

CYNGOR SIR POWYS COUNTY COUNCIL.

**Council
23rd February 2017**

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Portfolio Holder for Finance**

**SUBJECT: Budget for 2017-18, Medium Term Financial Strategy 2017-
2020 and Capital Programme for 2017-2021**

REPORT FOR: Decision

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 1st April 2017 with provisional proposals for the next 3 years to 31st March 2020. 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 2017/18. There is no requirement to set out a balanced position beyond the next year but the three year strategy has been developed to enable longer term planning and transformation. The second year of the plan shows a small deficit position, however the third year (2019/20) requires further development to bring it into a balanced position. At this stage the overall approach is to base 2019/20 on transformational activity.
- 1.3 As in previous years the Council continues to respond to the major financial challenge it is experiencing. The 2017/18 financial settlement from the Welsh Government saw a decrease of 0.5% compared with 2016/17 meaning a reduction in funding of £0.394m. In addition service and other pressures added to the overall level of required savings.
- 1.4 The budget for 2017/18 includes investment and service pressures of £13.621m and in order to produce a balanced budget savings of £9.636m and other strategies have been identified and included in the plan.
- 1.5 The level of funding represented the joint highest reduction in financial settlement in Wales out of the 22 local authorities with the average being an increase of 0.2%. This position has yet again been helped by the application of a 'top up' which Powys along with 3 other authorities has benefitted from. This has minimised the level of reduction to 0.5%.
- 1.6 For many years rural authorities have canvassed Welsh Government (WG) to recognise the additional cost of delivering services in a rural environment, particularly in providing community-based social services for older people over large geographic and sparse areas. The settlement for 2017/18 now includes some recognition of this with the inclusion of a sparsity measure for Social Services. The revision has provided Powys with an additional £3m, which will be implemented over a 2 year period.
- 1.7 The Cabinet continues to support an increase in 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 funding 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.

- 1.8 The budget proposals have undergone an 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.
- 1.9 The financial planning process continues to develop and has been developed alongside the new Corporate Improvement Plan 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 UK's debt situation. The UK Government is no longer on course to balance the budget during the current Parliament and has formally dropped this ambition in a significant loosening of its fiscal targets. Public Sector net borrowing is now expected to fall more slowly, primarily reflecting weak tax receipts so far this year and a more subdued outlook for economic growth as the UK negotiates a new relationship with the European Union.
- 2.2 The UK Government is part way through significant cuts in spending on public services as it attempts to deal with the large hole in the UK's finances. As a result of its ongoing programme of austerity the funding provided to Wales in the Welsh block grant has reduced in real terms each year since 2009/10. Spending Plans set out by the Treasury set out further cuts. Wales is therefore looking at an extraordinary eleven or more years of retrenchment in public service spending. This means the requirement to continue to make savings will not stop and the Council must look at ever more challenging areas to realise savings.
- 2.3 The Autumn Statement included more than £400m of additional capital funding for Wales between 2016/17 and 2020/21 which will assist WG in supporting their investment priorities for new infrastructure, creating jobs and securing Wales' future prosperity. Additional revenue funding of £35.8m between 2016/17 and 2019/20 which includes £20m funding previously announced as a result of the apprenticeship levy means that the net increase is negligible.
- 2.4 Importantly, the UK Government is still to announce how it will make £3.5bn of cuts in 2019/20 – these could have a significant impact on the Welsh budget in the future, thereby perpetuating fiscal uncertainty. However, as the Chancellor did not make any cuts in 2017/18, there is scope to make a small number of additional revenue allocations.
- 2.5 This year the Welsh Government's budget process has been undertaken against the backdrop of unprecedented levels of uncertainty, following the outcome of the European Union referendum but also relating to the fiscal outlook, which presents a number of challenges.
- 2.6 The Welsh Local Government finance settlement has had a slight increase in their revenue funding for 2017/18 of £10m, this is the first increase in the settlement for Local Government since 2013/14. This represents an average increase of 0.2% for Councils

from 2016/17. When new responsibilities are netted off the settlement will show a slight decrease.

- 2.7 Overall the levelling out of reductions to the revenue settlement is clearly better than it has been over the last three financial years. However, local government spending pressures will total around £200m in 2017/18 which will have to be absorbed by Councils or partially offset by Council Tax increases. The impact on discretionary areas of spend will be particularly tough for councils.
- 2.8 The role that Local Government services play in reducing the impact and cost pressures of other public services is recognised with additional funding included in the settlement for Social Services.
- 2.9 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.
- 2.10 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.
- 2.11 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.
- 2.12 Having seen our funding protected through the funding "floors" for the last 3 years we welcome the recognition in the funding settlement that rural authorities incur additional costs to deliver services such as Social Services and are pleased to see the inclusion of adjustments to the formula through the implementation of the social services sparsity allowance. The phasing of this change over 2 years has been negated by further protection this year with the inclusion of a top-up.
- 2.13 Powys has a place on the Distribution Sub Group that advises Welsh Government and over a number of years this has been vital in bringing these issues to the fore. The Group continues to work on the formula looking at other costs such as Public, Home to School and Special Education Transport all of which are significant cost pressures for rural authorities.

3 Welsh Government Settlement

- 3.1 The Final Settlement was received on the 21st December 2016. The Aggregate External Finance (AEF) figure was £170.028m which was a 0.5% or £0.394m reduction in grant after adjusting for transfers. The impact upon Local Government in Wales as a whole was an average increase in funding of 0.2%. This means that Powys has £1,287 of funding per capita, compared to the Wales average of £1,320.
- 3.2 The authority received a top up in funding to limit the reduction to 0.5% of £1.237m compared to the top in 16/17 of £1.952m.

3.3 Powys' Settlement also reflects movements in the factors included in the overall formula like population projections, pupil numbers and benefit claimant counts. The key indicators are shown in Table 1.

Table 1 Key Indicators	All Wales	Powys	All Wales	Powys	All Wales	Powys	
Dataset	2016-17 Final	2016-17 Final	2017-18 Final	2017-18 Final	% Difference	% Difference	Rank
Population - Projections	3,131,170	134,600	3,116,371	132,116	-0.5%	-1.8%	21
Pupil Numbers - Nursery and Primary	257,423	9,881	261,391	9,949	1.5%	0.7%	17
Pupil Numbers - Secondary in year groups 7-11	158,384	6,520	156,986	6,328	-0.9%	-2.9%	22
Free School Meals - Primary	47,125	1,027	46,265	998	-1.8%	-2.8%	14
Free School Meals - Secondary	27,664	654	27,055	638	-2.2%	-2.4%	10
Children in out of work families	138,700	3,300	133,400	3,100	-3.8%	-6.1%	21
Total IS/ JSA/ PC claimants - Under 65	129,068	3,034	106,468	2,366	-17.5%	-22.0%	21
Total IS/ JSA/ PC claimants - 65+	127,130	5,121	121,761	4,908	-4.2%	-4.1%	7
Total IS/ JSA/ PC claimants	256,860	8,178	228,789	7,291	-10.9%	-10.8%	11
SDA & DLA claimants	138,725	4,451	145,035	4,556	4.5%	2.4%	22

3.4 One of the key changes is the population projections. These have changed from the 2011 figures to the revised 2014 based projections. The impact for Powys is a 1.8% reduction or 2,484 people. The population number in total is used, in full or part, in 11 of the IBA's in the Green Book and the financial impact was estimated at a 'cost' of £1.07m by the Distribution Sub Group.

3.5 The number of pupils in Nursery and Primary Schools in Powys has increased and Powys was ranked 17th of all authorities. Pupil numbers increased by 68. The number of pupils in Secondary Schools in Powys has reduced by 192 and Powys was ranked bottom.

3.6 The number of Free School Meals for Secondary pupils has decreased by 16 pupils. Powys was ranked 10th in this category. For Primary School Free meals Powys was ranked 14th with a decrease of 29 pupils.

3.7 Four small grants were transferred into the Revenue Support Grant (RSG) and one financial commitment transferred out.

3.8 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 Resources Model (FRM).

3.9 The Pupil Premium Grant has increase by £152k and is now £2.2m for 2017/18, while the Education Standard Grant has decreased by £41k and is now £5.5m for 2017/18.

3.10 The indicative amount for the Supporting People Grant currently £5.1m has been announced with no reduction in the level of funding.

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 a balanced budget. The savings targets agreed at this stage have then led to service managers needing to develop more detailed proposals

which have, in the main, gone out for public consultation. This has created a further opportunity for affected residents to influence service delivery by attending drop-in engagement sessions, public meetings, organised workshops or completing online/paper surveys to have their say.

4.2 The views of residents have been sought and received in a number of ways including:

- The Powys Budget Simulator
- Service Consultations
- Legislative Consultations

Conclusions

4.3 Research and consultation exercises were conducted during the year on how to achieve budget savings for specific services like libraries, leisure centres, day care centres, household waste and recycling centres. Further consultation via the simulator provided clear evidence that residents are very much aware of the budget deficit issue and the need to make savings over the next three financial years.

4.4 However the awareness doesn't change the views expressed by a growing number of residents around how they feel savings could be found. There is a clear view being expressed that Powys has too many members, and that further savings on management costs and consultants could be made.

Key Conclusions from the Simulator Exercise

4.5 There is a reluctance to see the services that provide for the more vulnerable in our society being cut. As per last year there was less appetite for budget cuts for children with disabilities, home care services, services for looked after children and family support services. Residential care and learning disability services also received lower cuts of just under 6% followed by waste and recycling with a cut of just under 7%.

4.6 There was also a reluctance to jeopardise services by cutting budgets to the point where there may be difficulty in maintaining statutory requirements. This applied to both schools and environmental health in particular.

4.7 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

4.8 There are hundreds of comments and ideas and suggestions about where efficiencies could or should be made which need further consideration once fully analysed into themes.

Members Seminars

4.9 Members of the Council have again 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 settlement information have been shared with members and the impact on the budget modelled and considered. Members have been provided with the Impact Assessments for each of the proposals and the feedback from the consultation exercises carried out.

Finance Scrutiny Panel

4.10 The Finance Scrutiny Panel, comprising Group Leaders of non-Executive Groups together with representatives of the Audit Committee, have been engaged in the budget process throughout the year and have reviewed the process and analysed the proposals as they have developed. They have also undertaken sessions with Cabinet members to scrutinise and challenge the budget and the underlying assumptions throughout its development.

5 Proposal – Revenue Budget 2017/18

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 2017/18 is £240.6m. This includes the delegated schools' budget

5.3 The budget is underpinned by the revenue settlement received from WG which funds 70.6% 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 4.50%, 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 with Council Tax setting being considered by a separate full Council on the 7th March 2017.

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

- 0.25% change £168k
- 0.50% change £336k
- 1.00% change £673k

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 Corporate Improvement Plan, 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 2017/18 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 £0.909m has been provided to meet these additional costs, the majority of this funding provides for the 1% pay award.

5.9 A number of small grants have transferred into RSG totalling £115k for Blue Badge, Delivering Transformation and the Food Hygiene Rating Scheme.

5.10 The proposal identifies and includes investment and service pressures of £13.621m, this demonstrates that the budget takes a balanced approach. In summary:

- There is a fixed annual amount for the pension fund liability of £300k, rising from £250k in 2016/17, with an additional amount needed for future auto enrolment into the pension fund totalling £374k. The actuarial revaluation of the pension fund will require an additional £750k in each of the next three years.
- 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 £747k has been included to support the change programme.
- 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 £170k because of Mid and West Fire Service's decision.
- The Apprenticeship levy is a UK Government employment tax that will come into force in April 2017. All Employers with a pay bill of more than £3m each year will pay the levy. The levy rate is 0.5% of pay bill, for Powys this is estimated at £600k and this payment has been included in the budget proposal. It is expected that the Council will access this funding or support through the Welsh Government Apprenticeship Programme but as yet this is unclear and we await further guidance
- Cabinet have agreed revenue base funding for Adult Social Care totalling £5.586m but this figure will be reduced by the savings target of £2.208m giving a net funding increase of £3.378m.
- Additional funding for schools has been included £1m for allocation via the formula and an additional £0.8m for out of county placements. The MTFs also includes an additional £1m per annum for its three years given a proposed investment of £6m over its lifetime to increase standards,

5.11 Cabinet supported the Budget Recovery Plan that was presented on the 20th December, 2016, with a number of recommendations taken forward into 2017, they will be monitored through an action plan and regular updates. The report noted that Adult Social Care (ASC) had potential service pressures of over £10m, in part relating to the impact of service demand and non-delivery of savings from previous years.

5.12 The service will deliver a full Transformation Plan for ASC that provides a clear vision of the service transformation through to 2021, it will include a review of the base budget and a rigorous review of growth and service pressures and confidence in delivery of future savings targets.

5.13 Cabinet have agreed revenue base funding for ASC totalling £5.586m however this figure will be reduced by the already agreed savings target of £2.208m leaving a net funding increase of £3.378m. This represents a 6% increase in net budget. In addition a specific reserve of £2.75m will be set aside, but only accessible through the virement process, with demonstrable evidence of need and supporting business case. The reserve is a key part of the overall budget.

5.14 It is essential that the overarching budget strategy brings together the Revenue and Capital budgets alongside the policy on Reserves. The approach links these three key elements to form the foundation of our financial plans. The Revenue Budget proposed

includes these considerations with provision for the financing of capital and proposals around reserves.

- 5.15 In order to produce a balanced budget for 2017/18 and the two future years over the period of the strategy, savings of £26m are required and services were targeted with identifying proposals to deliver them. A balanced budget has been achieved within the first two years, but an additional £7.250m is required in 2019/20, a saving plan will be developed through 2017 with an approach for more targeted and transformational savings rather than a blanket reduction across all services.
- 5.16 The service proposals for 2017/18 and the following 2 years have been included in the budget plan and are provided in detail in Appendix 3.
- 5.17 Many of the proposals have already commenced following approval in last year's budget. The continuation of the progress already made will produce further savings in 2017/18 and future years.
- 5.18 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.
 - 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.
 - Implement the change in the school age of admissions policy
 - Implement the 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.
 - 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 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 Council's Budget setting process.
- 6.3 The level of reserves held and their forecast use in 2016/17 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 as at 31st December 2016.

Summary	Reserves 01/04/16 Surplus/ (Deficit) £'000	Forecast Addition to/ (Use of) reserves £'000	Projected 31/3/17 Surplus/ (Deficit) £'000
General Fund	10,285	(1,090)	9,195
Projected Overspend		(4,597)	(4,597)
	10,285	(5,687)	4,598
Ringfenced & Specific Reserves			
Budget Management Reserve	3,984	(610)	3,374
Specific Reserves	1,881	(418)	1,463
21st Century Schools Reserve	6,734	(1,692)	5,042
Invest to Save & Corporate Initiatives (inc JE)	8,673	(1,195)	7,478
Insurance Reserve	1,965	(23)	1,942
Transport & Equipment Funding Reserve	5,054	(42)	5,012
Sub-Total	28,291	(3,980)	24,311
Schools Delegated Reserves	2,810	(2,075)	735
School Loans & Other Items	(417)	55	(362)
Projected Underspend		(79)	(79)
Net School Delegated Reserves	2,393	(2,099)	294
Total Ringfenced & Specific Reserves	30,684	(6,079)	24,605
Housing Revenue Account	1,385	(384)	1,001
Projected Underspend		73	73
	1,385	(311)	1,074
Total Revenue Reserves	42,354	(12,077)	30,277

- 6.4 A risk based assessment has been carried out for the S151 Officer 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 replenishment of reserves previously used to fund the wind farm appeals was delayed in last year's budget but this replenishment is proposed to be reinstated in the 2017/18 budget.
- 6.6 The Budget Management Reserve was put in place to set aside funds to assist in 'smoothing' a budget over the medium term. Last year's budget included a temporary draw of £500k from this reserve to balance the budget. The proposal for 2017/18 again includes the use of £300k of this reserve to fund the gap due to the non-closure of the Household Waste Recycling Centres.
- 6.7 For 2017/18 the Budget Management Reserve will be considered alongside the general fund reserve in assessing the level of general reserve available. The council faces a continuing financial challenge and it is essential that a prudent reserve level is in place to ensure enough financial capacity is available. This cannot be stressed too highly given the level of savings and risk in the future.
- 6.8 The use of reserves and the levels at which they are maintained are determined on an annual basis as part of the Council's Budget setting process. The budget and MTFS to be approved by Council will confirm that the council should continue to retain a policy of a minimum general reserve provision in excess of 3% and it will also propose to utilise part of the Corporate Initiative Reserve – Equal Pay to:
- Fund School Severance Costs for change in age admission up to £1.1m
 - Set up a specific reserve of £2.75m for Adult Social Care.
- 6.9 The criteria to enable the drawn down of the Adult Social Care reserve is:
- The use of the reserve can only be agreed as part of a report to formal cabinet. This can be part of the budget monitoring report so long as there is a clear separate recommendation. Depending on the amount it may also need to go to the following Council Meeting for agreement under the terms of the constitution.
 - Any draw down of the reserve will need to have a business case demonstrating why the funds are needed and why the requirement cannot be met by management action to address the one off pressure or overspend. The business case will have to be signed off by the S151 Officer before it goes to Cabinet.
 - The reserve will be reviewed annually as part of the budget process. This will assess whether the amount is appropriate. If the reserve is no longer required (or reduced) the amount will return to the general fund unless otherwise proposed by the Cabinet as part of the budget policy.
 - Any use of the reserve will not automatically lead to an increase in the service's base budget the following year. In other words the service will first have to explore options to meet the funding that has been drawn down in future years. By doing so the reserve in effect becomes a means of 'smoothing' pressure between financial years.
- 6.10 Reserves previously set aside to support the Capital Programme will continue to be used in 2017/18, namely the 21st Century Schools Programme and the Transport and Equipment Fund. However the use of these reserves for these purposes could be reviewed and alternative funding methods identified.

6.11 The Reserves position will be monitored carefully on a monthly basis as the financial year progresses. Under Section 26 of the 2003 Local Government Act an appropriate person (S151 Officer) must determine the minimum amount of General Fund Reserve.

7.0 Impact Assessment

7.1 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 MTF5 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 Impact Assessments have been undertaken for all budget proposals and these have informed and assisted the Cabinet in forming the proposed budget.

7.3 Details of the process and the considerations involved are included within the Medium Term Financial Strategy. Risks identified within the impact assessments will be monitored in service risk registers or the corporate risk register going forward. 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.

8.0 Proposal – Capital Budget 2017/18 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 3 years with the Capital Programme totalling £164.287m. This is a significant commitment.

8.4 The major changes from the previous year's capital programme, approved in February 2016, are the inclusion of the following projects which are highlighted in the capital programme, which is Appendix 1 in the Capital Strategy.

	£
• Bronyrefail Bridge	0.20m
• Highways (HAMP)	11.85m
• Depot Consolidation	0.55m
• County Farms	1.50m
• County Hall External Fabric	0.15m
• Libraries Self Service Terminals	0.19m
• Byway Programme	0.48m
• ICT Replacement Infrastructure	<u>0.84m</u>
	15.74m
• Removal of the funding for the Mid Powys School	<u>-17.60m</u>

Net Savings	1.86m
• Commitment to fund the next phase of the 21 st Century School Modernisation in 19/20	22.50m

8.5 A further £56.271m is included for the Housing Revenue Account (HRA). The HRA priority is the Welsh Housing Quality Standard Programme with the standard to be achieved by March 2018.

8.6 The Council's Capital budget for 2017/18 is proposed at £65.099m and in addition the Housing Revenue Account Capital Budget is proposed at £21.26m for 2017/18, the details of which are included in the Strategy in Appendix 4.

8.7 The FRM includes an increase in the 2018/19 and 2019/20 budgets 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 the 2015/16 actual figure, the original estimate and revised estimate for 2016/17, as well as the indicators for the next three 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 £42.40 per band D property by 2019/20, of this £40.45 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 4.31% in 2015/16 to 5.28% by 2019/20.

9.3 The incremental impact on Housing Rents (Table 4) increases from £1.86 in 2017/18 to £6.78 by 2015/16 of this £6.65 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 25.07% in 2015/16 to 27.3% by 2019/20.

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 was £224m in 2015/16 and will rise to £382m by the end of 2019/20 of this £109m 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 2016 was £226m.

9.6 Table 8 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 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.
- 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.
- 9.9 It is recommended that the level for the Authorised Limit is set at £452.7m. Members are asked to note that the Authorised Limit determined for 2017/18 will be the statutory limit under Section 3(1) of the Local Government Act 2003.

10.0 Medium Term Financial Strategy 2018/19, 2019/20

- 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. The FRM (Appendix 2) already builds initial budgets for the following years and the model currently assumes continuing reductions in funding of 2.5% in 2018/19 and 2019/20.
- 10.2 Forecasting inflation includes a number of assumptions. It is assumed that the pay award will be at 1% for both 2018/19 and 2019/20.
- 10.3 Council tax increases of 3.75% are currently included for 2018/19 and 2019/20.
- 10.4 Service pressures are included at £5.595m for 2018/19 and £5.075m for 2019/20.
- 10.5 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 £9.154m in 2018/19 and £7.250m in 2019/20.

11.0 Timetable of Key dates

7 th February 2017	Cabinet agree Budget, Medium Term Financial Strategy, Capital Strategy and proposed Council Tax.
23 th February 2017	Council approve Budget, Medium Term Financial Strategy and Capital Strategy.
7 th March 2017	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.

13. One Powys Plan

13.1 The budget has been developed this year within the framework of the Corporate Improvement Plan, 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.

14 Options Considered/Available

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

15. Preferred Choice and Reasons

15.1 The preferred choices are set out in this report.

16. Local Member(s)

Not applicable

17. Other Front Line Services

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

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

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

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

19. Corporate Communications

19.1 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.

20. Statutory Officers

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

The Local Government Act 2003 requires an authority's Section 151 officer (for Powys this is the Strategic Director Resources) to give a formal opinion as to the robustness of the budget estimates and the level of reserves held by the Council. Under Section 26 of the 2003 Act it is not considered appropriate for the balance of the Council's General Fund Reserves to be less than the maximum amount determined by an appropriate person in this case the Strategic Director Resources as Section 151 Officer.

The budget has been produced within the framework of the established Medium Term Financial Strategy (MTFS). The overall process continues to be refined, developed and strengthened in order that the risk faced by Council as a result of reducing funding can be mitigated. For the 2017/18 budget a new development has been the production of an overall budget risk assessment by finance that builds on the previous years' approach.

A series of documents and policies now constitute the budget framework including the Reserve Policy. This has been set in consideration of a number of key factors such as the strengthened approach to risk management. The level of general reserves is in line with best practice as recommended by CIPFA and the Audit Commission. Even so, the position going forward will require reserves to be maintained at a prudent level. It is evidence that given future pressure and the need to deliver savings the levels proposed in the budget and MTFS should not be reduced.

All local authority budgets contain risks and the key area in this budget is Adult Social Care where a specific reserve is proposed to mitigate the risk. The specific reserve is a key component of the overall budget strategy in order to provide assurance around adequacy of reserves. The continued provision of adequate reserves is essential.

It is evident that other areas are also becoming an increased risk and this includes school reserves and the overall financial position of schools. The school reserves are ring fenced but ultimately represent a potential council risk. The proposed MTFS goes some way to mitigating this issue with an overall £6m increase in funding over 3 years.

The budget is to be set at a time of continuing austerity with a future that is highly likely to see continuing reductions in funding. The council also faces significant pressures including increasing demand for services, most notably (but not exclusively) in Adult Services. The proposed increase in council tax will help mitigate the position but it is evident that continuing service transformation and an overall review of resource deployment must happen.

The report presents a balanced budget for 2017/18 but the 2019/20 position indicates a gap between the anticipated funding and expenditure. It is essential that the Council strengthens its transformation programme to identify the savings opportunities to ensure balanced budgets are set in future years.

Taking all of the above into account the Section 151 Officer concludes the estimates used in the budget proposal for 2017/18 are adequately robust but significant risk remains. Based on the assessment of reserves (including the proposed adult social care reserve) the overall level is adequate but at the lower end of acceptability given the scale of savings required in the future.

20.2 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 Director of Resources (Section 151 Officer), 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.

21. Members' Interests

21.1 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 Medium Term Financial Strategy for 2017 to 2020 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
2. That the proposed Revenue Budget for 2017/18 shown in the Financial Resource Model in Appendix 2 is approved.	Statutory Requirement
3. The proposed Capital Strategy for 2017/18 shown in Appendix 4 is approved.	Statutory Requirement
4. That a Council Tax increase of 4.50% is approved.	There is a Statutory Requirement to set Council Tax but the level is a matter for local determination.
5. The authorised borrowing limit for 2017/18 as required under section 3(1) of the Local Government Act 2003 be approved at £452.7m as set out in paragraph 9.9 of the report.	Statutory Requirement
6. The Prudential Indicators for 2017/18 are approved as set out in section 9 of the report and Appendix 5.	Statutory Requirement

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 2017

Contact Officer Name:	Tel:	Email:
Jane Thomas	01597 827789	jane.thomas@powys.gov.uk

Background Papers used to prepare Report:

Provisional Settlement
Final 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
Appendix 6 Reserves Policy
Appendix 7 Savings Delivery Plans