Members and Executive Board |
| Recommendations: | <p>It is recommended that:-</p> <p>The Medium term Financial Plan 2018/19 to 2020/21 be recommended to Council as the basis for future service financial planning.</p> |
| Report Author: | Mike Hawes |
| Finance Officer: | Ben Smith |
| Legal Officer: | Tracey Meredith |
| Access to Services Officer: | Phil Couch |

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 strategy that:

- 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 2018/19 to 2020/21 and as such the indicative annual assumptions included both within the projected spending pressures detailed in Section 2 of this report, and the potential funding detailed in Section 5, will be subject to a full review and decision making process as part of each of the annual Revenue Budget and Council Tax setting decisions.
- 1.3 Instead, the MTFP is intended to outline, in broad terms, the specific service and funding issues over the three year period and how the Council will, within its financial constraints, fund its priorities and achieve major service change and savings.
- 1.4 It is essential as a planning and review tool in order to assess, on an ongoing basis, base assumptions around service pressures and progress against delivery of savings.
- 1.5 The plan serves to highlight the trend for increasingly difficult times ahead in terms of funding for this Council and Local Government in general, as well as the service pressures that the Council faces from rising demands and increases in demography, together with potential funding pressures arising from ambitious plans for capital development.
- 1.6 Importantly, it is essential that the MTFP becomes a 'living' document that is subject to regular review and revisions more information becomes available and risks are updated. As such, it is anticipated that, along with close monitoring of the specific budget proposals and savings targets for 2017/18, further reports to Cabinet regarding the MTFP will be made as necessary. In particular, the Mid Term Budget Statement in the Autumn of 2017 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 2018/19 to 2020/21

Section 3 - Detailed spending and resources forecast 2018/19 to 2020/21

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

Section 2 – Overview of Financial Planning Environment 2018/19 to 2020/21

2.1 The Medium Term Financial Plan (MTFP) report considered by Council on 25th February 2016 included a service and financial overview. This was updated in terms of the Mid-Term budget statement taken to Council in November 2016 and is updated further below.

Economic outlook and prospects for Public Finances

2.2 The announcement of both the provisional and final Revenue and Capital Settlements for 2017/18 has resulted in an overall postulated like for like cash increase of £2.3m. However, there is an increase of just £1.2m in block grant after allowing for some funding pressures arising from changes to social services client self-funding (i.e. the change to a £30k savings limits and the disregard of certain war pension payments) and homelessness prevention duties. This needs to be set in the context of the forecast cost of the apprenticeship levy of £1m plus alone.

2.3 However, the current economic climate continues to be uncertain, indeed the Welsh Government stated in their draft budget document that there is a backdrop of uncertain and difficult times. There is and will continue to be uncertainty over the UK's relationship with Europe and the impact on Wales following Brexit, and although the UK Government is no longer aiming for surplus by 2020, it is not ending austerity. It is still the case that the Welsh budget will continue to reduce in real terms over the period to 2020/21.

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, including full devolution of matters relating to business rates, together with further tax changing/raising powers, may impose greater or lesser financial risks to Welsh Government than is currently the case.

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

- 2.5 Whilst it is a very positive settlement for 2017/18, it is unlikely that such a good settlement will be forthcoming in future years and, in addition to possible reductions in core funding, 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 examples in 2017/18 are of the proposed Apprenticeship Levy, which will add around £1m to the Council's annual pay bill, and the National Minimum Wage increases will impact on staff costs and third party contract costs.
- 2.6 As mentioned above, a further complicating factor over the period of the MTFP involves proposals to devolve tax varying powers from Westminster to the Welsh Government. Whilst this notionally impacts primarily on individual taxation, potential devolution of National Business Rates (NDR) has the potential to impact directly on Local Authority budgets and risk. Latest proposals, for example, are to devolve the cost of welfare provision in Wales to the Welsh Government with all the risk that might entail regarding cost movement.
- 2.7 In terms of core revenue funding, the final Revenue settlement issued by the Welsh Government in December 2016 did not give indicative settlement levels beyond 2017/18 as has 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.
- 2.8 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.
- 2.9 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 forecast 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 Reduction @ 1% £'000 | AEF Reduction @ 2% £'000 | AEF Reduction @ 4% £'000 |
|-------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| 2018/19 | 3,107 | 6,214 | 12,428 |
| 2019/20 | 3,076 | 6,090 | 11,931 |
| 2020/21 | 3,045 | 5,968 | 11,454 |
| Cumulative | 9,228 | 18,272 | 35,813 |

Note that the above reductions are based on the final AEF for 2017/18 of £310.701m as announced in December 2016.

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.

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

These include:-

- Any voluntary or joint arrangements, including increased regionalisation, in lieu of compulsory Local Government reorganisation in Wales
- Wider events that could impact on the Global economic position including Eurozone elections.
- The final exit package agreed by the UK Government in respect of “Brexit”

Support for Capital Programmes

The final settlement indicated support for future General Fund Capital programme at a level of £10.238m for 2017/18, a very slight decrease from 2016/17. This support is through a mix of General Capital Grant and support for borrowing.

Planning assumptions for both 2018/19, 2019/20 and 2020/21 are based on unchanged levels of support, which is in line with the indicative headline figure issued by the Welsh Government.

- 2.11 In addition, the Welsh Government has committed some £25.655m (50% of overall cost) towards Band A of the 21st 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. An outline programme has recently been submitted for Band B schools which would both significantly scale up likely obligation from both this Council and Welsh Government, although the status of such and outline submission is not binding at this stage.

- 2.12 There is an expected imminent announcement due on, and raised spending and funding expectations, flowing from the Swansea Bay City Region bid.
- 2.13 More importantly, the Council will have to decide on a financing strategy to fund potential City Deal and other City centre investment together with potential significant additional borrowing arising from band 'B' Schools improvement programme from 2019/20 onwards.
- 2.14 Equally importantly, 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.
- 2.15 Over the past six years the Council has predominantly 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 31st 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 has become 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 continue to be undertaken in 2017/18 and beyond as opportunities arise.
- 2.16 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.
- 2.17 It remains the case that each year the Council sets aside a significant amount of money (c £15m) towards the repayment of debt. This effective repayment will have to be taken into account when evaluating overall borrowing levels and the ability to service any additional borrowing requirement.

Section 3 – Detailed Spending and Resources Forecast 2018/19 to 2020/21

- 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 2018/19 – 2020/21

| | Note | <u>2018/19</u> <u>£'000</u> | <u>2019/20</u> <u>£'000</u> | <u>2020/21</u> <u>£'000</u> |
|---|------|--|--|--|
| Future cost of pay awards | 1 | 1,800 | 3,600 | 7,300 |
| Future cost of pay awards - Teachers | 1 | 1,200 | 2,400 | 4,800 |
| Pay and grading scheme | 2 | 2,700 | 2,700 | 2,700 |
| National Living Wage – own pay bill | 3 | 700 | 2,400 | 2,400 |
| National Living Wage – contract increases | 3 | 1,000 | 2,000 | 3,000 |
| Increased employers pension cost (including school based staff) | 4 | 1,700 | 3,400 | 3,400 |
| Cumulative contract inflation | 5 | 1,000 | 2,000 | 3,000 |
| Capital charges | 6 | 1,500 | 3,250 | 5,000 |
| Use of General Reserves | 7 | 0 | 0 | 0 |
| Demographic and Service pressures | 8 | 3,000 | 6,000 | 9,000 |
| Proposed targeted investment in services (EOTAS) | | 300 | 300 | 300 |
| Council Tax Support Scheme | 9 | 700 | 1,300 | 2,000 |
| | | | | |

| | | | | |
|---|----|---------------|---------------|---------------|
| Total known pressures | | 15,600 | 29,350 | 42,900 |
| | | | | |
| Aggregate External Finance movement at 2% reduction | 10 | 6,200 | 12,300 | 18,300 |
| | | | | |
| Cumulative budget shortfall | | 21,800 | 41,650 | 61,200 |

Note:

- 1) Assumed pay increases at 1% p.a. for 2018/19 and 2019/20, rising to 2% for 2020/21. 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 1st April 2014 – no account taken of potential additional costs arising out of appeals process.
- 3) Assumed increases due to implementation of National Living Wage.
- 4) Year 2 and 3 costs arising from the triennial revaluation of the local government pension scheme effective from 1st April 2017. The provisional assumption is an effective stepped 1% increase each year to overall costs. This gross cost includes an estimate of that applicable to delegated schools budgets.
- 5) Assumed minimum cumulative effect of known contract inflation
- 6) Presumed overall increase in borrowing due to delays in capital receipts on both general fund and schools programmes. This does not include any potential costs arising from major aspirational capital investment.
- 7) There is no planned use of general reserves in the MTFP
- 8) 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.
- 9) Assumed costs of Council Tax support in line with increases in Council Tax.
- 10) This reflects an estimated 2% reduction in aggregate external finance provided by Welsh Government

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 – 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 in the past.

3.5 In addition the forecast does not allow for any potential increase in non-schools' employer superannuation rates for 2020/21 which will be based on a triennial valuation as at 31st March 2020. There is also likely to be a further impact on non funded schemes including the Teachers Pension Scheme in or around 2020.

3.6 In October 2016 the Local Government Secretary set out the new way forward for Local Government Reform. In particular he highlighted that there will be no change to the existing number of local authorities, although voluntary mergers would be supported, but there will be a new way of regional working required, which will become more systematic and mandatory. No account of any additional costs or savings resulting from any further regional working has been included in the forecast.

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 future savings requirements.

4.3 The Strategy was agreed by Cabinet and reported to Council in October 2013. The Delivery Programme was 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 Work-streams
- Completed a number of commissioning reviews and moved to implementation phase
- Started the next phrase of engagement on Sustainable Swansea – following agreement of a report to Cabinet on 10th December 2015
- Developed a range of additional proposals to meet a significant proportion of the Council's shortfall in 2016/17, which result in further savings during the period of the MTFP which is relevant to this report.

Our Service Priorities for 2017/18 and the MTFP period

4.5 Although the Council is currently focused on a plan to save an additional £61m 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 just under £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
- *Sustainable Swansea's* core objectives – 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 - to 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 £61m (excluding schools) over three years was applied, for example, just to Corporate Services (excluding Council Tax Reduction Scheme) and Place Services, the budgets for these areas would be cut by around 75%.

Consequently, other areas such as Schools and Social Care also need to face some level of relative and real terms reductions over the next 3 years, given the relative size of their budgets.

- 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 2017/18), as reported to Cabinet on 12th December 2016, 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.

| Service | Current Budget £m | Percentage Reduction/Increase over 3 Years | Amount Realised £m |
|--------------------------------|------------------------------|---|-------------------------------|
| Schools \$ | 138.9 | +1.3 | +1.8 |
| Rest of Education | 20.2 | -15 | -3.0 |
| Social Care – Child & Families | 37.6 | -15 | -5.7 |
| Social Care- Adults | 65.9 | -20 | -13.2 |
| Poverty & Prevention* | 5.1* | +5 | +0.3 |
| Place | 51.0 | -50 | -25.5 |
| Corporate Services + | 23.0 | -50 | -11.5 |
| Total | 341.7m | | -56.8m |

*\$ Assumes **local** schools protection continues limiting any material scope for reduction in cash terms.*

** 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 £43m less £20m 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.
- 4.12 It should be noted that the savings targets detailed above are for the period 2018/19 to 2020/21 and will need to be extended to 2021/22 as planning assumptions for that year become more predictable
- 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>2018/19</u> <u>£'000</u> | <u>2019/20</u> <u>£'000</u> | <u>2020/21</u> <u>£'000</u> |
|------------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Cumulative budget shortfall | 21,800 | 41,650 | 61,200 |

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% 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 2017/18 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 2017/18, the following indicative position is envisaged:-

| | <u>2018/19</u> <u>£'000</u> | <u>2019/20</u> <u>£'000</u> | <u>2020/21</u> <u>£'000</u> |
|--|--------------------------------|--------------------------------|--------------------------------|
| Cumulative budget shortfall | 21,800 | 41,650 | 61,200 |
| Directorate savings proposals/agreed | - | - | - |
| Additional Directorate Savings required (including Schools delegated budgets) | -21,800 | -41,650 | -61,200 |

- 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 Programme, 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 3 Programme areas and themes 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 Programme.

- 5.7 Further work has taken place on the development of a revised Sustainable Swansea Delivery Programme to update the one agreed by Cabinet on 16th July 2015. The new programme approach has a greater focus on cross Council transformation. The three Programme areas are:

- Transformation
- Digital
- Future Council

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 2017/18 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 make some contribution to ongoing savings targets during this period. However, the Council will continue to prioritise education funding and spending pressures and take into account the extent to which these can be met on annual resources available and competing spending needs.
- 6.4 The table shown in Section 4.10 of this report details the proposed indicative Directorate Savings targets for the period 2018/19 to 2020/21 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 the 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 the 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 ongoing practical impact of legislation such as the Wellbeing of Future Generations (Wales) Act 2015
- 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. In particular that any additional borrowing requirements in respect of aspirational capital development will be met from additional income generation from such schemes or a combination of funding from the public and private sector that evidences financial neutrality and sustainability.
 - The Council continues to achieve its ambitious savings targets.

- 7.4 It is assumed that there will be substantive change to the structure of service delivery, including additional regionalisation of services. It is however far too early to financially quantify and describe those changes so they are explicitly excluded at present.

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 2017/18 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 reserves usage is given in Section 8.6 below.
- 8.3 The current 2016/17 Revenue Budget was set with no planned use of General Reserves.
- 8.4 In terms of planning assumptions there is no assumption of ongoing use of or availability of General Reserves for 2017/18 or beyond.
- 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 November 2016 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 12th 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

Legal Implications

9.1 There are no legal implications arising from this report.

Equalities Implications

9.2 The budget reductions implicit in the 2016/17 approved budget were subject to the corporate and appropriate Equality Impact Assessment which process, which was considered as part of the overall budget process.

9.3 Where additional budget savings requirements are identified as part of the 2017/18 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

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

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

Budget Principles

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

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

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

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

Service Transformation and Efficiency

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

| | |
|-----------------------|--|
| Transformation | <p>All service must transform through a fundamental review of purpose, however services are commissioned, to:</p> <ul style="list-style-type: none"> • deliver better outcomes • develop a sustainable delivery model, fit for the future • reduce costs and secure value for money |
|-----------------------|--|

| | |
|-------------------|--|
| Efficiency | <p>All services must continue to strive for efficiency, in particular:</p> <ul style="list-style-type: none"> • reduce management and other overheads • maximise opportunities for increasing income from charges, trading and external sources • reduce the cost of purchasing supplies and services • work with others to achieve better outcomes • look for opportunities for residents or community groups to take or share responsibility for services |
|-------------------|--|

STATEMENT OF BUDGET PRIORITIES: PEOPLE'S SERVICES

4.14 Schools and Education

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

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

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

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

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

We will deliver this through:

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

4.14 Social Services- Child & Families

No policy changes are proposed in Child and Family Services.

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

4.15 Social Services – Adult Social Care

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

Our policy must be to:

- Promote greater independent living for longer, and reduce demand for long term care by investment in prevention and reablement
- Develop the Swansea model of Local Area Coordination to increase community-based support and change the current model of day and residential services

- Ensure our services are as efficient as possible by reviewing alternative models for delivering social care such as social enterprise, increased use of the voluntary sector, increase volunteering and community self help
- Drive forward the reshaping and integration of services with health and other key partners to achieve whole system change, including local commissioning and delivery
- Communicate the new vision, the long term benefits and our plan for safe and better care to residents, carers and partners

4.17 Poverty & Prevention

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

Our policy must be to:

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

4.18 STATEMENT OF BUDGET PRIORITIES: PLACE SERVICES

Place based services will see a 50% reduction over the next 3 years, around £25m.

To deliver such a challenge our policy must be to:

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

STATEMENT OF BUDGET PRIORITIES: CORPORATE SERVICES

Corporate Services will see a 50% reduction over the next 3 years, around £11m.

To deliver such a challenge our policy must be to:

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

SUSTAINABLE SWANSEA – FIT FOR THE FUTURE (SSFFF)

Transformation Programme 2017-18

The Transformation programme is coming into its third year of delivery and has provided the **framework for around £48m of savings since its inception. However, the benefits have not only been financial.**

Thirteen commissioning reviews have been at the heart of the transformation programme, which are either completed or are currently in flight. These reviews provide a robust process for transforming services and have contributed to significant changes over the past year including the following examples:-

- **Digital Services:** Many services have moved online or automated over the telephone, providing 24/7 access to those residents that prefer these channels. Non-digital channels are available to support the most vulnerable. In addition, training has been delivered to help communities increase their digital skills and confidence, contributing towards digital inclusion with the aim of lowering digital poverty
- **A single contact centre** has brought together five teams so that customers have a single point of contact
- **Agile working** has improved how the Council utilises its assets, e.g. Moving out of Oldway House has saved over £600,000
- **Business Support: Bringing ICT back to an in-house managed service** has saved the Council £1.5m per year and improved the Council's ability to innovate through the new ambitious digital strategy
- **Cultural Services** are undertaking a procurement exercise to seek an alternative delivery model, but have already achieved savings through local service transformation
- **Waste Management** have implemented initiatives to lower the impact on landfill and change behaviours at local Household Waste Recycling Centres (HWRC) sites in order to achieve Welsh Government targets of 64% by 2020
- **Adult Services** have developed their new service model and Domiciliary Care service transformation, which is out currently for consultation until February 2016.

The *Sustainable Swansea – Fit for the Future* (SSFFF) programme work is reviewed and updated annually to reflect both: projects that have delivered in year; and any changes in the internal or external environment.

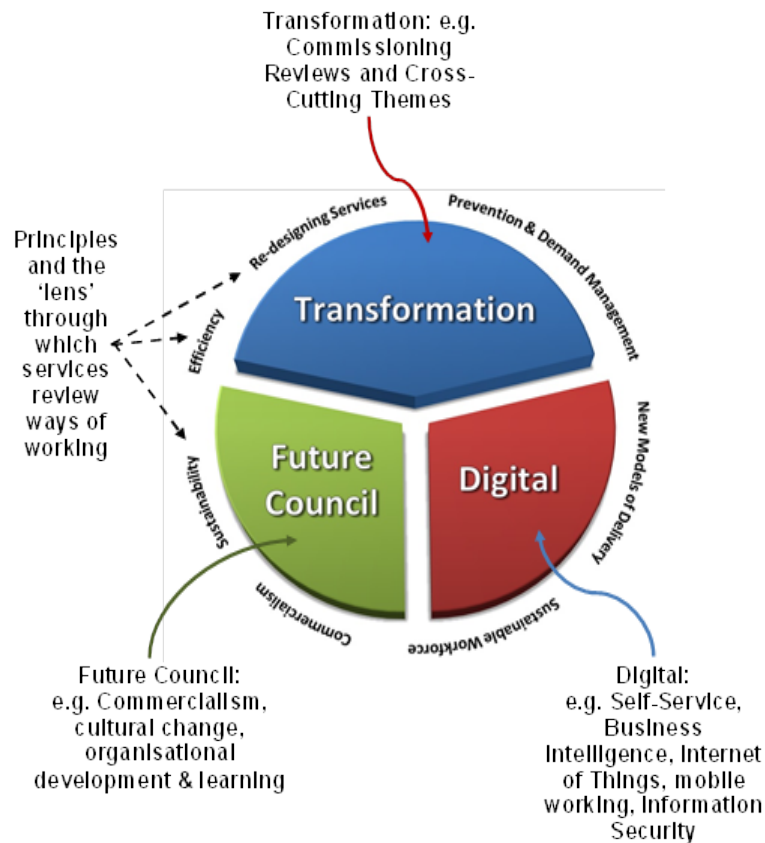
One outcome of the annual review of the programme, is to **acknowledge the maturity of the Council after almost three years of the transformation journey.** The organisation and the workforce has developed new skills, capabilities and competencies as a result of the Commissioning Reviews. However, many of these were service focused in the beginning. Therefore, the Council is now looking to move

to the next level of transformation with cross-cutting change across a range of services. Therefore, the Sustainable Swansea framework has been updated for 2017-18 in the diagram below and reflects:

- **Principles of the programme:** These act as the 'lens' through which each service can continuously review working practices and plan for change. The principles form the outside of the model
- **Priority deliverables for the year** so that resources can be targeted to those areas. The diagram below highlights that: Transformation, Future Council and Digital will form the focus for 2017-18.

The diagram below illustrates the new programme approach, with a greater focus on cross Council transformation. This was communicated to staff during the recent roadshows.

Sustainable Swansea Framework for 2017-18



The Commissioning review approach, including key tools such as the toolkit, has developed into a trusted approach with all service areas. The commissioning reviews have left a positive impression on much of the workforce; therefore the aim is to replicate this in the new transformation work on the cross-cutting themes.

A New Phase to the Programme: Cross-Cutting Themes

Cross-cutting themes are projects / programmes which will be supported and in some cases led by the SSFFF programme, working with Officers, Members and Partners to deliver agreed objectives. The list has been arrived at using the following rationale:

- Cross-cutting themes are projects/programmes where **similar themes of transformational work** have been identified across the Council which could be grouped in a different way (including in some cases projects within schools and regional working)
- These **cross-cutting themes will set the work plan for 2017-18 and beyond** for the Sustainable Swansea programme and transformation team
- Some projects have **emerged through the outcomes of commissioning reviews**. Although cross-cutting themes were explored at the beginning of the commissioning review process the Council needed to be further along the maturity curve to deliver this approach (staff skills, capabilities, experience across all services). 12 reviews are currently either completed or in flight, 7 have been approved by Cabinet and are moving into implementation
- Some new projects have **emerged as a result of discussions between Cabinet and CMT**
- Some are **legacy projects** which have struggled to be delivered due to lack of resources.

The focus of Sustainable Swansea programme going forward will be based on the following cross-cutting themes around specific outcomes including:-

- Integrated Transportation (including Strategy)
- Outcomes for children
- Outcomes for adults
- Building Sustainable Communities
- Prevention
- Capital programme
- Regulatory services
- Business support
- All catering
- Asset utilisation
- Commercialism
- Integrated car parking.