

**CYNGOR SIR POWYS COUNTY COUNCIL.**

**COUNCIL**  
**25<sup>th</sup> February 2016**

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**Portfolio Holder for Finance**

**SUBJECT: Budget for 2016-17, Medium Term Financial Strategy 2016-2019 and Capital Programme for 2016-2021**

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**REPORT FOR: Decision**

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**1. Summary**

- 1.1 This report and the appendices attached set out the proposals for the Revenue Budget and Capital Programme for the financial year commencing 1<sup>st</sup> April 2016 with provisional proposals for the next 2 years to 31<sup>st</sup> March 2019. It presents a balanced three year position. 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 2016/17. There is no requirement to set out a balanced position beyond the next year but this has been done to enable longer term planning and transformation.
- 1.3 The timing of the announcements for the Local Government settlement for 2016/17 has been unprecedented with the provisional settlement published on the 9<sup>th</sup> December 2015. Confirmation of the final settlement is scheduled for release on the 2<sup>nd</sup> March 2016 which allows Welsh Government time to review consultation responses and the overall funding settlement. In order to meet the statutory requirements to set the Council's budget and issue council tax bills before the start of the financial year discussions have taken place with Welsh Government officials to confirm that there is no legal impediment to authorities setting their budgets on the basis of the provisional settlement.
- 1.4 There cannot be absolute assurance that the settlement for Powys will not change between the provisional and final settlement, however Welsh Government officials have acknowledged this risk and that the mitigation is to announce a provisional settlement that will be the same or very close to the final settlement.
- 1.5 As in previous years the Council continues to respond to the major financial challenge it is experiencing. The original 2016/17 provisional financial settlement from the Welsh Government saw a decrease of 4.1% compared with 2015/16 meaning a reduction in funding of £7.147m. In addition service and other pressures added to the overall level of required savings.
- 1.6 The budget for 2016/17 includes investment and service pressures of £10.697m and in order to produce a balanced budget savings of

£10.004m and other strategies have been identified and included in the plan.

- 1.7 The original level of funding represented the highest reduction in financial settlement in Wales out of the 22 local authorities with the average being 1.3%. This position has been helped by a subsequent adjustment to original announcement made on 9<sup>th</sup> December that in effect reinstates the 'floor' at a 3% level.
- 1.8 The impact of the funding reductions is disproportionality affecting rural authorities who have consistently received the lowest average Revenue Support Grant settlements. This has been recognised by all Authorities in Wales who have also highlighted the additional pressures that are faced in providing community-based social services for older people over large geographic and sparse areas.
- 1.9 The adjustment limited the reduction in the Aggregate External Finance (AEF) to 3%, and provided £2.48m of funding for 3 authorities.
- 1.10 The proposal has been accepted and an additional £1.952m has been awarded to the authority. This in effect limits the reduction to 3%.
- 1.11 The Council has sought to increase 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 and enabling revenue savings.
- 1.12 The budget proposals have undergone a Single Integrated Impact Assessment to ensure that the Council understands the potential impact of the proposals. In doing so the process considers the Council's strategic vision and priorities, risk management, equalities, welsh language, the Wellbeing of Future Generations Act, sustainable development principles, communication and engagement, safeguarding, corporate parenting and community cohesion.
- 1.13 The financial planning process has been developed alongside the policy based '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.

## **2. Strategic Context**

- 2.1 The Council's budget settlement continues to be adversely affected by the UK Government's austerity measures to significantly reduce public spending in order to address the debt situation.
- 2.2 The Spending Review announced on 25th November 2015 set budgets for government departments and the devolved administrations for each financial year for the rest of this Parliament (2016/17 to 2019/20).
- 2.3 Day-to-day spending is set to fall by £18 billion or 6% between 2015/16 and 2019/20 in real terms, meaning that many government departments will see budget reductions. Some departments are protected from spending reductions,

including the NHS, some schools spending, defence spending and the international development budget. This means that other departments have seen larger reductions, in many cases on top of reductions seen over the previous Parliament.

- 2.4 It is widely accepted that the Spending Review has been less severe than estimated before the announcement on 25th November. However the position for Powys is likely to see little change in our comparative funding level in Wales and therefore the agreed budget strategy for the next three years remains in place.
- 2.5 For the UK the pace of spending cuts has been reduced with the position a result of improving forecasts for revenues and marginally less borrowing than anticipated over the next five years. Targets for a surplus by the end of the parliament remain intact. Underpinning the spending plans is the economic projections provided by the Office for Budget Responsibility (OBR). Compared to Summer Budget 2015, the Office for Budget Responsibility now forecasts higher tax receipts and lower debt interest, with a £27 billion improvement in the public finances.
- 2.6 Scotland, Wales and Northern Ireland will all receive more money to be spent on infrastructure (capital) projects, with each government deciding where this will be spent. This will be an increase of around 14% for Scotland, 16% for Wales and 12% for Northern Ireland.
- 2.7 The overall funding position has presented the Council with a significant financial challenge for a number of years. Since 2012/13 we have seen a net reduction of £17.7m 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 £53.5m over the same period, broken down as follows: 2012/13 £5.992m, 2013/14 £17.157m, 2014/15 £17.576m and £12.768m in the current 2015/16 financial year.
- 2.8 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 above retirement age to the County.
- 2.9 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.
- 2.10 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 Provisional settlement was received on the 9<sup>th</sup> December 2015. This indicated the Aggregate External Finance (AEF) figure was £168.488m which was a 4.1% or £7.147m reduction in grant after adjusting for transfers. The impact upon Local Government in Wales as a whole was a reduction in funding of 1.4%. This means that Powys has £1,252 of funding per capita, compared to the Wales average of £1,309.
- 3.2 Originally there was no floor mechanism in 2016/17, however, with the announcement by Welsh Government on 9<sup>th</sup> February the Council's funding has improved by £1.952m, reducing the level of funding reduction to 3%, with the reduction in funding across Wales of 1.3%.
- 3.3 Powys' Settlement also reflects movements in formula indicators like population projections, pupil numbers and benefit claimant counts.
- 3.4 The key indicators are shown in Table 1.
- 3.5 The number of pupils in Nursery and Primary Schools in Powys has reduced and Powys was ranked 2<sup>nd</sup> to bottom of all authorities. Pupil numbers decrease by 16 and the share of the overall grant fell in 2016/17.
- 3.6 The number of pupils in Secondary Schools in Powys has reduced by 186 and Powys was ranked 18 out of 22 authorities.

**Table 1 Key Indicators**

	<b>All Wales</b>	<b>Powys</b>	<b>All Wales</b>	<b>Powys</b>	<b>All Wales</b>	<b>Powys</b>	
<b>Dataset</b>	<b>2015-16 Final</b>	<b>2015-16 Final</b>	<b>2016-17 Provisional</b>	<b>2016-17 Provisional</b>	<b>% Difference</b>	<b>% Difference</b>	<b>Rank</b>
Population - Projections	3,117,238	134,302	3,131,170	134,600	0.4%	0.2%	14
Pupil Numbers - Nursery and Primary	254,048	9,897	257,423	9,881	1.3%	-0.2%	<b>21</b>
Pupil Numbers - Secondary in year groups 7-11	161,258	6,706	158,384	6,520	-1.8%	-2.8%	18
Free School Meals - Primary	47,269	1,104	47,125	1,027	-0.3%	-7.0%	<b>20</b>
Free School Meals - Secondary	28,375	622	27,664	654	-2.5%	5.1%	1
Children in out of work families	145,100	3,500	138,700	3,300	-4.4%	-5.7%	17
Total IS/ JSA/ PC claimants - Under 65	154,181	3,775	129,068	3,034	-16.3%	-19.6%	<b>20</b>
Total IS/ JSA/ PC claimants - 65+	131,593	5,298	127,130	5,121	-3.4%	-3.3%	9
Total IS/ JSA/ PC claimants	286,501	9,099	256,860	8,178	-10.3%	-10.1%	7
SDA & DLA claimants	146,168	4,740	138,725	4,451	-5.1%	-6.1%	<b>20</b>

- 3.7 The number of Free School Meals for Secondary pupils has increased by 32 pupils despite the 186 fall in the actual pupil numbers. Powys was ranked 1st in this category. For Primary School Free meals Powys was ranked 20<sup>th</sup> with a decrease of 77 pupils.

- 3.8 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 2016/17 at 1% above the overall change in the Welsh Revenue Budget. This is 1.85% or £1.273m.
- 3.9 This year there is also a commitment to recognise “the crucial role Local Authority Social Services play in improving outcomes for the most vulnerable”. Across Wales an additional £21m was included in the settlement and for Powys this equates to £1.053m.
- 3.10 The Outcome Agreement Grant has transferred in the RSG and for Powys this is £1.376m.
- 3.11 The Single Environment Grant has reduced by £241k. This has been recognised as a pressure for the service and is therefore included in the Financial Model (FRM).
- 3.12 The Families First and Flying Start Revenue grants have also reduced by £138k and £61k respectively. The service was anticipating this reduction and have taken steps to reduce expenditure to match.
- 3.13 The amount of the Education Improvement Grant for Schools has not been announced but the indication from WG was that the level will be similar to 2015/16 for the next two years. The amount of the 2015/16 grant was £5.9m.
- 3.14 The Pupil Premium Grant has increase by £61k and is now £1.8m for 2016/17.
- 3.15 The indicative amount for the Supporting People grant has been announced with no reduction in the level of funding. This follows reductions in the previous three years.

#### **4. Budget Strategy**

##### **Public Consultation**

- 4.1 Over the past few years the council has sought to engage residents in the decision making process around setting its budget. The views of residents have been sought in a number of ways.
- 4.2 Three pieces of engagement and consultation were undertaken during 2015/16 to help inform the budget setting process for the next three years and to aid the decision making process.
- 4.3 Residents Attitude Survey - Summer 2015
  - 385 telephone interviews conducted. Research is robust data at a county level.
  - Just over half of residents (52%) were unaware that the council had had a 4.4% decrease in funding from the Welsh Government which equalled a £7.7m funding gap.
  - Respondents were asked whether they felt it mattered who delivers services. Overall, 67% felt it didn't matter and 33% felt it did. (In the 2013 survey 26% respondents felt it did matter so there has been an increase of 6%).

- 52% of respondents would prefer the council to charge for services that were currently free rather than increase council tax, increase charges for things that residents already pay for, or increase charges for things that businesses pay for e.g. trade waste. (There was less desire for this in the 2013 survey so there has been a subtle shift in resident view here).
- 2/3rds of respondents did not feel that reducing our workforce further or only providing statutory services was a good way to reduce our costs.
- Residents were not keen for increases in council tax. Only a quarter opted for a 2.5% increase which is lower than that already proposed for 2015/16.
- When asked to consider what their current and future priorities might be, the analysis identifies some interesting differences. Respondents are twice as likely to identify environmental / street-scene type services as an immediate priority as opposed to a future priority (26% and 13% respectively). Conversely, caring for those in need (for example, elderly social care) is felt to be a priority for the future rather than now.
- Services relating to the development of the local economy are identified as the single key priority for improving quality of life and helping communities thrive.

#### 4.4 Citizens Panel Survey - Autumn 2015

- 262 responses received. Profile of the panel is predominantly older residents who volunteer to take part in surveys.
- 59% citizen panel members said they were aware of current funding issue however a further 36% said they didn't really understand the background or why we were in this situation.
- 70% feel they have seen a difference and a reduction in the level of service provided over the past year. E.g. street cleaning, potholes, refuse collection, care.
- 92% are very or fairly concerned about the situation facing Powys.
- 80% of panel members stated they still tend to get their information about Powys via local media however 27% said they picked up flyers and posters and leaflets, 22% said they used the council's website and 22% said they got information from their town and community council.
- Over a hundred budget saving ideas were given by panel members and these were varied. They ranged from increasing council tax to selling the land and properties we hold and from boosting inward investment to protesting to Welsh Government about the current settlement.

#### 4.5 Budget Simulator – Autumn 2015

- 476 residents submitted a budget that addressed the necessary savings targets. The number of responses should allow for a fairly robust resident overview at a county level although people self-selected (i.e. chose to take part in the exercise or not) and were not chosen at random to do so using a social research sampling plan.
- Figures show that the home web page created to promote the simulator exercise had over 2000 hits and 1438 unique page views. This means that a

third (33%) of those viewing the page went on to submit a budget and 67% didn't.

#### 4.6 Conclusions:

- 4.7 The research conducted over the course of this year suggests that residents have a growing awareness of the budget deficit facing the Council and the need to make savings over the next three financial years.
- 4.8 There is a definite appetite from residents for more outsourcing of services with a clear mandate around the importance of delivery of a service rather than an issue about who delivers it.
- 4.9 There is a reluctance to see the services that provide for the more vulnerable in our society being cut. In particular there was less appetite for budget cuts for children with disabilities, services for looked after children and home care services.
- 4.10 There was also a reluctance to jeopardise services by cutting budgets to the point where there may be difficulty in maintaining statutory requirements.
- 4.11 There is some acceptance that the council should be looking at charging for services that are currently free although there is little support for an increase to council tax, increased charges for things that residents are currently paying for or increased charges for services that businesses in Powys use. However some comments received supported an increase in council tax to sustain current levels of service delivery. Interestingly when the council conducted the 'Simalto' exercise a few years ago, respondents were asked if they would be prepared to pay more in council tax to sustain their chosen service priorities and the majority said yes. This implies that there is a link between a willingness to pay an increase in council tax and a resident's perception around their getting value for money services that meet their needs.
- 4.12 Residents are now seeing and stating that they have seen a decrease in the level of services provided by the council over the past year and satisfaction with the services that we provide overall as a council has decreased over the past five years.\*

\*Source – Residents Satisfaction Survey

- 4.13 There are calls for fewer councillors and more senior level posts to be deleted.
- 4.14 Significant numbers of comments, ideas and suggestions about where efficiencies could or should be made were received.

#### **Members Seminars**

- 4.16 Members of the Council have been engaged in the budget planning process from the outset through a series of budget seminars. These

seminars have looked at the development of the budget proposals throughout the year and all members have had the opportunity to consider, challenge and input into the process. Financial assumptions and provisional settlement information have been shared with members and the impact on the budget modelled and considered. Members were formed into smaller groups to look at the savings proposals in more detail, they were able to question and challenge each proposal to ensure that they understood them and the impact it has on the delivery of the service and on our citizens. In latter seminars members were provided with the Single Integrated Impact Assessments for each of the proposals and feedback from the consultation exercises carried out.

### **Finance Scrutiny Panel**

4.17 Last year the Council worked with the Centre for Public Scrutiny (CfPS) to improve the process for the scrutiny of the Council's budget. This pilot attracted wide interest with the approach being used in Powys presented at a UK scrutiny conference. In Powys it resulted in the formation of the Finance Scrutiny Panel 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 2016/17, the Statement of Intent, the Medium Term Financial Strategy and the draft budget proposals for 2016/17. As part of the process it has interviewed Cabinet and Management Team about the proposed budget and longer term strategy.

## **5. Proposal – Revenue Budget 2016/17**

5.1 Underpinning the Council's 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 2016/17 is £237.1m.

5.3 The budget is underpinned by the revenue settlement received from Welsh Government (WG) which funds 71.9% 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 4.25%, 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 25<sup>th</sup> February 2016 with Council Tax setting being considered by a separate full Council on the 9<sup>th</sup> March 2016.

5.5 Should this level of increase be changed the financial impact will be as follows:-

- 0.25% change        £160k
- 0.50% change        £320k



- 1.00% change      £640k

- 5.6 The model is developed within the framework of the Medium Term Financial Strategy attached as Appendix 1. The MTFS is influenced by the overall framework, This includes consideration of the Statement of Intent, the Powys One Plan and 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). As a result it takes account of external as well as local issues.
- 5.7 The FRM shows a balanced budget for 2016/17 and is attached as Appendix 2. The specific details of the assumptions and items included are provided in the sections below.
- 5.8 Inflationary pressures have been considered across services and £0.977m has been provided to meet these additional costs, the majority of this funding provides for the 1% pay award.
- 5.9 The Outcome Agreement Grant (£1.376m) and additional Local Government Borrowing Initiative for Schools (£0.107m) have transferred into the RSG and the effect of these transfers has been included in the model and proposes that service budgets are amended accordingly. This provides an element of protection to services.
- 5.10 The proposal identifies and includes investment and service pressures of £10.697m. This demonstrates that the budget takes a balanced approach.
- 5.11 Job Evaluation was implemented in April 2014 and the proposal includes £134k to fund the last of the incremental rises in relation to the roll out of the new salary structure.
- 5.12 Single Tier Pension - NI Change - Non Schools is the National Insurance cost of the introduction of the Single Tier Pension. The authority will no longer be able to benefit from the reduced employer's National Insurance contribution for contracted out staff and will have to pay the full liability.
- 5.13 In April 2014 the way in which the Council was required to fund its pension liability changed with the deficit recovery element amended to a fixed amount rather than as a percentage of pay charged to the service. The consequence was that the fixed amount will increase over the next four years and a provision of £250k per annum has already been included in the FRM since last year. Staffing reductions mean that the service areas no longer contribute as much towards the fixed sum and provision to make up this shortfall is required corporately. The impact of further transformation, staffing reductions, outsourcing and joint ventures will further increase the shortfall during 2016/17 and future years. In order to meet the ongoing liability an increase of £660k is included in the budget proposal for 2016/17.

- 5.14 An increase of £11k is included to fund Powys' contribution to the collaborative Coroners service.
- 5.15 The council must fund the transformation of services across the organisation. It is important to recognise the need for additional resources to manage the change effectively and therefore £510k has been included to support the change programme. In addition investment in staffing to increase transformation and commissioning capacity is also proposed with £70k in 2016/17.
- 5.16 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%. This means the Powys County Council budget has to meet an additional unfunded pressure of £54k because of Mid and West Fire Service's decision.
- 5.17 Following a review of income opportunities that looked at the focus of income generation and cost reduction opportunities the budget proposal includes the allocation of a £620k target across service areas in 2016/17 together with an additional target of £400k in each of the following 2 years.
- 5.18 The Cabinet recognises the commitment expressed by Welsh Government in protecting Schools and the Adult Social Service budget. The proposal provides the 1.85% level of protection for Schools with £1.273m passported into the Schools Delegated Budget, and £1.053m allocated to Adult Social Care which represents the same percentage increase in line with the overall increase in funding across Wales.
- 5.19 New statutory requirements under the Welsh Language (Wales) Measure 2011 come into force with effect from the 30<sup>th</sup> March 2016, a Compliance Notice has been issued for the new Welsh Language Standards and this proposal includes £150k to fund these requirements.
- 5.20 Targets for the delivery of savings relating to third party payments are included in the current (2015/16) budget and as reported throughout the year delivery of these is limited. A review of the opportunities has been undertaken and it is proposed that these targets be reduced from the original £1.7m to £1m.
- 5.21 The Council has adopted the application of the living wage and agreed to review the rate on an annual basis. The budget proposal includes a provision to increase the living wage to £8.25 for its employees from the 1<sup>st</sup> April 2016. It also considers the potential impact on external contracts as other bodies are required to apply the new national living wage.

- 5.22 A contingency of £300k in 2016/17 increasing by £200k in future years is also included in the plan. It is appropriate a small contingency is included in the budget and this represents a prudent approach.
- 5.23 The Highways revenue budget is allocated £850k additional revenue funding for activity relating to the Highways Network. Considerable revenue budget has been removed from the service due to a change in the capitalisation policy and this has put the budget under pressure.
- 5.24 It is essential that the overarching budget strategy brings together the Revenue and Capital budgets alongside the policy on Reserves. The approach has been to see these three key documents as linked and forming the foundation of our financial plans. The Revenue Budget proposed includes these considerations with provision for the financing of capital, proposals around reserves and a significant saving generated from a change in policy for the calculation of the Minimum Revenue Provision (MRP). The change in the MRP is the result of external advice by our treasury management advisors and is an approach adopted by several other Welsh authorities for 2016/17 onwards and will yield £3m of savings for 2016/17. Part of effective budget setting requires a sound policy on reserves and this was agreed by Cabinet on 11<sup>th</sup> December 2015. A significant change has been to reflect on the Auditor General's advice on reserves with special emphasis on a risk based approach.
- 5.25 In order to produce a balanced budget for 2016/17 and future years over the period of the strategy, savings of £29.887m were required and services were targeted with identifying proposals to deliver a 20% reduction in funding over the next three years.
- 5.26 Adult Social Care –The Cabinet has recognised the financial pressure being experienced within Adult Social Services with an increasing demand for services to support Powys' elderly population. An element of protection has been provided for the service for 2016/17, from which the service will need to meet the demographic pressures, inflationary increases and other financial pressures. The service will contribute 5% of its budget as savings in 2017/18 and 2018/19. The Cabinet has proposed to earmark the funding that Welsh Government has stated should passport to Social Services. However there will be a need for Social Services to deal with pressures including the additional cost of domiciliary care following the bringing in-house of previously external service provision.
- 5.27 The service proposals for 2016/17 and the following 2 years have been included in the budget plan and are provided in detail in Appendix 3.
- 5.28 The proposals include:-

- A greater emphasis on a more transformational approach to service change in order to work within a reducing funding envelope.
- New delivery models are being created including, where appropriate, integration with the Powys Teaching Health Board.
- Review our use of property to maximise the opportunities for shared service delivery whilst reducing our property portfolio to eliminate unnecessary cost, and increase capital receipts.
- Considering ways we can reduce transport costs whilst taking into account the rural nature of Powys and citizen needs.
- Where possible and appropriate, maximise the recovery of costs (particularly in areas where alternative service provision is available).
- Consider further partnership working in order to increase efficiency and reduce cost.
- Identify services that may be no longer appropriate or required.
- Develop a community delivery approach to service delivery via the Stronger Communities Programme Board and our partners.
- Review third party spend so that contracts and specifications are appropriate and proportionate and meeting our priorities.
- 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.
- Review the school age of admissions policy
- 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.
- 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.
- The redesign of our Social Care services and management structures including the de-commissioning of services. Where there is value to be added we will work regionally to improve purchase power and make better use of specialist skills where critical mass does not exist in Powys.
- Continue to build on the success of our early intervention and prevention approach with well-defined and integrated care pathways, including a joint approach with Powys teaching Health Board and other partners such as the third sector.
- By developing a new contract with our citizens / communities, we will set clearer eligibility criteria designed to support those people most in need alongside full cost recovery access model to services such as income generation (where a client can afford more) and direct payments.

## 6.0 Reserves

- 6.1 The Reserves Policy was approved by Cabinet on the 11<sup>th</sup> December 2015. The policy establishes a framework within which decisions are made regarding the level of reserves held by the Council and the purposes for which they will be maintained and used.
- 6.2 The use of reserves and the levels at which they are maintained is determined on an annual basis as part of the Councils Budget setting process.
- 6.3 The level of reserves held and their forecast use in 2015/16 is reported monthly to Cabinet as part of the budget monitoring report and the table below reports the opening and projected balance of the reserves held.

Summary	Reserves 01/04/15 Surplus/ (Deficit) £`000	Forecast Addition / (Use) of reserves £`000	Projected 31/3/16 Surplus/ (Deficit) £`000
<b>General Fund</b>	8,988	21	9,009
Projected Overspend	0	(3,227)	(3,227)
Projected Overspend - Schools Delegated Other	0	(436)	(436)
	<b>8,988</b>	<b>(3,642)</b>	<b>5,346</b>
<b>Ringfenced &amp; Specific Reserves</b>			
Budget Management Reserve	2,019	0	2,019
Specific Reserves	1,516	64	1,580
21st Century Schools Reserve	6,916	(2,040)	4,876
Invest to Save & Corporate Initiatives (inc JE)	9,355	(1,108)	8,247
Insurance Reserve	2,188	0	2,188
Transport & Equipment Funding Reserve	3,028	(3,146)	(118)
<b>Sub-Total</b>	<b>25,022</b>	<b>(6,230)</b>	<b>18,792</b>
Schools Delegated Reserves	3,604	(2,048)	1,556
School Loans & Other Items	(521)	50	(471)
Projected Underspend	0	657	657
<b>Net School Delegated Reserves</b>	<b>3,083</b>	<b>(1,341)</b>	<b>1,742</b>
<b>Total Ringfenced &amp; Specific Reserves</b>	<b>28,105</b>	<b>(7,571)</b>	<b>20,534</b>
<b>Housing Revenue Account</b>	3,832	(3,495)	337
Projected Underspend	0	(88)	(88)
	<b>3,832</b>	<b>(3,583)</b>	<b>249</b>
<b>Total Revenue Reserves</b>	<b>40,925</b>	<b>(14,796)</b>	<b>26,129</b>

\* School delegated reserves are split out to show reserves position under budget funding arrangements as some items are not yet recorded in the financial ledgers. This is intended to show the reserves as if the accounts were shut down at the end of this period.

- 6.4 A risk based assessment has been carried out to review the level of reserves held and to assess if this level is appropriate when tested against the budget proposals. The strategy identified in last year's budget to replenish these reserves has been subject to review as part of the process
- 6.5 The 2015/16 budget included the replenishment of reserves previously used to fund the wind farm appeals and the temporary use of reserves to balance the budget. In addition a further £500k was set aside to contribute to the General Fund Reserve to assist in increasing the reserve up to the desired level of 3% of net budget.
- 6.6 The level of reserves held has been reviewed and due to the increasing financial pressure faced by the Council it is proposed that the replenishment of the reserves is delayed. This can be accommodated without increasing the risk to the Council.
- 6.7 The profiling of pressures and savings over the life of the 3 year plan result in an unbalanced budget for 2016/17, in order to balance this year it is proposed that £500k is drawn from the Budget Management Reserve to produce a balanced budget. The Budget Management Reserve was put in place for this purpose and its use is appropriate. It is important to note this is not a use of the general fund reserve.
- 6.8 Reserves previously set aside to support the Capital Programme will continue to be used in 2016/17, namely the 21<sup>st</sup> Century Schools Programme and the Transport and Equipment Fund.

## **7.0 Single Integrated Impact Assessment**

- 7.1 A revised approach has been adopted for impact assessment of the budgets. All budgetary proposals carry associated impacts – whether it is an impact on service delivery, equality and poverty, Welsh language, well-being of future generations, safeguarding, or a combination of any or all of these. The level of savings required for this year and the next two years of the MTFS is considerable and requires robust consideration regarding their impact. There must be an appropriate balance struck between, on the one hand being aware of the impact and seeking to avoid or mitigate adverse impacts and, on the other, the benefit gained from making the saving. It is therefore inevitable that a certain, manageable amount of risk is inherent within the budget.
- 7.2 In 2012, The Equality and Human Rights Commission provided advice from an equalities perspective in terms of the Council's assessment process. Following on from The Equality and Human Rights Commission guidance a combined assessment approach has been adopted. This process considers impacts against a number of theme areas in a holistic and proportionate way and a Single Integrated Impact Assessment is carried out. Details of the process undertaken is provided within the MTFS.

- 7.3 As well as the general guidance provided in completing the assessments, training has been provided to support services in developing their assessments.
- 7.4 Risks identified within the impact assessments will be monitored in service risk registers or the corporate risk register going forward.
- 7.5 The 2016/17 budget proposals continue to seek to protect families, communities and front line services where possible, as well as continue to support the delivery of the key priorities within the One Powys Plan. Furthermore they are shaped by consideration of the impacts on equality groups and the vulnerable in our society.
- 7.6 The individual impact assessments have informed and assisted the Cabinet and Council in forming the proposed budget.
- 7.7 As part of the impact assessment process the author of the assessment is asked to identify mitigation to any negative impacts that have been identified. The risks and the identified mitigation must be managed within the appropriate service risk registers to ensure continual monitoring and management of the risks.
- 7.8 The corporate risk register is reported to Cabinet, Management Team and Audit Committee on a regular basis and forms part of on-going monitoring of impacts and risk. Heads of Service and their management teams are responsible for reviewing and managing risks within their service areas.
- 7.9 There are a number of risks associated with the budget plans. In 2014 the council revised its approach to risk management and this is now managed on a corporate basis with regular reports to Cabinet and Audit Committee. A risk assessment has been undertaken of each of the budget savings proposed by service areas. This assessment identifies the deliverability of the saving, along with the likely impact to service delivery.
- 7.10 The risk assessment allows a risk status to be attached to each saving, and significant risks are monitored within service risk registers. The corporate risk register has also formed part of the background data assisting the budget setting process.

## **8.0 Proposal – Capital Budget 2016/17 to 2019/20**

- 8.1 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.

- 8.2 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.
- 8.3 The Capital Strategy is attached as Appendix 4. The Strategy sets out the priorities for the next 4 years with the Capital Programme totalling £163.001m. This is a significant commitment.
- 8.4 The major changes from the previous year's capital programme, approved in February 2015, are the inclusion of the following projects which are shaded in the capital programme, which is Appendix 1 in the Capital Strategy.
- Mid Powys School £17.6m funding for Powys
  - Crickhowell High School Extension - £1m
  - Street Lighting £1.533m to upgrade the remaining lights to LED
  - Flood Alleviations Schemes £0.32m 15:85 Powys and WG
  - North Area Household Waste Recycling Centre £0.7m
  - Baling and Sorting Equipment for Waste £0.35m
  - County Farms £0.5m for urgent works to Farms
  - Office Accommodation Review £6m
  - Fleet Facility - £2.5m subject to a business case
  - Regeneration Fund increase by £0.5m
  - Other Regeneration Projects £0.489m
  - IT Strategy £2m
  - Mobile working and Transformation in Adult Services £0.443m
- 8.5 A further £69.446m 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.
- 8.6 The changes to the HRA capital programme are the increase in the amount required to complete the WHQS. The budget allows for any access refusals to be completed. The other items are:
- Disabled Adaptations £1.046m
  - IT – mobile working £200k
  - Level Access Bungalows £3.75m
  - Garage Improvements £0.1m
- 8.7 The Council's Capital budget for 2016/17 is proposed at £30.237m and in addition the Housing Revenue Account Capital Budget is proposed at £18.55m for 2015/16, the details of which are included in the Strategy in Appendix 4.
- 8.8 The FRM includes an increase in the 2016/17 budget to support the prudential borrowing requirements of the capital budget.

## **9.0 Prudential Indicators**



- 9.1 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 5. The tables include revised estimate for 2015/16, as well as the indicators for the next four years, up to 2019/20.
- 9.2 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 £39.35 per band D property by 2019/20, of this £37.38 is due to prudential borrowing. This borrowing is show in the FRM as new capital funding. The ratio of financing costs for the council fund shows a slight increase from 5.16% in 2015/16 to 6.27% by 2019/20.
- 9.3 The incremental impact on Housing Rents (Table 4) increases from £0.57 in 2015/16 to £8.26 by 2015/16 of this £8.03 is for Prudential Borrowing. This is in line with the 30 year Business Plan due to be submitted to WG. The amount of the HRA income required to pay for financing increases from 9.73% in 2015/16 to 25.71% by 2019/20. The increase in the financing cost is because the HRA exited from subsidy system and instead has increased debt charges. The subsidy payment was £5.7m while the debt charges for the £72m are £4.4m.
- 9.4 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.
- 9.5 The CFR is currently £224m and will rise to £379m by the end of 2019/20 of this £110m is estimated to be HRA debt, of this £72m is the settlement buyout of the HRA. 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 31<sup>st</sup> March 2015 was £181m.
- 9.6 Table 6 shows 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
- 9.7 The Authorised Limit for External Debt (Table 6) and Operational Boundary (Table 7) both reflect the current Treasury Management policy and are set at a level to be affordable as well as prudent.
- 9.8 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 as well as a Section 106 which must be repaid or used in the future.

- 9.9 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 2016/17 will be the statutory limit under Section 3(1) of the Local Government Act 2003.

## **10.0 Medium Term Financial Strategy 2017/18, 2018/19**

- 10.1 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.
- 10.2 The FRM (Appendix 2) already builds initial budgets for the following years and the model currently assumes continuing reductions in funding of 4% in 2017/18 and 2018/19.
- 10.3 Forecasting inflation includes a number of assumptions. It is assumed that the pay award will be at 1% for both 2017/18 and 2018/19. It also assumes that commitment to protect schools will also remain.
- 10.4 Council tax increases of 3.75% are currently included for 2017/18 and 2018/19.
- 10.5 Service pressures are included at £4.324m for 2017/18 and £2.183m for 2018/19.
- 10.6 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 £9.956m in 2017/18 and £9.927m in 2018/19.

## **11.0 Timetable of Key dates**

- 18<sup>th</sup> February 2016 Cabinet agree Budget, Medium Term Financial Strategy, Capital Strategy and proposed Council Tax.
- 25<sup>th</sup> February 2016 Council approve Budget, Medium Term Financial Strategy and Capital Strategy.
- 2<sup>nd</sup> March 2016 Final Settlement announced
- 9<sup>th</sup> March 2016 Council set Council Tax.

## **12.0 Longer Term Strategy and the position to 2020**

- 12.1 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 three more year of reduced grant income from Welsh Government.

12.2 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.

12.3 The scale of the deficit reduction will drive huge change across the Council. Unless this change is funded appropriately and 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.

12.4 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.

12.5 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. We must recognise that the welcome late reintroduction of the 'floor' for 2016/17 at a level of 3% means Powys is once again 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 Planning for 2016/17 and beyond commenced at an earlier stage for this budget and MTFs. The proposals included in the report and its appendices deliver a balanced budget for 2016/17. 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.

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.

<b>Recommendation:</b>	<b>Reason for Recommendation:</b>
<b>1. That the proposed Revenue Budget for 2016/17 shown in the Financial Resource Model in Appendix 2 is accepted and recommended to full Council on the 25<sup>th</sup> February 2016.</b>	<b>Statutory Requirement</b>
<b>2. The proposed Capital Strategy for 2016/17 shown in Appendix 4 is accepted and recommended to Full Council on 25<sup>th</sup> February 2016.</b>	<b>Statutory Requirement</b>
<b>3. That a Council Tax increase of 4.25% is included in the budget that goes to full council on the 25<sup>th</sup> February 2016.</b>	<b>There is a Statutory Requirement to set Council Tax but the level is a matter for local determination.</b>
<b>4. That the Medium Term Financial Strategy for 2016 to 2019 as set out in Appendix 1 to the report be agreed in principle.</b>	<b>To aid business planning and development of the budget over a three year period</b>
<b>5. The authorised borrowing limit for 2016/17 as required under section 3(1) of the Local Government Act 2003 be approved as set out in paragraph 9.9 of the report.</b>	<b>Statutory Requirement</b>
<b>6. The Prudential Indicators for 2016/17 are approved as set out in section 9 of the report.</b>	<b>Statutory Requirement</b>

<b>Relevant Policy (ies):</b>	
<b>Within Policy:</b>	<b>Y</b>
<b>Within Budget:</b>	<b>Y</b>

<b>Relevant Local Member(s):</b>	
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<b>Person(s) To Implement Decision:</b>	<b>Chief Executive</b>
<b>Date By When Decision To Be Implemented:</b>	<b>1<sup>st</sup> April 2016</b>

<b>Contact Officer Name:</b>	<b>Tel:</b>	<b>Fax:</b>	<b>Email:</b>
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### **Background Papers used to prepare Report:**

Provisional Settlement  
Updated Provisional Settlement

List of Documents

Appendix 1 Medium Term Financial Strategy  
Appendix 2 Financial Resource Model  
Appendix 3 Budget Savings  
Appendix 4 Capital Strategy  
Appendix 5 Prudential Indicators – To be issued  
Appendix 6 Income Management and Service Cost Recovery Policy  
Appendix 7 Reserves Policy  
Appendix 8 Single Integrated Impact Assessments