

CYNGOR SIR POWYS COUNTY COUNCIL.

COUNCIL

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SUBJECT: Budget for 2015-16, Medium Term Financial Strategy 2015-2018 and Capital Programme for 2015-2020

REPORT FOR: Decision

1. Summary

- 1.1 This report and the appendices attached set out the Council's proposals for the Revenue Budget and Capital Programme for the financial year commencing 1st April 2015 with provisional proposals for the next 2 years to 31st March 2017. The Medium Term Financial Strategy (MTFS) is attached at Appendix 1.
- 1.2 The Council is required under the Local Government Act 2003 to set a balanced budget for the forthcoming financial year, the MTFS reports a balanced budget for 2015/16.
- 1.3 As in the previous year the Council has faced an unprecedented financial challenge in this budget round. The 2015/16 financial settlement from the Welsh Government saw a decrease of 4.4% compared with 2014/15 meaning a reduction in funding of £8.079m. In addition service and other pressures added to the overall level of required savings.
- 1.4 The MTFS for 2015/16 includes investment and service pressures of £3.967m and in order to produce a balanced budget savings of £11.634m have been identified and included in the plan. The updated savings position includes revised funding assumptions.
- 1.5 The level of funding we receive represents the second highest reduction in financial settlement in Wales out of the 22 local authorities with the average being 3.4%. In addition Powys is one of only 3 authorities to benefit from the 'floor' that provides funding protection. Without this safety net the funding would be £2.2m less and require further compensating savings of the same amount.
- 1.6 The Council has sought to protect the level of capital investment in the County. It is important that the council continues to renew its core infrastructure such as schools and housing in spite of cuts by central government. Maintaining the capital programme has a significant

regeneration impact for the economy of Powys alongside the direct effect of better infrastructure to deliver services.

- 1.7 The budget proposals have been equality impact assessed to ensure that the Council understands the potential impact of the proposals on particular segments of the community and that no particular group is directly discriminated against. Those proposals that are deemed to be high or medium risk require Equality Impact Assessments and these will be available to review, a schedule of these areas is attached.
- 1.8 The financial planning process has been developed alongside the 'Statement of Intent' which captures the financial, regulatory and policy drivers affecting the council and sets the direction and approach for the Council's Medium Term Financial Strategy, the investment priorities and savings required have been costed and included within the annual budget. The Council has also revised its vision to 'Stronger Communities in the Green Heart of Wales' as well as adopting guiding principles to shape its budget.

2. Strategic Context

- 2.1 The Council's budget settlement continues to be adversely affected by the Government's austerity measures to significantly reduce public spending in order to address the UK's debt situation.
- 2.2 This has presented the Council with a significant financial challenge for a number of years. Over the last three years we have seen a net reduction of £9.6m in our funding from Welsh Government. This coupled with increasing responsibilities and service pressures has created significant budgetary shortfalls across all three years. In order to balance the budget the Council has been required to deliver savings of £40.7m over the same period. 2012/13 £5.992m, 2013/14 £17.157m and £17.576m in the current 2014/15 financial year.
- 2.3 This pressure will continue for some time. The Chancellor's autumn statement indicated that tax receipts will be £23bn lower than expected by 2017/18. The mechanism to reduce the deficit will instead be delivered through, in the Chancellor's words 'very substantial savings in public spending'. The Office for Budget Responsibility (OBR) indicate that, going forward, it is clear that significant savings will be needed to address both reductions in Welsh Government financial support and the cost of local spending pressures. The OBR states that the scale of the cuts implied would reduce the state to its smallest size relative to GDP, since before the Second World War. This indicates our assessment of a £70m funding gap by 2020 is prudent.
- 2.4 The local context affecting our funding and demand for services is heavily influenced by Powys being sparsely populated with a wide geographic area requiring services. It has a higher than average elderly population that is

predicted to increase at a rate that is significantly greater than the national average. This statistic can largely be attributed to people living longer as a result of better healthcare and improved lifestyles together with an inward migration of people to the County above retirement age.

- 2.5 Conversely the county's younger population is declining with a reducing birth rate and a sizeable outward migration of young people looking for further educational and career opportunities being the main contributors to this trend.
- 2.6 These factors in combination are presenting significant challenges. The provision of services to a dispersed and relatively small population is expensive as a result of greater transport costs and the demand for facilities to be delivered locally or within a commutable distance. Additionally, a consequence of an ageing population is the increased demand for more complex and therefore more expensive care support especially for those aged over 85 years.

3. Welsh Government Settlement

- 3.1 The Final settlement was received on the 9th December 2014 and remained in line with the provisional settlement announced in October. This confirmed that the Aggregate External Finance (AEF) figure is £174.316m which represents a 4.3% or £8.079m reduction in grant after adjusting for transfers. The impact upon Local Government in Wales as a whole was a reduction in funding of 3.4%. This means that Powys has £1,298 of funding per capita, compared to the Wales average of £1,323.
- 3.2 To mitigate the year on year impact on any Authority the continuation of a damping mechanism or 'floor' has again been applied so that no Authority sees a reduction of more than 4.5% in its core provision compared to 2014/15. Powys is one of three Authorities benefitting from this safety net and has received an additional £2.2m. This adjustment is discretionary and has been determined by the Minister for Public Services for the financial year 2015/16 but is not guaranteed for future years. The details behind the final settlement have only recently been published on the Welsh Government web site and includes publication of the amended figures for the "floor". Due to the change in Powys Council Tax base the level of protection has increased by £500k from £1.7m to £2.2m to maintain the protection level.
- 3.3 Powys' Settlement reflects movements in formula indicators like population projections, pupil numbers and benefit claimant counts.
- 3.4 The number of pupils in Nursery and Primary Schools in Powys has reduced and Powys was 22nd out of the 22 authorities in this category. Pupil numbers were expected to grow in this sector.
- 3.5 The number of pupils in Secondary Schools was expected to fall in 2015/16 and this decrease is built into the financial model. This is a significant issue and suggests more schools will be affected by reducing funding. The trend is

expected to continue over the long term albeit with a slower decline in numbers at least until 2020.

- 3.6 The number of Free School Meals for Secondary pupils has only decreased by 3 pupils despite the 250 pupil fall in the actual pupil numbers. Powys was ranked 5 overall in this category. For Primary School Free meals Powys was ranked 9th.
- 3.7 The settlement mechanism usually gives no requirement to specifically fund certain services, nor any specific service levels. However since 2012/13 WG indicated that it expected Councils to protect funding for schools, this is again expected for 2015/16 at 1% above the overall change in the Welsh Revenue Budget. This is 0.6% or £431k. Powys has fulfilled this commitment and indeed exceeded the 1% by £1.3m over the last 3 years we can therefore demonstrate that no further funding is required as we have already exceeded the protection over a 4 year average.
- 3.8 The Outcome Agreement Grant is changing. The overall amount for the Successor Outcome Agreement Grant is included in the list of Grants for Wales. Powys County Council was allocated £1.38m in 15/16.
- 3.9 The Supporting People Grant is also reducing significantly with the allocation for 15/16 £598k less than the previous year at £5.12m.
- 3.10 For 2015/16 ten Education grants have been combined into a single Education Improvement Grant for Schools, which will reduce the administration burden on the authority and also reduce the audit fee. The amount of the combined 10 grants across Wales was £163.2m, while the Education Improvement Grant for Schools is £141.0m. This is a decrease of £22.2m. The impact for Powys is not yet known.
- 3.11 There are a number of grants that ceased in 2014/15. The largest grant for Powys is the LA animal health and welfare framework funding. The grant in 2014/15 was £0.145m.

4. Budget Strategy

Public Consultation

- 4.1 The Council ran eight stakeholder consultation events during late September/ early October 2014 with a targeted group of stakeholders to engage on three key issues:
 - The council's financial position and possible savings ideas and views on key services
 - Community delivery including the potential and any concerns around this approach
 - Proposed changes to the eligibility criteria for adult social care.

- 4.2 The events were organised in conjunction with Powys teaching Health Board who gave participants an insight into their financial position. PAVO offered their support by facilitating the community delivery workshops.
- 4.3 Over 100 workshops took place over this period allowing interested stakeholders like town and community councils, third sector representatives, volunteers and service users to hold conversations and contribute their thoughts and ideas around the three key issues listed above. Powys teaching Health Board also ran a workshop to capture views around their savings programme. Approximately 300 people attended the events.
- 4.4 The feedback from stakeholders at the consultation events has been used to shape the Council's savings plans for the forthcoming year and also its strategy for future years. The detailed feedback from these consultation events is included as Appendix 6.
- 4.5 In total the workshops held specifically around the budget topic attracted over 615 comments as well as answers to three key questions which were asked and answered by a percentage of those attending. From the 615 comments given, 251 were around cost saving ideas that the council could consider to generate income or reduce services and 150 comments were in relation to community delivery and included calls for more information in a timely manner so communities/community councils could make informed choices and set their precepts understanding the bigger picture. 50 comments were around education and 27 around waste and recycling services. The remainder fell into a mix of more generic categories including regeneration, housing, sustainability, council tax etc.
- 4.6 Key themes for savings were around the need for the council to be creative in its approach to savings, a desire for residents to see us working more with other partners or using our expertise to gain income by providing services to others, the co-location of services, reducing duplication of effort, getting things right first time and lobbying the Welsh Government for more funding.
- 4.7 A final public online consultation exercise was conducted in late January and early February 2015. Consultation participants were asked to confirm their agreement or otherwise to the significant savings proposals that are new proposals for 2015/16 and not continuation of activity that has previously been the subject of public consultation. The results of this consultation are presently being analysed in detail. A summary of the consultation response is presented in Appendix 6 and full detail will be tabled at the meeting of Council on 11th February 2015.
- 4.8 The Council will use an on-line budget simulator to support the development of its budget strategy for future years. The tool allows citizens to 'take control' of the Council's budget and simulates the difficult decisions that the Council has to make in balancing its budget in future years. The simulator will also provide valuable feedback on what the people of Powys see as the priorities for spending over future years.

Members Seminars

4.9 Members of the Council have been engaged in the budget planning process from the outset through a series of five budget seminars throughout the year. The budget seminars also covered areas of policy development such as Community Delivery and commenced with a workshop to discuss Members views on areas of focus for savings targets. Savings proposals have been developed, tested and refined through the following seminars. The final seminar focused upon the budget and service delivery challenges for future years where the longer term strategies were discussed.

Finance Scrutiny Panel

4.10 The Council is working with the Centre for Public Scrutiny (CfPS) to improve the process for the scrutiny of the Council's budget with the CfPS funding the project. This project is both of importance to the Council and also nationally as its success could provide a national template for the way that financial scrutiny is undertaken by Councils in Wales. Wider UK interest is being shown in the project.

4.11 As part of the process a Finance Scrutiny Panel has been created comprising Group Leaders of non-Executive Groups together with representatives of the Audit Committee. The Panel has undertaken an analysis of key Council reports including the Budget Strategy for 2015/15, the Statement of Intent, the Medium Term Financial Plan and the draft budget proposals for 2015/16. As part of the process it has interviewed Cabinet and Management Team about the proposed budget and longer term strategy to meet the £70m projected funding gap.

4.12 A report on the outcome of the Panel's deliberations will be presented to the Cabinet for consideration which will include recommendations for improving the budget setting process in preparation for the 2016/17 budget.

5. Proposal – Revenue Budget 2015/16

5.1 Underpinning the Councils budget plan and strategy is the Financial Resources Model (FRM), this model is continually reviewed and developed in formulating the proposal submitted today.

5.2 The proposed Net Revenue budget for the Council for the financial year 2015/16 is £237.980m.

5.3 The budget is underpinned by the revenue settlement received from Welsh Government (WG) which funds 73.2% of the council's net expenditure, in

addition WG and other Government departments fund activities through specific grant. The remaining net expenditure is funded by Council Tax.

- 5.4 The proposal includes an increase in Council Tax of 4%, however this is not subject to approval as part of this report, as this is a matter for full council determination. However the report recommends the level of Council Tax to be included in the budget that goes to full Council on 11th February 2015 with Council Tax setting being considered by a separate full Council on the 9th March 2015.
- 5.5 The model is developed within the framework of the Statement of Intent, a range of issues including community needs and residents' views, financial and inflationary pressures, performance and regulatory reviews from Welsh Audit Office, Estyn and Care and Social Services Inspectorate Wales (CSSIW) have all been considered. As a result it takes account of external as well as local issues.
- 5.6 The FRM shows a balanced budget for 2015/16 and is attached as Appendix 2. The specific details of the assumptions and items included are provided in the sections below.
- 5.7 Inflationary pressures have been considered across services and £1.369m has been provided to meet these additional costs, the majority of this funding provides for the 2.2% pay award awarded from January 2015, and builds on the 1% provided in the previous financial year.
- 5.8 The continuing trend to give Authorities greater freedom and flexibility around the use of its funding in the settlement includes a number of grants which have been transferred in to the Revenue Support Grant (RSG) These are listed below:-

Local Borrowing Initiative – Schools	£457k
Autistic Spectrum Disorder	£ 40k
Integrated Family Support Services	<u>£169k</u>
Total	<u>£666k</u>

- 5.9 Funding has also been withdrawn from the settlement, this includes the transfer out of Student Finance (£107k), Feed safety controls (£21k) and the National Adoption Service (£11k).
- 5.10 The effect of these transfers have been included in the model and proposes that service budgets are amended accordingly.
- 5.11 The proposal identifies and includes investment and service pressures of £3.967m.

- 5.12 Job evaluation was implemented in April 2013 with funding provided across several financial years, the proposal includes funding to support the incremental increases of the posts at £260k.
- 5.13 The Authority is required to pay into a combined fire service fund in accordance with the Mid and West Fire Service (Combined Scheme) Order 1995, Part IV. Powys is one of six authorities contributing to the fund. Despite collective discussions the Mid and West Wales Fire and Rescue authority have increased the annual levy by 1.99%. This means the Powys County Council budget has to meet an additional unfunded pressure of £127k because of Mid and West Fire Service's decision.
- 5.14 In order to produce a balanced budget savings of £11.634m have been identified and included in the plan.
- 5.15 The details of both the investments and the savings are shown within the FRM and the impact on each Directorate is provide below:

Resources Directorate

- 5.16 For the 2014/15 budget the Resources Directorate made £1.9m of savings and this represented 17.5% of net budget. The 2015/16 saving of £215k is a more modest requirement but reflects an approach to seek significant and deep reductions in a single year (2014/15) and then provide some stability for service provision over the next year as a new model of delivery is established.
- 5.17 In order to achieve the saving the Directorate has embarked on a series of efficiency measures to change processes and remove duplication. The budget savings also include an increase in external income as well as seeking savings through collaboration with partners and other organisations. The control of discretionary expenditure will continue and there will be a reduction in all areas to reflect this requirement. In all cases any posts that become vacant will be tested against the agreed budget principles before proceeding to recruitment.
- 5.18 Securing improved commercial arrangements with suppliers for the Council will make a significant contribution to the Council as a whole with an additional £744k being targeted as part of the budget savings. The Directorate is also leading a project that will yield at least an additional £250k of additional income and efficiencies across the organisation. The Directorate will continue to develop its business and professional services support offer and the provision of transactional and professional services to partners and other external organisations. In 2015/16 it will also look at what future model of service provision is suitable for the organisation given the savings required until 2020.

People Directorate - Pressures

5.19 Our People Services include Adult Social Care, Children's Services and Housing. These services are developing a number of 'whole system' approaches both within the services, the council and in our work with partners in order to make our contribution to the Council's savings requirements and to manage the significant pressures that exist.

5.20 There are considerable pressures across the Directorate including:

- The Social Services and Wellbeing (Wales) Act 2014. Following the work done by the Institute of Public Care on 'Transitional and longer-term implications of the Social Services and Well-being (Wales) Bill 2013' and the emerging draft regulations from Welsh Government, we should anticipate the need to find resources for increasing responsibilities in areas such as:
 - Adopting a 'whole' local area approach to understanding and meeting the needs of the local population
 - Creating systems, services and approaches that are based on genuine co-production
 - Ensuring access to good information, advice and assistance for people to find universal services available in the community, in support of well-being outcomes
 - Increasing preventative services and intervening early enough within the community, in order to minimise the escalation of critical need and keep people independent for longer
 - Achieving integration with Powys teaching Health Board to achieve better outcomes for service users
 - Creating an effective interplay between well-being, prevention, assessment, eligibility and information
 - Ensuring support for carers

5.21 More specifically in Adult Social Care there are pressures in:-

- Ordinary Residence Claims – currently in receipt of one claim for £420K, for one client placed in Powys in the late 1990's.
- Discontinuation of Intermediate Care Fund (ICF) grant this is planned for 01/04/15 and will impact upon a number of our transformational projects including:- Improving Access to Health and Social Care via the Powys People Direct, Accommodation Solutions Team, Third Sector Funding, Reablement Services Expansion, Extra Care, Transforming Dementia Services.
- Funded Nursing Care judicial review – we await the outcome of this.
- Increasing hospital discharge activity and ensuring a number of step down options available including reablement beds, residential care and high quality reablement services.

- Contract monitoring and Quality Assurance activity arising out of the Older People's Commissioner's Review of residential and nursing home care.
- Increasing activity in and statutory responsibilities for adult safeguarding including Deprivation of Liberty Safeguards (DOLS) following legislative and judicial changes.
- Ongoing impact of the £55 cap on income from charging.
- Supporting People Grant Reduction at 10.45% - used to support clients with Learning Disabilities in supported accommodation and adult placements.
- The cost pressures associated with a safe and effective delivery of domiciliary services across a large sparsely populated rural area.
- The longstanding challenge to manage within budget combined with the demographic growth modelling, reduced proposed monies through the previous MTFP for 14/15 and 15/16 and the position and risks previously evidenced through the "Budget Sufficiency and Forecast Model" completed in January 2014.
- Resolution of financial pressures and historical arrangements with our partner Powys teaching Health Board in relation to the Section 28 Agreement for services for people with learning disability, Cottage View, Knighton providing residential services for older people.

5.22 In Housing there are pressures in:-

- The introduction of the Housing Act (Wales) 2014 and the potential for a significant increase in homeless presentations.
- Delivery of the improvement programme to achieve the WHQS by March 2018.
- The reduction of the supporting people grant by 10.45% from 31/03/15.

5.23 In Children's Services:-

- Volatility of the costs for Looked after Children (LAC). Particularly with regard to the change in legislation for remand placements and given the nature of these the high cost (£5/6k per week). The budget allocated for this to the YJS is minimal and the cost of the 2 recent cases we have had (one still ongoing) so far has fallen to LAC budget.
- Additional costs as a result of children with increasingly complex needs, including children with disabilities, and family pressures associated with economic deprivation.
- Increasing pressure to safeguard children from sexual exploitation and domestic abuse, including the design of multi-disciplinary arrangements for 'first contact' (also called a Multi-Agency Safeguarding Hub or MASH).
- Specialist assessments in pre-Court proceedings work.
- Legal fees.
- Placement costs if children remain with foster carers until 25yrs old.
- Accommodation for care leavers and homeless 16/17 year olds.

5.24 The People Directorate will work jointly across the three service areas to deliver the savings required for 2015/16 of £1.189m as identified in the appendices. In addition, the Directorate will work to meet savings that may arise from centrally held areas.

Place Directorate - Pressures

5.25 Although there are no specific budget pressures listed in the budget proposals for 2015/16, due to the Council's financial position and its approach requiring services to manage within their cash limits, there are a number of risks that need to be noted.

5.26 The Council is heavily reliant on income generated through Trunk Road work commissioned by Welsh Government. During the past year the North and Mid Wales Trunk Road Agent (NMTRA) have revised their schedule of rates which may impact on the income received from Welsh Government for work undertaken in Powys. Much greater levels of scrutiny are being applied to invoices issued and work undertaken, and although negotiations are ongoing it is unlikely that the Final Account position will be known until after the end of the financial year. There are clear indications that downward pressure will continue to be applied to Trunk Road work.

5.27 In addition, and as identified in the last Cabinet report, income targets for Design Services within Property and Regeneration have not been achieved in the current year and this may impact on targets for next year. It is expected, however, that major schemes scheduled for 2014/15 will come to fruition in 2015/16, and if so, income generation will increase significantly.

5.28 The Commissioning of Leisure and Sports Centres is in the procurement phase of the project. A positive response from the market is needed to ensure that budget and investment targets for the coming year can be met. Although interest continues to be positive this will need to feed through to competitive bids to achieve a positive outcome.

Savings

5.29 The budget proposals for the coming year require further reductions of £2m within Highways, Transport and Recycling, and £250k in respect of Property over and above those previously approved within the medium term financial plan.

5.30 The Highways, Transport and Recycling savings will come from a combination of additional income generation, third party spend reductions, and further efficiency within the wide range of services delivered within this portfolio. In order to manage this reduction in time for the new financial year, there is scope

to use the Council's borrowing capacity to capitalise revenue spend to offset savings whilst detailed proposals are progressed for implementation.

- 5.31 As the savings target was only identified in the autumn, the proposals will need to be worked up in greater detail before being considered for approval by Cabinet. The long term budget plan for this service area indicates an overall reduction of £6m over the next three years and fundamental re-commissioning of services will be necessary which will require the detailed application of the Council's Commissioning approach.
- 5.32 The target for Property and Regeneration is specifically focused on reducing the Council property portfolio. In order to save the £250k within the current year it is estimated that we will need to vacate and dispose of approximately 13 properties by the coming autumn. This will require significant change to the way the Council uses property and long standing practices will need to change in order for this target to be achieved. The co-operation of all Directorates within the Council will be essential if this target is to be achieved.

Change & Governance - Pressures

- 5.33 During 2014/15 Change and Governance re-commissioned a number of its services to:
1. Meet the savings targets and
 2. Enable it to focus on the priorities of the Council.
- 5.34 Significant pressures continue to affect Change and Governance notably the competing demands of providing a service whilst delivering modernisation. In addition the requirements on ICT are increasing especially as this is an enabler for change in other areas.
- 5.35 These issues can only be managed by ensuring the resources are continuously focussed on the priorities and that new work is robustly challenged to ensure business benefits and efficiency drive these activities.
- 5.36 ICT also has very specific ongoing pressures in terms of maintaining technology infrastructure with regular requirements for upgrades and 'end of life' system replacements. Where possible these ongoing costs are being built into budget requirements and planning to smooth out and better control spend.
- 5.37 We will continue to 'invest to save' in areas such as on-line services and automation to allow customers to access our services over the internet via Smartphones, Tablet PC's etc in order to reduce our transactional costs.

Savings

5.38 Change and governance, despite an increase in demand for its services continue to seek efficiencies and cost savings. For 2015/16 Change and governance are well on the way to achieving its targeted £249k savings as follows:-

- Customer Services £100k through the final phase of 'Face to face' access point transition to the Library service;
- Information Services £86k through final completion of commissioning & centralisation of the IS service and contract reduction / removal in partnership with the newly formed commercial services team;
- Organisational developments and Programmes and Governance £63k from commissioning of the services and through increased use of technology for Business Intelligence ('BI').

5.39 Since 2010 in excess of £2m has been saved.

5.40 Change and Governance also continue to seek potential opportunities for savings for future years, for example:

- The Council invested in the all Wales public sector IT network (PSBA) a number of years ago. We are now looking to see what additional services we can adopt from this national infrastructure to reduce cost whilst maintaining and/or enhance service.
- A potential project to replace the Telephony service for both the Council and the Health Board is an example of this and is predicated to reduce costs in the process.
- Other areas of work relate to the review of ICT contracts by seeking alternative options to system replacement when they reach end of life by using national or regional collaborations or through contract review for local solutions.
- Where we charge fees (for example Registrars) we are looking to better align with other Welsh authorities rates to increase income.
- Over and above these initiatives we will continue to look at improved ways of configuring the services we provide, looking for opportunities that arise either through service change or from vacancies.

Opportunities

5.41 The current opportunity list for delivery in 2016/17 is as follows:

- Telephone system migration benefit delivery estimated £90k;
- Shared systems regional / national collaboration – land charges estimated £20k;
- Increase Registrar's fees estimated £13k to £50k depending on movement to Welsh average or Welsh maximum;

- Potential benefits from further pooling of management resources estimated £100k;
- Total estimated between £223k and £260k.

Schools Service

5.42 Our schools service has an overall annual budget of £97m, £72m of which goes directly to schools and forms their delegated budget. An additional £9m per annum is used to provide home to school or college transport.

5.43 Transforming learning and skills is one of the five main themes of the One Powys One 2014-17. We are committed to ensuring that “All children and young people are supported to achieve their full potential”.

5.44 We must strive towards improving the performance of our schools and standards in terms of learner outcomes and well-being to ensure that Powys Local Authority, its schools and learners are amongst the highest performing in Wales.

5.45 At all times we must work to ensure the impact of budget reductions on the achievement, attainment and well-being of our children and young people is minimised.

5.46 We will:

- Through regional and hub partnerships within ERW implement the national model for school improvement.
- Continue to restructure our services for additional learning needs, inclusion and behaviour through implementation of the revised Strategy for Special Educational needs.
- Implement the revised School Transformation Policy and revised methodology for reviewing schools to ensure quality leadership, teaching and learning, affordability and sustainability in all phases of education.
- Implement the 21st Century School Capital Programme.
- Protect schools delegated budgets in line with the Welsh Government’s commitment of increasing expenditure at 1% above the settlement provided to Wales by the UK Government via the Barnett Formula over the lifetime of the current administration in Cardiff Bay. However the figure of 1% is an average over this term and this Council has thus far provided increases in excess of this figure.
- Pass on to schools delegated budgets all increases or reductions which relate to changes in pupil numbers.
- Expect schools to take account of all inflationary pressures including staffing costs when preparing their budgets.

5.47 The council is commencing an overall review of provision in its secondary sector and this also links to the budget plan.

Reserves

5.48 The reserves strategy for the Council changed during 2014/15 with the cessation of all service held reserves. This means all reserves are now Corporate and their use is a matter for decision making within the Council's governance framework. This ensures greater transparency about our funding and provides a clearer picture of service financial performance.

5.49 The strategy also requires the replenishment of reserves used, the proposal includes the repayment of reserves of £820k following the use of reserves to fund wind farm appeals and the temporary use of reserves to balance the budget in 2014/15.

5.50 In addition the 2015/16 budget includes an addition to reserves of a further £500k to support a general fund reserve level of 4% of net budget. Given the increasing financial uncertainty created by the reducing levels of funding it is prudent to move towards this level of reserve.

Financial Model Reconciliation

5.51 The original financial model identified a funding gap of £16.339m. As the model has developed this gap has been closed and the proposed model now shows a balanced position for 2015/16. The table below shows the reconciliation of the final proposals back to the original £16.339m gap.

Original Funding Gap	£16.339m
Less:	
Savings brought forward	£8.566m
Third Party Spend	£0.743m
Property	£0.250m
Highways and Waste	£2.000m
Social Services – reduction in growth	£1.368m
Council tax increased to 4%	£1.072m
Additional income	£0.250m
Costs to be funded by Schools	£1.600m
Revised settlement	£0.882m
Fire levy increase	(£0.127m)

Change in Council Tax

5.52 As stated in section 5.4 above the proposal includes an increase in Council Tax of 4%, should this level of increase be changed the financial impact will be as follows:-

0.25% change	£152,832
0.50% change	£305,663
1.00% change	£611,935

Equality Impact Assessment

5.53 As part of the equality impact assessment process, services are initially required to complete an assessment of relevance (AoR) template, designed to assist in identifying the likely impact of the proposals upon people with protected characteristics as defined by the Equality Act 2010. The outcome of the assessment determines whether or not a full Equality Impact Assessment (EqIA) is required.

5.54 The AoR process has determined that 16 savings proposals for 2015/16 require a full EqIA. 15 EqIAs have already been completed. Of the 15 completed EqIAs, 5 have identified no adverse impact on equality, 9 have identified that the proposal presents the potential for some adverse impact on people with protected characteristics, and 1 proposal has identified the potential for a substantial adverse impact on people with protected characteristics (to reduce expenditure on subsidised bus services by £500,000, as part of the Transport transformation programme). These issues will need to be fully considered in the development and implementation of the proposals in accordance with the requirements of the Equality Act 2010.

6. Proposal – Capital Budget 2015/6 to 2019/20

6.1 Capital investment remains important as the council continues to renew its core infrastructure. Maintaining the capital programme has a significant regeneration impact for the economy of Powys alongside the effect of better infrastructure to deliver services.

6.2 Capital investment also has a significant input into the delivery of revenue savings and it is essential that both budget strategies are developed in tandem.

6.3 The Capital Strategy is attached as Appendix 4. The Strategy itemises the Council's capital programme for the next 5 years with the budget totalling £145.946m. This is a significant commitment. In addition a further £152.8m is included for the Housing Revenue Account (HRA). The HRA priority is the

Welsh Quality Housing Standard Programme with the standard to be achieved by March 2018. The Subsidy Settlement is estimated at £85.892m.

- 6.4 The Council's Capital budget for 2015/16 is proposed at £29.7m and in addition the Housing Revenue Account Capital Budget is proposed at £101.8m for 2015/16, the details of which are included in the Strategy in Appendix 4.

7. Prudential Indicators

- 7.1 The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of the local authority are affordable, prudent and sustainable. The statutory Prudential Indicators are shown in full in Appendix 7. The tables include the 2013/14 actual figure, the original estimate and revised estimate for 2014/15, as well as the indicators for the next five years, up to 2019/20.
- 7.2 The key indicators of affordability are the estimate of the ratio of financing costs to net revenue stream (Table 1) and the estimates of the incremental impact of capital investment decisions on the council tax (Table 2). The incremental cost on the council tax is £55.68 per band D property by 2019/20, of this £47.63 is due to prudential borrowing. This borrowing is shown in the medium term plan as revenue funding for prudential borrowing. The ratio of financing costs for the council fund shows a slight increase from 5.25% in 2013/14 to 6.96% by 2019/20.
- 7.3 The incremental impact on Housing Rents (Table 4) increases from £13.75 in 2015/16 to £25.70 by 2015/16 of this £24.53 is for Prudential Borrowing. This is in line with the Business Plan submitted to WG in December. The amount of the HRA income required to pay for financing increases from 19.5% in 2015/16 to 27.96% by 2019/20. The increase in the financing cost is because the subsidy payment of £5.7m is a saving to the HRA which is swapped with increased debt charges.
- 7.4 The Capital Financing Requirement (CFR) is shown in Table 5 and is the measure of the authority's underlying need to borrow for a capital purpose. It is the amount of capital expenditure that is not yet been financed by capital receipts, capital grants or contributions from revenue.
- 7.5 The CFR is currently £227m and will rise to £352m by the end of 2019/20 of this £110m is estimated to be HRA debt. The level of external debt is lower than the CFR reflecting the current Treasury Management policy to internally borrow via reducing investments. The actual external debt at 31st March 2015 was £145m.
- 7.6 For 2015/16 a new indicator has been introduced to measure the gross debt of the authority against the CFR. This demonstrates that the authority is only

borrowing for a capital purpose because the gross debt is below the CFR. This indicator is shown in Table 8.

- 7.7 The Operational Boundary (Table 7) and Authorised Limit for External Debt (Table 6) both reflect the current Treasury Management policy and are set at a level to be affordable as well as prudent.
- 7.8 The Council under the International Financial Reporting Standards (IFRS) has had to recognise a number of leases as Finance Leases. This change in accounting policy has led to the creation of a long term liability.
- 7.9 It is recommended that the level for the Authorised Limit is set at £404.7m. Members are asked to note that the Authorised Limit determined for 2015/16 will be the statutory limit under Section 3(1) of the Local Government Act 2003.

8. Minimum Revenue Provision Annual Statement 2015/16

- 8.1 The Capital Financing Requirement (CFR) is the amount of capital expenditure that is not financed from revenue resources, capital grants and other contributions and capital receipts. Any expenditure that is not financed from these resources increases the authority's underlying need to borrow. The authority has to plan to finance the increase in the CFR by setting aside resources. This is called the Minimum Revenue Provision.
- 8.2 Regulation 21 (Capital Finance and Accounting regulations 2003) places a requirement on local authorities in respect of calculating MRP.
- 8.3 Regulation 22 details how MRP should be calculated. In the new Regulation 22, the previous detailed rules are replaced with a simple duty for an authority each year to make an amount of MRP which it considers to be "prudent".
- 8.4 The regulation itself does not define "prudent amount". However, the MRP guidance makes recommendations to authorities on the interpretation of that term.
- 8.5 The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2009/10 and will assess the MRP for 2015/16 using the recommendations.
- 8.6 The guidance on MRP sets out four options for the calculation of MRP. The first two options are to be used for capital expenditure incurred before 1 April 2008 as well as Supported Borrowing after that date. The 3rd and 4th options are to be used with unsupported or prudential borrowing.

Option 1: Regulatory Method – calculated in accordance with regulations 22 of the 2003 Regulations. This is the

previous method used by the authority and for 2015/16 £6.7m will be set aside.

- Option 2: CFR Method – Using the Capital Financing Requirement
This is the simplest method but would require additional resources to be set aside to take account of the statutory “Adjustment A” figure which is removed from Option 1 above, if this was included the MRP would increase by £703K per annum. “Adjustment A” is an adjustment that reconciles the opening CFR on 1st April 2004 to the previous method, called the Credit Ceiling, which ceased on 31st March 2004 and does not change.
- Option 3: Asset Life Method - MRP is made in equal annual instalments over the life of the asset. This method provides some stability to the amount of MRP that is set aside each year. £1m expenditure on a building with a 50 year life would cost £20,000 annually for MRP.
- Option 4: Depreciation Method – MRP is to be equal to the provision required in accordance with depreciation accounting. This method would result in changes to MRP each time an asset was revalued (every 5 years) and would require additional resources to monitor the assets over the life of that asset (up to 50 years).

8.7 The major proportion of the MRP for 2015/16 will relate to the more historic debt liability that will continue to be charged at the rate of 4%. It is recommended that the MRP for 2015/16 is calculated in accordance with option 1, the Regulatory Method which has been used since 1st April 2004. The estimate for 2015/16 is currently £6.7m and will be finalised after the accounts have closed in May 2015.

8.8 It is recommended that for any Prudential Borrowing undertaken in the current or future years the MRP will be charged over a period which is the estimated life of the asset using the annuity method, Option 3. In 2015/16 this MRP is estimated to be £1.1m and the actual amount will be finalised after the accounts have closed in May 2015.

8.9 Estimated life periods will be determined under delegated powers. Whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the components of expenditure and will only be divided up in cases where there are two or more major components with substantially different economic lives.

8.10 The share of the Housing Revenue Account Capital Financing Requirement is subject to a 2% MRP and is currently estimated at £2.1m

for 2015/16. This is a combination of historic debt, the estimate subsidy settlement and prudential debt which follows the asset life method.

- 8.11 In addition the guidance allows for MRP to be deferred for assets under construction and this part of the guidance should be adopted because the asset is not used by the authority until it is operational and therefore the MRP will match the life of the asset. This option reduces the MRP by an estimated £263K for 2015/16.
- 8.12 Any MRP requirement for finance leases or PFI schemes will be regarded as being met by a charge equal to the rent/charge that goes to write down the balance sheet liability. The authority has recognised some leases as finance leases under the IFRS.

9. Medium Term Financial Strategy 2016/17, 2017/18

- 9.1 The Medium Term Financial Strategy attached as Appendix 1 provides the framework for future budget modelling and the FRM incorporates the details of the budgetary impact.
- 9.2 The FRM (Appendix 2) already builds initial budgets for the following years and the model currently assumes continuing reductions in funding of 4% in 2016/17 and 2.5% in 2017/18.
- 9.3 Forecasting inflation includes a number of assumptions. It is assumed that the pay award will be at 1% for 2016/17 and 2% for future years. It also assumes that commitment to protect schools will also remain.
- 9.4 Council tax increases of 3.25% are currently included.
- 9.5 Service pressures are included at £5.3m for 2016/17 and £6.4m for 2017/18.
- 9.6 These factors will have a real terms cut in the Council's spending power and further savings have to be identified to produce a balanced budget. On the current modelling these amount to £10.07m in 2016/17 and £8.4m in 2017/18.

10. Timetable of Key dates

27th January 2015 Cabinet agree Budget, Medium Term Financial Strategy, Capital Strategy and proposed Council Tax.

11th February 2015 Council approve Budget, Medium Term Financial Strategy and Capital Strategy.

6th March 2015 Council set Council Tax.

11. Longer Term Strategy and the position to 2020

- 11.1 Central government remains committed to eliminating the budget deficit and this will affect the level of funding received by Welsh Government. The policy of reducing the levels of public debt means Local Government in Wales can expect at least four more year of reduced grant income from Welsh Government. This scenario is unlikely to change significantly whatever the outcome of the General Election in May.
- 11.2 It is vital we prepare for what is being termed as a 'new reality' for Local Government. We cannot be precise about how we will respond by the end of the decade but significant steps have been taken with a new vision in place supported by an agreed set of principles to underpin our approach to delivering Powys 2020.
- 11.3 The scale of the deficit reduction will drive huge change across the Council. Unless this change is delivered the ability to set balanced budgets in future years will be significantly reduced given the relatively straightforward savings have already been taken in previous years.
- 11.4 It is evident that we are entering a new era for Local Government and the response is a new vision that emphasises a shift in the Council's approach. This is a longer term commitment to reshaping service provision working with communities as our approach to commissioning evolves. This will seek to support and sustain Communities for the future by designing and delivering services with the Community.
- 11.5 The remodelling of Council services to respond to reduced funding will also have to place developing the local economy at the heart of our strategy. This will play a role in our financial planning. By doing this we can seek to shift the balance of funding towards areas that we control so that we have some resilience to be able to absorb some of the estimated future reduction in Welsh Government funding. In 2015/16 we have received a £2.2m 'floor' which is the highest in Wales and Powys is one of the only 3 Local Authorities in receipt of this assistance. It cannot be guaranteed that this will continue given the pressure likely to be placed on financial settlements that are received by Welsh Government from Westminster.

12. One Powys Plan

- 12.1 The budget has been developed this year within the framework of the Statement of Intent, a range of issues including community needs and resident's views, financial and inflationary pressures, performance and

regulatory reviews from Welsh Audit Office, Estyn and CSSIW have all been considered. The resultant proposals are included in this plan, the council budget, and the One Powys Change Plan.

13 Options Considered/Available

13.1 A wide range of options were considered both at an individual service level and corporate level.

14. Preferred Choice and Reasons

14.1 The preferred choices are set out in this report.

15. Local Member(s)

Not applicable

16. Other Front Line Services

16.1 All Heads of Service, Strategic Directors and Portfolio Holders have been involved in the compilation of the budget proposals.

17. Support Services (Legal, Finance, Corporate Property, HR, ICT, BPU)

17.1 The Finance function has been closely involved in the process to support the identification and assessment of savings proposals.

17.2 Legal – The recommendations can be supported from a legal perspective

18. Corporate Communications

18.1 The content and implications of the budget, medium term financial plan and capital programme are of significant interest to residents and staff and should be communicated widely via proactive press release, website and social media as well as through internal channels, following decision.

19. Statutory Officers

19.1 The Strategic Director Resources (Section 151 Officer) comments as follows:

19.2 The proposals included in the report and its appendices deliver a balanced budget for 2015/16. All Councils are facing increasingly difficult

decisions when setting budgets because relatively straightforward efficiency savings have largely been taken in previous years. The budget has areas that will be difficult to deliver and it is important that performance is closely monitored in 2015/16 and the planning for 2016/17 and beyond commences early in the next financial year. It is likely that reserves will become increasingly important in order to give assurance that contingency plans are in place to maintain financial stability. It is for this reason that a level of 4% for the general fund reserve is put in place.

19.3 The Solicitor to the Council (Monitoring Officer) has commented as follows:

The Report has been prepared in accordance with the requirements of the Local Government Act 2003 and the Local Government Finance Act 1992. In accordance with Section 25 of the 2003 Act, the Council must have regard to the advice of the Head of Finance, as the Chief Finance Officer, regarding the robustness of the budget estimates and the adequacy of the financial reserves. This advice must be taken into account when considering the proposals in the Report and the recommendations from the Cabinet regarding the budget and the Council tax rate. In accordance with the Functions and Responsibility Regulations, agreeing the budget and setting the Council Tax rate under the 1992 Act is a matter for full Council. In accordance with Section 30 of the 1992 Act, the Council is required to set the Council tax for the next financial year on or before 11th March.

20. Members' Interests

20.1 The Monitoring Officer is not aware of any specific interests that may arise in relation to this report. If Members have an interest they should declare it at the start of the meeting and complete the relevant notification form.

Recommendation:	Reason for Recommendation:
1. That the proposed Revenue Budget for 2015/16 shown in the Financial Resource Model in Appendix 2 is accepted and recommended to full Council on the 11th February 2015.	Statutory Requirement
2. The proposed Capital Strategy for 2015/16 shown in Appendix 4 is accepted and recommended to Full Council on 11th February 2015.	Statutory Requirement
3. That a Council Tax increase of 4% is included in the budget that goes	There is a Statutory Requirement to set Council Tax but the level is a matter for local determination.

to full council on the 11 th February 2015.	
4. That the Medium Term Financial Strategy for 2015 to 2018 as set out in appendix 1 to the report be agreed in principle.	To aid business planning and development of the budget over a three year period
5. The authorised borrowing limit for 2015/16 as required under section 3(1) of the Local Government Act 2003 be approved as set out in paragraph 7.9 of the report.	Statutory Requirement
6. The Prudential Indicators for 2015/16 are approved as set out in section 8 of the report.	Statutory Requirement
7. To use Option 1 Regulatory Model for the calculation of MRP in relation to Supported Borrowing.	Statutory Requirement
8. To use Option 3 Asset Life Annuity Method for the calculation of MRP in relation to Prudential Borrowing.	Statutory Requirement
9. To take advantage of the guidance that allows for MRP to be deferred for assets under construction.	To match the cost of MRP to the use of an asset by a service.

Relevant Policy (ies):			
Within Policy:	Y	Within Budget:	Y

Relevant Local Member(s):	
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Person(s) To Implement Decision:	Chief Executive
Date By When Decision To Be Implemented:	1st April 2015

Contact Officer Name:	Tel:	Fax:	Email:
Jason Lewis	01597 826318		jason.lewis@powys.gov.uk

Background Papers used to prepare Report:

