



Report of the Section 151 Officer

Extraordinary Council - 5 March 2020

Medium Term Financial Planning 2021/22 - 2023/24

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
Consultation:	Legal, Access to Services, Cabinet Members and Corporate Management Team
Recommendations:	It is recommended that:- 1) The Medium Term Financial Plan 2021/22 to 2023/24 be approved as the basis for future service financial planning.
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1. Introduction and Background

- 1.1 Service and financial planning continues to be undertaken against a backcloth of increasing service pressures and demand.
- 1.2 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 6 priorities.
- Has due regard to our duties under the Well-being of Future Generations Act 2015.

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

- 1.3 **It is important to understand that the MTFP does not constitute a formal budget in respect of the period 2021/22 to 2023/24 and as such the indicative annual assumptions included both within the projected spending pressures detailed in Sections 2 and 3 of this report, and the potential funding detailed in Sections 4 and 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.**
- 1.4 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.
- 1.5 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.
- 1.6 The plan serves to highlight the trend for increasingly uncertain 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.
- 1.7 Importantly, it is essential that the MTFP becomes a 'living' document that is subject to regular review and revisions as more information becomes available and risks are updated. As such it is anticipated that, along with close monitoring of the specific budget proposals and savings targets for 2020/21, further reports to Cabinet regarding the MTFP will be made as necessary. In particular, the Mid Term Budget Statement in the autumn of 2020 will provide a key update on the financial outlook and delivery of savings.
- 1.8 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 Statement of Accounts produced and approved by Council on an annual basis.
- 1.9 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 2021/22 to 2023/24 |
| Section 3 | Detailed spending and resources forecast 2021/22 to 2023/24 |
| 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 |

2. Overview of Financial Planning Environment 2021/22 to 2023/24

- 2.1 The Medium Term Financial Plan (MTFP) report considered by Council on 28th February 2019 included a service and financial overview. This was updated in the budget reports given to Cabinet in January 2020 and February 2020.

Economic Outlook and Prospects for Public Finances

- 2.2 The announcement of the final Revenue and Capital Settlement for 2020/21 has resulted in an overall cash increase of £17.170m in 2020/21 compared to 2019/20. There have been transfers into the settlement (£3.983m) in respect of Teachers Pay (£0.9m) and Pensions (£2.93m) and also in respect of NHS funded Social Care (£0.15m). There is an increase of just over £13m in block grant after allowing for these changes. Whilst this is a much appreciated, substantial increase, it needs to be set in the context of the forecast cost of pressures faced by this Council – over £35m for 2020/21 alone.
- 2.3 Furthermore, the current economic climate continues to be uncertain, and the Welsh Government acknowledged in their letter to all Local Authorities that this favourable settlement does not mean that austerity is over. There is and will continue to be uncertainty over the UK's relationship with Europe and the impact on Wales of "Brexit". It is still the case that the Welsh budget will be expected to continue to reduce in real terms over the period to 2022/23.
- 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 2020/21, there is no certainty that it can continue at such a relatively high level in future years and, in addition to possible real terms reductions in future 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 example in 2020/21 is of the changes to the National Living Wage, which will add around £1.5m to the Council's annual 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 February 2020 gave a settlement level for 2020/21 only. There has been no indication beyond 2020/21. 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 a range of scenarios between cash flat (0%), an increase of 2% and an increase of 4%. This is a fundamentally more positive assumption than in previous years when it has been considered more likely that the settlement would be cash flat or a reduction and entirely contingent upon UK and Welsh Government future budget decisions.

Year	AEF Reduction @ 0% £'000	AEF Increase @ 2% £'000	AEF Increase @ 4% £'000
2021/22	0	6,730	13,600
2022/23	0	7,000	14,100
2023/24	0	7,100	14,700
Cumulative	0	20,830	42,400

Note that the above scenarios are based on the final AEF for 2020/21 of £339.381m as announced in February 2020.

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

The compounding effect of this key assumption is substantial over the life of the MTFP – the savings ask could be considerably higher if the actual increase is less than the 2% used as a planning assumption or considerably less if the settlements are more than assumed.

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;
- 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 £12.984m for 2020/21, this is an increase of £0.470m compared to 2019/20. At an all Wales level the Welsh Government have allocated an extra £15m to the non-hypothecated general capital funding for 2020/21. This has increased the funding available to Swansea. However, this has been partially offset by the profiled reduction as a result of the final year of the tapered allocation of £100m over 3 years. At an all Wales level this has reduced from an extra £30m in 2019/20 to an extra £20m in 2020/21. Therefore, the actual increase in 2020/21 compared to 2019/20 is only £5m (£15m new money offset by £10m reduction to the additional £100m tapering). This support is through a mix of General Capital Grant and support for borrowing.

Planning assumptions for 2021/22, 2022/23 and 2023/24 are based on unchanged levels of capital support, in the absence of any further indications from the Welsh Government.

As reported elsewhere on this agenda, in the Capital Budget & Programme 2019/20- 2024/25 Report, there is an ambitious capital investment programme. This provides support for the 21st Century Schools Band B Programme and major capital schemes flowing from the Swansea Bay City Deal including the Digital Village £30m, Swansea Arena and Swansea Central City Centre Development £135m.

The Swansea Bay City Region Deal is subject to substantial grant and loan funding support, the first tranche of which is to be received in this financial year. The capital programme 2019/20 – 2024/25 shall also require significant unsupported borrowing to be undertaken to enable completion.

- 2.11 The total estimated cost of the Band B schools programme envelope is £141.3m (excluding the potential aided sector project, which is assumed to require no Council contribution). Of this total, £126.25m is from traditional capital funding, requiring (after allowance for realisable capital and other receipts) a net local funding requirement of £28.489m. The remaining £23.247m (or £15.032m if the potential aided sector scheme is excluded) is expected to be delivered through revenue funding (Mutual Investment Model), which would require no local capital funding contribution but incur an annual charge once the accommodation and facilities are completed. An equivalent local share of the capital cost would be £2.856m although the 25% local contribution would apply to the annual revenue charge.
- 2.12 The capital financing strategy underpinning the capital budget seeks to maximise grants, supported borrowing, contributions and capital receipts in order to minimise the need to borrow funds. The borrowing requirement identified to support the capital programme is significant and shall require substantial revenue support to service. The revenue implications of the borrowing are reported in the Revenue Budget elsewhere on this agenda. The revenue implications are considered affordable and sustainable over the cycle of the programme.
- 2.13 As indicated above, the position remains that should such capital 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 shall place a further burden on revenue finances.
- 2.14 In the recent past, the Council has sought to minimise its external borrowing by the use of internal funds, which is entirely consistent with good Treasury Management policy given historic low interest rates on investments and avoiding the 'cost of carry'. Sustained internalisation of borrowing requirement and the significant funding required for the capital programme 2020/21 onwards and the depletion of Reserves and Provisions (including significant sums relating to equal pay settlements) means that 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 debt will continue to be undertaken in 2020/21 and beyond as opportunities arise. The position in the short-term is complicated by the current 1% additional premium levied by government on PWLB borrowing so alternative funding sources will also be explored.

- 2.15 It should be noted however, that even with borrowing rates as low as they are, externalising of borrowing is still likely to have a potentially negative impact on revenue finances going forward.
- 2.16 It remains the case that each year the Council sets aside a significant amount of money (c £10.9m 2018/19) called the Minimum Revenue Provision (MRP) towards the repayment of debt. This provision is in line with the Council's existing MRP Policy, which was reviewed (and changed) in 2018/19. This effective repayment will have to be taken into account when evaluating overall borrowing levels and the ability to service any additional borrowing requirement.
- 2.17 The additional capital investment identified above will attract significant grant funding (especially 21st Century Schools and Swansea City Region Deal), however the programme will still require a material unsupported borrowing to enable completion alongside the use of capital receipts as they are realised. Furthermore some schemes have the potential to provide additional revenue streams of property income, or, subject to agreement, in due course, with Welsh Government, retained elements of non-domestic rates or possibly tax increment financing as further powers devolve to Welsh Government and then on to local government.
- 2.18 Notwithstanding this scale of ambition, each major scheme will, as is always the case, be considered on the overall merits of each business case, both in capital cost, and revenue income streams where appropriate. Unsupported borrowing will be undertaken on a phased basis within the overall envelope for affordability which is considered over the medium to long term to be up to £180m, reduced from the previous £200m envelope, recognising the additional capital grant support received or due to be received from Welsh Government. .

3. Detailed Spending and Resources Forecast 2021/22 to 2023/24

- 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 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 – **these are pressures and must be read in conjunction with the funding plans and indicative solutions set out in 5.4:**

Projected Spending Pressures/Funding Deficiency 2021/22 – 2023/24

	Note	2021/22	2022/23	2023/24
		£'000	£'000	£'000
Future cost of pay awards	1			
- Non Teachers		5,100	10,200	15,300
- Teachers (Local top up required)		3,701	7,401	10,901
National Living Wage – own pay bill	2	500	500	500
National Living Wage – contracts		1,000	2,000	3,000
Increase in Pension Costs	3	0	0	0
Cumulative contract inflation	4	1,000	2,000	3,000
Capital charges – existing	5	0	0	0
Capital charges - new scheme aspirations	6	2,000	3,250	4,500
Capital charges – expected savings as a result of increased grants and thus reduced borrowing – general capital and Band B schools	6	-300	-500	-500
MRP review linked to capital programme	7	366	716	1,053
Use of Insurance Reserve	8	0	0	700
Use of Capital Equalisation Reserve	9	-196	-1,393	-2,209
Demographic and Service pressures	10	2,000	4,000	6,000
Mid and West Wales Fire authority Levy	11	400	800	1,200
Council Tax Support Scheme	12	1,200	2,400	3,600
Agreed Service Pressures	13	3,365	5,685	8,085
Total known pressures		20,136	37,059	55,130
Aggregate External Finance Increase @2%	14	-6,730	-13,730	-20,830
Total Savings Requirement BEFORE COUNCIL TAX		13,406	23,329	34,300

Alternative scenarios

Total Savings Requirement Needed if 4% AEF BEFORE COUNCIL TAX		6,536	9,359	12,730
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Total Savings Requirement needed if 0% AEF BEFORE COUNCIL TAX		20,136	37,059	55,130
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Note:

1. *The pay award figures represent an average forecast increase of 2.75% for the period of the MTFP for non-teachers and teachers.*

2. *Assumed increases due to implementation of National Living Wage - will affect contract prices and lower end of own pay scale.*
3. *The latest forecast from the triennial revaluation of the local government pension scheme effective from 1st April 2020 indicates that no increase to current rates will be required over the lifetime of the MTFP.*
4. *Reflects the assumed minimum cumulative effect of contract inflation.*
5. *The additional estimated borrowing costs as a result of the current Capital programme together with potential increases arising from externalisation of borrowing due to cashflow requirements.*
6. *The initial additional estimated borrowing costs for the delivery of the major aspirational capital programme, and the estimated savings due to increased grants for general capital and Band B schools.*
7. *The on-going increases associated with reviewing the MRP policy in line with the report to Council on 20th December 2018. The immediate baseline saving was taken in 2018-19 and the ongoing benefit reduces year on year (shown thus as a pressure)*
8. *The 2017/18 budget report agreed an annual take from the insurance reserve for three years, which was further extended for three more years, after which this money can no longer be assumed available and alternative funding will need to be identified.*
9. *The Authority has prudently been setting aside money in the Capital Equalisation Reserve in order to smooth the effect of the increased capital charges associated with the new scheme aspirations. This is the use of that reserve, it is shown on the pressures table as it is being used to reduce the capital charges pressures identified above.*
10. *Assumed Demographic and Service pressures mainly around Schools and Adult and Children's Services.*
11. *Estimated Fire Authority Levy increase.*
12. *Reflects the assumed cost of Council Tax Support Scheme costs based on Council Tax increases as a planning assumption only at this stage.*
13. *The future year impact of service specific savings agreed as part of the 2020/21 budget report.*
14. *Reflects the middle ground assumption that the local government finance settlement for future years will stabilise in cash at an increase of 2.0% pa.*

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

- Any increase in costs arising from decisions on Government taxation – most significantly increases arising from upward increases in landfill tax costs.
- Corporate costs in excess of budget provision in respect of issues relating to higher than assumed employee costs (higher than 2.75% pay awards), or bigger movements in minimum statutory wage.
- Any one off costs arising from changes to service delivery across the Council, including transformational change.
- Any general inflation provision relating to non-contractual issues.
- Any increased costs or reductions in income arising from ongoing changes to welfare reform, in particular the full introduction of Universal Credit during the lifetime of the MTFP.

- Any budget changes arising from further regionalisation of any services particularly where projected budget transfers may be in excess of current Swansea Council service budgets.
 - 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.
 - 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.
 - Any potential downward movement in service specific grants, some of which we have experienced at short notice in the past.
 - Any ongoing increase on non-funded schemes including the Teachers' Pension Scheme at a future date.
- 3.5 The Welsh Government has proposed legislative changes around Local Government and Elections (Local Government and Elections (Wales) Bill). There are likely to be financial implications arising from this, however until more detail and implementation timescales are known this can only remain a risk for future consideration.

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 continue 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 16th July 2015. It remains the Council's overarching approach to budget and medium term financial planning, to help deliver the well-being of future generations, and 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:

- Continued to work on the delivery of the Savings Programme
- Commenced and delivered the first two phases of Service commissioning Reviews
- Identified our next phase of cross cutting reviews.

Our Service Priorities for 2020/21 and the MTFP Period

4.5 Although the Council is currently focused on a plan to save an additional £63m plus over the period of the MTFP (since revised as per the January 2020 and February 2020 budget reports to Cabinet), 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 over £700m (excluding Housing Services (HRA)) and we spend just under £1.7m 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 6 priorities and future plans for services (a refreshed Corporate Plan was agreed on 25th October 2018) to help deliver the well-being of future generations
- The core objectives of Sustainable Swansea – which embrace all we do
- The application of the budget principles – which guide our decision making
- The ongoing and sustained real terms reduction in external funding and the need to meet known budget pressures.

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 (excluding schools) over three years was applied, for example, just to the Director of Resources (excluding Council Tax Reduction Scheme) and Place Services, the budgets for these areas would have to be almost cut in their entirety. Consequently, other areas such as Education and Social Care also need to face some relative real terms level of reduction 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
- **Remodel:** 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.

Potential Funding 2021/22 to 2023/24

- 4.10 The Revenue Budget report detailed elsewhere on this agenda identifies possible savings for the 2020/21 financial year. Some of these proposals will generate further savings in future years and so will contribute to the future years' savings requirement.
- 4.11 In addition, there are a number of service specific savings proposals that are being considered – it should be noted that these have not yet gone out to consultation, but will do so at the appropriate time.
- 4.12 These are detailed in Appendix B, but are shown in summary below:

	21/22 £'000	22/23 £'000	23/24 £'000
Future Year Impact of current (2020/21) proposals:			
Resources	412	412	412
Education	386	636	852
Social Services	1,826	1,826	1,826
Place	1,034	1,810	3,332
Cross Cutting	29	79	79
	3,687	4,763	6,501
Future Proposals to be Considered:			
Resources	333	1,360	2,171
Education	700	1,050	1,550
Social Services	250	330	580
Place	535	1,225	1,897
Cross Cutting	41	41	41
	1,859	4,006	6,239
Sub-total of Service Specific Savings (as per Appendix B)	5,546	8,769	12,740
Schools*	0	0	0
Total Savings	5,546	8,769	12,740

*Schools savings and pressures fall entirely to the delegated budgets and are shown separately as these are decisions for schools to take

- 4.13 In addition to the savings proposals above (and listed at Appendix B), the Council is embarking on its next stage of budget reviews as part of the

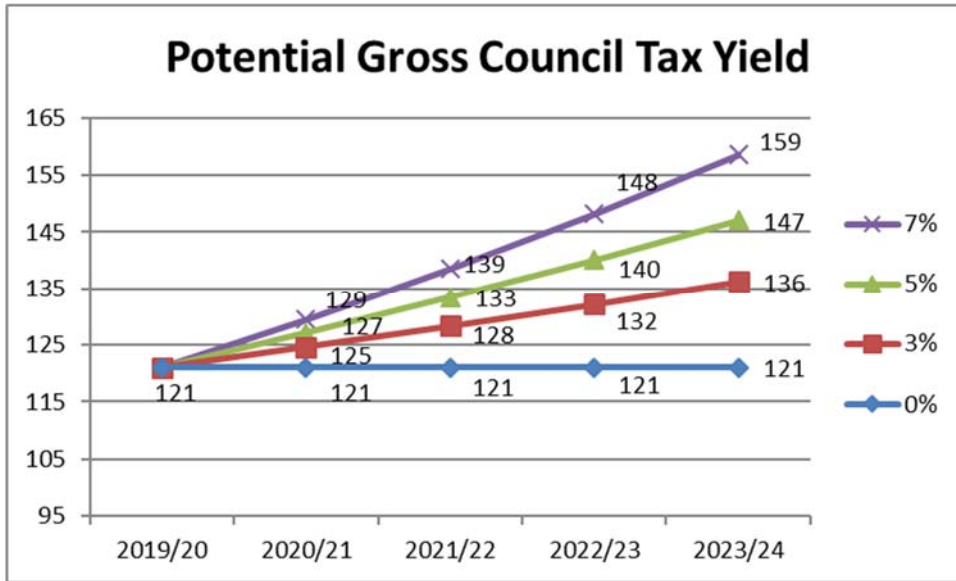
Sustainable Swansea Programme. These will be built into the budget process at the appropriate stage of the reviews.

- 4.14 In addition to savings proposals, Council Tax levels must be considered as part of the MTFP. Budgeted gross council tax yield for Swansea for 2019/20 is £121,115,000, which we have rounded to £121 million. 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, (which has been taken account of in the spending pressures above). No assumption about growth in the Council Tax base has been made, to remain prudent and err on the side of caution.
- 4.15 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. Therefore, 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 effectively placed a top end cap at 5% per annum. However, since 2018/19 a number of Councils (including Swansea in 2019/20) have set increases higher than 5%, and no action has been taken by the Welsh Government. In addition to this, in its 2020/21 Standard Spending Assessment calculation, the Welsh Government have assumed a Council Tax rise of 7.1%. As such this in effect places no upper limit for planning assumptions, however it is unrealistic to assume increases in excess of 7% (i.e. two percentage points above the previous upper limit) and so 7% is used as the maximum increase this Council could reasonably be expected to consider, in extremis.
- 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;
- As a middle ground option, 3% and 5% are also modelled. The middle ground stylised assumption included for planning purposes is 5%.

The chart below demonstrates the different levels of Council Tax that could be expected under the different scenarios:



5. 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 paragraph 3.3 of this report.

	<u>2021/22</u> <u>£'000</u>	<u>2022/23</u> <u>£'000</u>	<u>2023/24</u> <u>£'000</u>
Cumulative budget shortfall	13,406	23,329	34,300

5.2 The assumptions surrounding the compilation of these figures are given in detail within the table at paragraph 3.3 above and, in particular, are heavily dependent on the assumption of an ongoing increase in AEF for each of the three years covered by the MTFP. This is a departure from previous MTFP assumptions.

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 2020/21 consultation proposals

- Additional Directorate/Service Area targeted savings as detailed in paragraph 4.12 of this report
- Potential rises in Council Tax levels, as estimated in paragraph 4.14

5.4 Bringing these items together, and assuming a balanced position for 2020/21, the following indicative position is envisaged:

	<u>2021/22</u> <u>£'000</u>	<u>2022/23</u> <u>£'000</u>	<u>2023/24</u> <u>£'000</u>
<i>Cumulative budget shortfall</i>	13,406	23,329	34,300
<i>Future year impact of current service savings proposals</i>	-3,687	-4,763	-6,501
<i>Future year proposals to be considered</i>	-1,859	-4,006	-6,239
<i>Schools savings</i>	0	0	0
<i>Cumulative budget shortfall before Council Tax is taken into consideration</i>	7,860	14,560	21,560
<i>100% Council Tax Premia on both long term empty and second homes</i>	-1,560	-1,560	-1,560
<i>Cumulative budget shortfall after Council Tax Premia introduced</i>	6,300	13,000	20,000
<i>Council Tax at stylised assumption of 5%</i>	-6,300	-13,000	-20,000
<i>Remaining Gap at 2% AEF</i>	0	0	0

<i>Surplus at 4% AEF – which would be available to re-invest, reduce savings and/or lower council tax assumptions</i>	6,870	13,970	21,570
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- 5.5 In terms of addressing the overall budget, there are further options available to the Council that are not yet firm enough to be able to be included in the table above, but nevertheless are being worked through and considered for future inclusion.
- 5.6 These options include reviewing services and funding provided to schools, potentially higher or lower than 5% increases to Council Tax, and the level of Council Tax premiums and discounts applied. To some extent decisions around these proposals will also be reliant on the annual settlements received from the Welsh Government.
- 5.7 The Council will deliver the bulk of this through the Sustainable Swansea programme, as previously agreed.

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 in this report.
- 6.2 More specifically the Detailed Budget report to Council in respect of the 2020/21 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 be required to make some contribution to 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. It should be noted that at present there is no contribution from Schools built into the budget forecast, however to some extent although this is the intention of the Council, whether this can be maintained will be reliant on future settlements from the Welsh Government.
- 6.4 It is essential that we continue to engage with Schools on a strategic review of provision as simply cutting budgets in real terms without otherwise doing so will simply not work.

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 core funding support from the Welsh Government being incorrect, particularly if overstated.
 - Ongoing reductions in specific grants that 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 that 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 paragraph 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 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.

8. Use of Reserves

8.1 The purpose of this section is to highlight the current planned use of General Reserves to support the 2020/21 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 paragraphs 8.3 to 8.8 below.

8.2 Conclusions and recommendations in respect of reserves usage are given in paragraph 8.9 below.

8.3 The current 2019/20 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 in 2020/21 or beyond.

8.5 Whilst the Council maintains a number of specific reserves they are not factored into planning assumptions because they are either ring-fenced under statute or scheme of delegation (e.g. Schools' delegated reserves), or they are earmarked to meet known liabilities.

8.6 In October 2019 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 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 paragraph 8.10 below.
- 8.8 In addition, various sections highlighted throughout this report refer to significant ongoing risk around current activities.
- 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.

9. **Legal and Equalities Implications**

Legal Implications

- 9.1 There are no legal implications arising from this report.

Equality and Engagement Implications

- 9.2 The Council is subject to the Public Sector Equality Duty (Wales) and must, in the exercise of their functions, have due regard to the need to:
- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
 - Advance equality of opportunity between people who share a protected characteristic and those who do not.
 - Foster good relations between people who share a protected characteristic and those who do not.

Our Equality Impact Assessment process ensures that we pay due regard to the above during the annual budget process, where proposals are subject to consultation.

- 9.3 The budget reductions implicit in the 2019/20 approved budget were subject to the corporate and appropriate Equality Impact Assessment process, which was considered as part of the overall budget process.
- 9.4 Where additional budget savings requirements are identified as part of the 2020/21 and MTFP 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.

Background Papers: None

Appendices:

Appendix A Statement of Budget Principles and Service Budget Priorities

Appendix B Savings Proposals

Statement of Budget Principles and Service Budget priorities

GENERAL PRINCIPLES FOR ALL SERVICES

1. A number of principles apply to all the Council's services, regardless of the assessment of relative priorities. These are set out below.

Budget Principles

2. The Council has adopted a number of Budget Principles that underpin *Sustainable Swansea*:

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

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

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

Service Transformation and Efficiency

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

Transformation	All service must transform through a fundamental review of purpose, however services are commissioned, to: <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	All services must continue to strive for efficiency, in particular: <ul style="list-style-type: none"> • reduce management and other overheads • maximise opportunities for increasing income from charges, trading and external sources

	<ul style="list-style-type: none"> • 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
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4. STATEMENT OF BUDGET PRIORITIES: SCHOOLS AND EDUCATION

Education is continuing to deliver a consistent and coherent budget strategy across delegated and non-delegated budgets. Whilst recognising the relative priority given to Education (and Social Services), further significant savings cannot be made without reductions in real terms the Schools Delegated Budget over the coming years.

Moreover, further significant 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 against a context of increasing demands and expectations.

At the same time, greater focus is being given to the regional delivery of services, with a fundamental review of those services being delivered via regional arrangements in the coming years. At present it is not clear what the full financial impact of such changes will be, though Swansea will continue to be robust in its presentations to the regional consortia and Welsh Government about our needs.

A further move towards a fundamentally different relationship between schools and the local authority is required, reflecting the challenges and opportunities presented by the national changes in curriculum and support for additional learning needs. By its very nature, this is a long-term strategy. 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 independent behaviour review
- Building capacity in mainstream educational provision and in County specialist provision
- Empowering & facilitating more collaborative school to school support
- Ensuring delivery of Out of County places for specialist provision are commissioned jointly with other services to seek to maximise economies of scale.
- Delivery of further significant financial savings through a continuing coherent 'one education budget' strategy:
 - Retaining an absolute core level of statutory and regulatory provision at the centre
 - Ensuring a full recovery of the 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.

5. STATEMENT OF BUDGET PRIORITIES: SOCIAL SERVICES

Social Services- Child & Families

No significant 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 and service improvements.

There will be an increasing expectation of evidencing impact of early intervention and prevention services being more closely aligned to support families and children earlier, to lessen the need for greater intervention later.

Social Services – Adult Social Care

Cabinet have agreed a new Adult Services Model, which supports the service changes that will be needed to deliver improvements in experience and performance, and also to deliver the significant savings required in the medium term.

This model outlines how we will focus on the following objectives:

- Better prevention
- Better early help
- A new approach to assessment
- Improved cost effectiveness
- Working together better
- Keeping people safe.

Underpinning these principles is the need to build trusting relationships with those that we work with, improve communication and work co-productively to design and deliver services and interventions.

Further, we will be finalising and then implementing the outcomes of the Commissioning Reviews for: Day Care Services, Residential Care Services and Domiciliary Care Services and devising the Learning Disability, Physical Disability and Mental Health Commissioning Strategies. These are the Council's regular process for consistently reviewing service provision and comparing with other services to ensure value for money and improvements in service delivery.

Social Services – Poverty & Prevention

We have agreed a comprehensive Tackling Poverty Strategy, which was extensively reviewed in 2017 to ensure it is meeting its aims. The overarching themes are:

- Empowering local people through involvement and participation
- Changing cultures to reflect that tackling poverty is everyone's business
- Targeting resources to maximise access to opportunity and prosperity.

We will be adopting the following principles to this work:

- A whole Public Services Board and whole Council approach.
- Building resilience, social capital and social networks.
- Involvement and participation of service users.
- Implementing 'what works' in future delivery.

We have also revised our Prevention Strategy, which has been consulted upon in 2017 and outlines our approach in this important area. Our vision is to **'....secure better outcomes and better manage demand through preventative approaches'**.

The principles we will adopt as Swansea's optimum model for preventative activity are:

- A whole Public Services Board and whole Council approach;
- Making every conversation count;
- Holistic universal and early intervention services;
- A culture where all services are acting at every point to de-escalate need and build on strengths;
- Adopting strength based approaches using the strengths of individuals, families and communities;
- Supporting independence at all stages, with different levels of interventions offered;
- Building resilience, social capital and social networks;
- Delivery partners have confidence in the approach;
- Making evidence based investment decisions of what reduces demand;
- Learning about 'what works' is fundamental to future delivery.

6. STATEMENT OF BUDGET PRIORITIES: PLACE SERVICES

The Place-based services has faced significant challenges over recent years to meet its continued reduction in budgets and has been successful in largely maintaining the high level of delivery against the agreed corporate and service objectives. The proposed settlement for 20/21 will improve the overall position and allow additional investment in some of its front line “place based” services positively impacting on the environment and communities the Council serves. The main areas of priority are:

- Prioritisation of key corporate objectives including the regeneration of the City Centre, delivery of the city deal and its biodiversity and climate emergency objectives.
- Introductions of the remaining actions arising out of the previous commissioning and cross cutting reviews including integrated transport and a reformatted services in the community
- Continue to embed the transition of leisure services following its transfer to Freedom leisure
- Maximise commercial opportunities and income generation for services and assets
- Seek opportunities for community involvement in the delivery of services and community enablement
- Invest where necessary to maintain vital services including front line delivery of environmental services
- Work within the affordability of the housing revenue account to deliver more council homes and the attainment of the Welsh Housing Quality Standard for our council tenants.
- Maximise the opportunities brought by modernising terms and condition across the council
- Adequately resource the significant council wide capital programme and further enhance its underpinning workforce strategy
- Seek to deliver on the Councils’ homelessness strategy and housing first model
- Seek to maximise the success of grant bids maximising the beneficial use of council resources
- Grow the capacity to support local businesses and suppliers and maximise the support available for inward investment

7. STATEMENT OF BUDGET PRIORITIES: RESOURCES

The Resources Directorate will continue to deliver high quality and cost effective core services, supporting frontline service delivery and achieve better outcomes for our residents, customers and Visitors.

The Resources directorate supports the political and managerial leadership of the council to set the strategic direction and enable the organisation to deliver it, responding to external challenges including financial pressures and changes in the operating environment.

To be able deliver the above our focus must be to:

- Manage demand for central support services by supporting the workforce to have the right skills for the future, particularly managers
- Focus on the Priorities within the functions of the corporate centre such as governance, financial control, core HR advice and commercial capability
- Look for opportunities for collaboration and co-production models with other organisations and partners, in order to maintain support services as efficiently as possible
- Radically change our approach to customer contact and engagement, to channel shift to digital channels where appropriate and reduce costs where possible
- 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 and Digital First, on a business case basis, to support the transformation agenda, including on-line self-service, agile and mobile working and direct service innovation.
- To continue to evolve the services as the operating environment changes to ensure we can be agile and responsive to change.

Director	Head of Service	2021/22 £'000	2022/23 £'000	2023/24 £'000	Savings Proposals
Future Impact of 20/21 Savings Proposals					
Cross Cutting	Cross Cutting	25	75	75	Becoming digital by default and reducing paper printing
Cross Cutting	Cross Cutting	4	4	4	Changing Pension AVCs and staff reward scheme to tax efficient salary sacrifice schemes
Education	Non-Delegated	150	350	550	Home to School Transport review savings identified
Education	Non-Delegated	16	26	42	Reduction in regional improvements service and grant consistent with funding settlements
Education	Non-Delegated	140	140	140	Construction of new Active Travel links which will facilitate pupils walking and cycling to school.
Education	Non-Delegated	80	120	120	School Meal to increase by 5p (as per previous consultation)
Place	Corporate Building Services	50	50	50	Reduced maintenance required on a number of building assets as size of the corporate estate is reduced or investment in buildings reduces maintenance costs
Place	Corporate Property Services	0	50	50	Additional income generated from the relating of released space in the Civic as a result of the agile programme
Place	Corporate Property Services	0	50	50	Additional income via existing investment properties and new property acquisitions
Place	Housing and Public Protection	25	25	25	A fee to 'save the date' for future weddings at civic centre
Place	Housing and Public Protection	150	306	306	Increase to fees and charges and increased income generation activity across Bereavement Services, Registration Services, Building Control, Trading Standards, Food & Safety, HMO licensing and Housing Renewals
Place	Housing and Public Protection	10	20	20	Proceeds of Crime (POCA) income to be re-invested in core Trading Standards Service
Place	Housing and Public Protection	14	14	14	Savings as a result of the conclusion of the Renewal Area programme when it expires in 2019
Place	Planning and City Regeneration	25	25	25	Reduce net to taxpayer of cost of Natural Environment services by generating additional income and maximise use of grants
Place	Various	750	1,250	2,000	Income earning services to self-fund pressures from increased fee charges on full cost recovery basis
Place	Various	0	0	762	Review of additional staffing costs
Place	Waste Management and Parks	10	20	30	Increase graffiti removal charges to ensure full cost recovery

Director	Head of Service	2021/22 £'000	2022/23 £'000	2023/24 £'000	Savings Proposals
Resources	Resources	108	108	108	Efficiencies in Digital services as a result of current programme changes, e.g. lines, licences etc.
Resources	Resources	294	294	294	Resources - Review of Management Structure
Resources	Resources	10	10	10	Review of costs of Welsh Translation Service (as part of joint working with NPT)
Social Services	Adults	155	155	155	Implementation of the Social Services and Poverty & Prevention Business Support hub
Social Services	Adults	146	146	146	Increase regional investment in Hospital to Home Recovery Service
Social Services	Child and Family Services	800	800	800	Better integrated arrangements with Child & Family and Poverty & Prevention to create one single approach to achieve a reduction in residential placements
Social Services	Child and Family Services	500	500	500	Better integrated arrangements with Child and Family and Poverty and Prevention to create one single approach to IFA placements
Social Services	Poverty and Prevention	25	25	25	Review opportunities for Outdoor Centres with new business model. Full consultation will be undertaken on completion of the review
Social Services	Poverty and Prevention	150	150	150	Integrate Family Support Services into a single family support function that operates with a more targeted prevention offer
Social Services	Poverty and Prevention	50	50	50	Review structure in the Life Stages Team to achieve better alignment other roles in Child and Family and adult services
		3,687	4,763	6,501	Total of Future Impact of 20/21 Savings Proposals
New Proposals from 2021/22					
Cross Cutting	Cross Cutting	41	41	41	Reduction in Trade Unions central facility time
Education	Non-Delegated	300	650	1,150	ALN - more costly out of County provision mitigated by further enhanced in County provision
Education	Non-Delegated	150	150	150	Managed Moves - bringing forward future managed savings through new EOTAS model
Education	Non-Delegated	250	250	250	Review of Out of County placements / delivery model - dependent on additional special school places
Place	Corporate Property Services	150	150	150	Additional Income from further commercial lettings (offset against St David's)
Place	Cultural Services	0	0	400	Reductions to the Library Service, initial savings a review of opening hours. Long term savings to include a review of accommodation and shared services in the Community
Place	Highways and Transportation	250	250	250	CTU service become commercial operation within 2 year or externalise service

Director	Head of Service	2021/22 £'000	2022/23 £'000	2023/24 £'000	Savings Proposals
Place	Highways and Transportation	0	500	750	Increased Car Park income including charging for free car parks and increased city centre tariffs
Place	Highways and Transportation	0	25	25	Partial removal of school crossing patrols where suitable safe measures exist
Place	Housing and Public Protection	10	25	47	Introduce paid for advice and approval service for businesses across Food Safety and Trading Standards functions
Place	Regional Working	100	100	100	Regionalisation savings in Place based services (assuming future regional model for mandated services)
Place	Waste Management and Parks	0	150	150	Develop the most cost effective way of collection and disposal of plastics
Place	Waste Management and Parks	25	25	25	Fortnight collection of tiger (nappy) bags (instead of weekly)
Resources	Resources	0	0	210	AI and automation/ robots across council e.g. revs and bens
Resources	Resources	178	178	178	Automation of digital services leading to reduction of staff in Customer Services
Resources	Resources	50	50	50	Community safety & H&S restructure
Resources	Resources	0	100	100	Contract saving around merchant card costs and PCI compliance
Resources	Resources	0	50	50	Restructure design print and reduce design function
Resources	Resources	0	459	1,050	Review of resources (structure and services)
Resources	Resources	0	330	330	Savings from implementing WCCIS
Resources	Resources	0	78	78	Service Centre staff reductions
Resources	Resources	105	115	125	Shared services / collaboration / regional working income opportunities in Resources
Social Services	Adults	200	200	200	Reduce commissioning of high cost placements and deliver service in house - Explore the development of an in-house residential service for younger adults with complex needs (as part of the 4th Commissioning Review)
Social Services	Poverty and Prevention	50	100	100	Integrate youth prevention and offending services as part of the wider creation of a single family support function across departments but continue to support regional working on youth offending
Social Services	Poverty and Prevention	0	30	30	Partnership & Commissioning - Reduce core contribution to VAWDASV (Violence Against Women and Domestic Abuse) Agenda and look for economies of scale across the region, aligning with WG funding and Home Office Transformation Funding
Social Services	Poverty and Prevention	0	0	250	Partnership & Commissioning - Remove 3rd sector Change Fund
		1,859	4,006	6,239	Total of New Proposals from 2021/22
		5,546	8,769	12,740	Total of ALL service specific savings proposals