

CYNGOR SIR POWYS COUNTY COUNCIL.

COUNTY COUNCIL

22nd February 2018

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Portfolio Holder for Finance**

**SUBJECT: Budget for 2018-19, Medium Term Financial Strategy 2018-
2023 and Capital Programme for 2018-2023**

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 2018 with provisional proposals for the next 4 years to 31st March 2023. 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 2018/19. There is no requirement to set out a balanced position beyond the next year but the five year strategy has been developed to enable longer term planning and transformation.
- 1.3 As in previous years the Council continues to respond to the major financial challenge it is experiencing. The 2018/19 financial settlement from the Welsh Government saw a decrease of 0.4% compared with 2017/18 meaning a reduction in funding of £0.679m. In addition service and other pressures, together with the need for improvement within Children Services has added to the financial challenge the Council faces. As a result in addition to the significant savings originally identified within the existing MTFS other sources of funding have been drawn upon to limit the impact on services in the short term. The 2018/19 budget contains considerable investment in Childrens and Adults Services. This has created a pressure in future years (2019/20 onwards) as a result of the change to the existing MTFS.
- 1.4 The budget for 2018/19 includes investment and service pressures of £22.350m and in order to produce a balanced budget savings of £8.586m together with other strategies have been identified and included in the plan.
- 1.5 Powys along with 9 other Authorities saw a reduced level of funding, with Powys ranking 19th of the 22. The remaining 13 authorities had an increase in funding with the average being an increase of 0.2%. This position has yet again been helped by the application of a 'top up' minimising the level of reduction at 0.5%, 3 authorities benefitted from this. In the past 4 years Powys has seen its allocation increased by this mechanism but this has not been necessary this year due in part to the changes implemented in the formula through the implementation of the social services sparsity allowance.
- 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 social services sparsity allowance was introduced in recognition of this and it has provided Powys with an additional £3m, implemented over the 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 individual 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 In addition an Independent Assessment of the whole budget proposal has been undertaken to provide the Council with an independent view of the robustness of the plan.
- 1.10 The financial planning process continues to develop and has been developed alongside the Corporate Improvement Plan and the 2025 Vision 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.
- 1.11 The second year of the plan represents a significant challenge for the Council. It is clear that the Council in its current form is no longer affordable and significant transformational change is required to deliver a council which can operate within the funding available to it. A fundamental review of how the Council delivers its services and what it can continue to deliver is underway and will be developed over the next six months in order to maintain a balanced budget for the remaining years of the plan.

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 Office for Budget Responsibility has confirmed the UK economy has slowed markedly and its growth forecasts have again been revised downwards. Public Sector net borrowing continues to fall but at a slower rate than originally forecast, by 2022-23 it is projected to reach its lowest level in 20 years.
- 2.2 The Autumn Statement set out plans to increase the Welsh Government's budget by £1.2 billion and build an economy that is fit for the future. This includes approximately £1bn of additional capital funding for Wales between 2017/18 and 2020/21 but more than half of this must be repaid to the UK Treasury. The remaining £200m will be available for the day to day running of services.
- 2.3 The Welsh Local Government finance settlement has had a slight increase in revenue funding, however, local government spending pressures will total around £212m in 2018/19 which will have to be absorbed by Councils or partially offset by Council Tax increases. The impact on discretionary areas of spend will remain particularly tough for councils.
- 2.4 The local context affecting our funding and demand for services is well recognised, heavily influenced by Powys being sparsely populated with a wide geographic area requiring services. It has a higher than average elderly population that is predicted to

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

- 2.5 Conversely the county's younger population is declining with a reducing birth rate and a sizeable outward migration of young people looking for further educational and career opportunities being the main contributors to this trend.
- 2.6 These factors in combination are presenting significant challenges. The provision of services to a dispersed and relatively small population is expensive as a result of greater transport costs and the demand for facilities to be delivered locally or within a commutable distance. Additionally, a consequence of an ageing population is the increased demand for more complex and therefore more expensive care support.
- 2.7 The Council fully accepted the findings in the Care and Social Services Inspectorate Wales (CSSIW) Inspection report published on the 17th October and the subsequent warning notice issued by Welsh Government. It quickly acknowledged the need for urgent and sustained change which will demonstrate our genuine commitment to safeguarding children in Powys. The budget proposed includes significant investment for both Children's and Adult's services, this demonstrates the priority that these services have had in our decision making about resource allocation. However, it should be noted that the late and required changes to the existing balanced budget have had a significant impact on the future years' position. This represents a significant potential risk to the council with an estimated £17m savings needed in 2019/20.

3 Welsh Government Settlement

- 3.1 The Final Settlement was received on the 20th December 2017. The Aggregate External Finance (AEF) figure was £174.026m which was a 0.4% or £0.679m 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 £1,319 of funding per capita, compared to the Wales average of £1,348.
- 3.2 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 the table below.

	<u>Wales</u>	<u>Powys</u>	<u>Wales</u>	<u>Powys</u>	<u>Wales</u>	<u>Powys</u>	<u>Powys</u>
Dataset¹	2017-18 Final	2017-18 Final	2018-19 Provisional	2018-19 Final	% Difference	% Difference	Rank
Population projections	3,116,371	132,116	3,125,332	131,922	0.3%	-0.1%	22
Pupil Numbers - Nursery and Primary	261,391	9,949	263,464	9,840	0.8%	-1.1%	21
Pupil Numbers - Secondary in year groups 7-11	156,986	6,328	157,260	6,315	0.2%	-0.2%	14
Free School Meals - Primary	46,265	998	45,137	1,065	-2.4%	6.7%	1
Free School Meals - Secondary	27,055	638	26,298	640	-2.8%	0.3%	7

Children in out of work families	133,400	3,100	129,400	3,000	-3.0%	-3.2%	12
IS/ JSA/ PC/UC (not in employment) claimants - 18 to 64	106,468	2,366	90,588	1,886	-14.9%	-20.3%	22
IS/ JSA/ PC claimants - 65+	121,761	4,908	115,720	4,684	-5.0%	-4.6%	5
IS/ JSA/ PC/UC (not in employment) claimants - all ages	228,789	7,291	206,818	6,584	-9.6%	-9.7%	14
SDA/DLA/PIP claimants - 18 to 64	145,035	4,556	145,526	4,538	0.3%	-0.4%	13

- 3.3 The number of pupils in Nursery and Primary Schools in Powys have reduced and Powys was ranked 21st of all authorities. Pupil numbers reduced by 109. The number of pupils in Secondary Schools in Powys has reduced by 13 and Powys was ranked 14th.
- 3.4 Powys has seen a continued decline in pupil numbers over the last ten years and although numbers are stabilising they are not going to recover to their former levels. Even if maintained at their current levels, the increase in numbers elsewhere in Wales will potentially mean we have less funding in our future settlements.
- 3.5 Free School Meals in Powys has increased in both Primary and Secondary sectors, by 6.7% and 0.3% respectively. Powys's increase in the Primary Sector was the most significant in Wales.
- 3.6 Five grants were transferred into the Revenue Support Grant (RSG):
- ❖ Welsh Independent Living Grant £1.262m
 - ❖ Social Care Workforce Grant £769k
 - ❖ Looked After Children £243k
 - ❖ Carers' Respite Care Grant £121k
 - ❖ Waste element of the Single Revenue Grant £2.005m
- 3.7 The Single Environment Grant has been reduced by £41m across Wales with £35m of the Waste Budget Element transferring in the RSG, the impact for Powys is included in the section above. The impact of the remaining reduction has been recognised as a pressure for the service and is therefore included in the Financial Resources Model (FRM).
- 3.8 Welsh Government have reduced the Education Improvement Grant (inclusive of Foundation Phase) by £15m in 2018/19. This grant is allocated on a regional basis and as yet we do not understand which elements of grant are affected by this reduction and how it will impact on Powys' Schools, but have recognised this pressure within the plan.
- 3.9 The final settlement includes a further £7 million to support the increase to the capital limit in charging for residential care to £40,000 commencing from April 2018. Powys has received £352k of this funding to manage the shortfall in revenue this creates.
- 3.10 Alongside the settlement a further £600k is to be made available by Welsh Government to support local government to eliminate charging for child burials, but this will be provided in the form of a specific grant.
- 3.11 Welsh Government expect Authorities to take account of the full range of sources of funding available to them, as well as the pressures they face, in setting next year's council tax.

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 using an online budget simulator tool. The savings targets subsequently agreed by the Cabinet and ratified by Full Council 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
 - Specific Service Type Consultations
 - Legislative Consultations

Conclusions

- 4.3 There were various consultation exercises conducted during the past financial year on how to achieve budget savings for specific services like library and youth service and the highways, transport and recycling service. Views were also sought on how best to sustain the county's rights of way network and how and what people wanted to see happen with regard to legislation around Active Travel for 11 towns in Powys. Secondary school pupils were engaged at a special conference in November on the Well-being of Future Generations Act. Residents and community groups were also invited to have their say on their own well-being and the Act in both February and July last year so as to contribute to the final draft Well-being Plan. Views on the business rates and plans for a new cemetery in Machynlleth have also taken place and at the time of writing we are consulting on the long term vision for Powys schools.

Key Conclusions from the Simulator Exercise and other exercises

- 4.4 The key conclusions drawn from the two simulator exercises conducted over the past two years are that residents are reluctant to see the services that provide for the more vulnerable in our society being cut. There was little appetite for budget cuts for children with disabilities, home care services, services for looked after children and family support services. Residential care and services that provide for people with learning disabilities also received less support followed by changes to our waste and recycling service.
- 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 were frustrated that council tax was increasing when they knew we were decreasing the level of service provision across a number of areas due to budget constraints. These views are supported by the social media comments received via the corporate Facebook and Twitter pages and also via the evidence captured via the last Residents Satisfaction Survey conducted in 2015 where satisfaction with the services that we provide overall as a council has decreased over the past five years.* All feedback from consultation and engagement exercises allow officers and members to hear and understand more about residents' views on service delivery and help the decision making process.

*Source – Residents Satisfaction Survey

Members Seminars

- 4.8 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 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 are provided with the Impact Assessments for each of the proposals and the feedback from the consultation exercises carried out.

Finance Scrutiny Panel

- 4.9 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 and have been updated on the process and the proposals as they have developed.

5 Proposal – Revenue Budget 2018/19

- 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 2018/19 is £247.215m. This includes the delegated schools' budget
- 5.3 The budget is underpinned by the revenue settlement received from WG which funds 70.4% 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 5%, 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 22nd February 2018 with Council Tax setting being considered by a separate full Council on the 7th March 2018.
- 5.5 Should this level of increase be changed the financial impact will be as follows:-
- 0.25% change £175k
 - 0.50% change £350k
 - 1.00% change £699k
- 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 2025 Vision 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 This year's budget planning has been strengthened with the development of individual directorate and service FRMs which detail and capture all of the financial implications affecting the service. These documents enable the directorates to consider, develop and

manage their own service financial strategies as well as informing the development of the overarching Council budget.

- 5.8 The FRM shows a balanced budget for 2018/19 and is attached as Appendix 2. The specific details of the assumptions and items included are provided in the sections below.
- 5.9 Inflationary pressures and the impact of Local Government Pay settlement have been considered across services and £1.902m has been provided to assist in meeting these additional costs, the majority of this funding provides for the proposed Local Government pay award.
- 5.10 A number of grants have transferred into RSG totalling £4.4m, as detailed in section 3.6. The budget proposes the passing of these funds to the services in order to maintain current service provision.
- 5.11 New responsibilities are required of the council and these are reflected with investment of £0.207m to provide additional resources to local authorities to assist in the delivery of Part II of the Housing (Wales) Act 2014, the prevention of homelessness; and £0.353m to support the increase to the capital limit for charging for residential care to £40,000 commencing from April 2018.
- 5.12 The proposal identifies and includes investment and service pressures of £22.3m, this demonstrates that the budget takes a balanced approach. The more significant items are summarised as follows:
- The actuarial revaluation of the pension fund in March 2017 required an increase in the Employers contribution rate, this increase has been phased in over a 3 year period with an additional £750k per annum (2018/19 is year 2).
 - 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. Mid and West Wales Fire and Rescue authority have increased the annual levy by 2.7%. This means the Powys County Council budget has to meet an additional unfunded pressure of £179k because of Mid and West Fire Service's decision.
 - Cabinet continue to support additional funding for schools with a further £1m included for allocation via the formula. In addition there is further investment for the rising cost of Home to School Transport, £0.250m for out of county placements, £0.050m for Early Years provision, support for dual stream provision £0.250m and £0.100m to prepare and support schools with the new data protection regulations.
 - Welsh Government have reduced the Education Improvement Grant (inclusive of Foundation Phase) by £15m in 2018/19, as this grant is allocated on a regional basis it is not yet clear how this will impact on Powys Schools. An amount of £0.605m has been set aside within the budget proposal to support this reduction but we await further information before considering how this funding will be allocated.

- Investment in our IT infrastructure is essential to maintain systems that are up to date and secure, £0.730m is included in the revenue budget to undertake essential upgrade work and the renewal of licences.
- Welsh Government has maintained the funding level within the Revenue Support Grant with regard to the Council Tax Reduction scheme, however our expenditure currently exceeds the level of budget allocated for this. £0.220m is included to meet this shortfall.
- Grant reductions in the Single Revenue Waste grant and the 16-18 Young Person Travel Grant would reduce the Councils ability to deliver current provision for these services, the budget provides Highways Transport and Waste with £0.490m revenue budget to maintain this provision.

Childrens and Adults Services

- 5.13 The Council needs to set a budget to manage the current pattern of social services and deliver required improvement while ensuring that the process of service change is clearer and more urgent so that a sustainable budget can be achieved as soon as possible. Investment for Adults and Childrens services is included at £6.5m and £6.2m respectively.
- 5.14 The significant investment in both Childrens and Adult Services recognises the commitment to deliver improved services and also provides for increasing demand and rising third party costs.
- 5.14 The funding supports our plans which include emergency and longer-term actions to ensure that we can keep people safe and meet their needs more effectively. Work will focus on: fieldwork recruitment and retention; higher professional standards and salary progression; statements about new service models and what do good services look like; proposals for reshaping services to make them sustainable and deliver good outcomes.
- 5.15 We have to provide a different approach to managing resources in social services (prudent social care) in respect of patterns of spend, good fieldwork and management practice and improved management of risk (e.g. Signs of Safety). This needs to be an approach which can be understood and acted upon at all levels within the council and in collaboration with key stakeholders. This can be done only on the basis of credible plans for improving children's services and adult services.
- 5.16 In line with this principle Cabinet have therefore proposed that additional funding is only released when there is an evidence base to support it. Where financial pressures have already been realised base budget will be allocated to support these. The remaining funds will be earmarked for the service and released upon the submission of robust business case and subject to approval by the 151 Officer, and the Portfolio Holders for Finance and Adult Social Care.
- 5.17 If the level of support is not demonstrated to be required the funding will be subject to further consideration by Cabinet as part of the ongoing financial plan.

- 5.18 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.
- 5.19 The level of investment to support the rising pressures and improvement within our Social Services is a significant challenge to our financial planning. It is recognised that we can no longer afford to maintain the Council in its current form. A significant corporate transformational approach is required to meet this challenge and deliver a balanced budget over the medium term.
- 5.20 This proposal provides a balanced budget for 2018/19 and includes further reductions in expenditure through efficiencies and some changes to service provision, but is also supported by other one-off sources of funding and the use of some reserves.
- 5.21 Reductions in expenditure through savings of £8.586m are required. Service proposals have been included in the budget plan and are provided in detail in Appendix 3.
- 5.22 Many of the proposals have already commenced following approval in last year's budget.
- 5.23 The proposals include:-
- Continue to deliver efficiencies through process change
 - 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.
 - Withdrawal of support from independent tourist associations and close Brecon TIC.
 - Highways, Transport and Waste Transformation Programme.
 - 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.
 - 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 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.

5.24 In addition to these savings a change to the Minimum Revenue Provision (MRP) policy has been implemented. This approach provides a more prudent approach whilst generating annual revenue savings.

5.25 The retrospective recalculation of MRP liability releases non recurrent savings of £19.988m over a phased period by a reduction in the MRP charge over the next four years.

- 2017/18 £4m
- 2018/19 £5m
- 2019/20 £5m
- 2020/21 £5m
- 2021/22 £0.988m

5.26 The reduced MRP charge for the aforementioned years can be used to support services. But in 2021/22 the Authority's FRM reflects the financial impact of the additional pressure as the MRP charge increases to the normal level.

6.0 Reserves

6.1 The Reserves Policy (Appendix 8) 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 2017/18 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 at year end. This is based on the position as at 31st December 2017.

Summary	Opening Balance (1st April 17)	Forecast Addition / (Use) of Reserves	Forecast (Over) / Under Spend	Projected Balance (31st March 18)	2018-19 Forecast Addition / (Use) of Reserves	Projected Balance (31st March 19)
	£'000	£'000	£'000	£'000	£'000	£'000
General Fund	8,585	(679)	0	7,906	0	7,906
Budget Management Reserve	3,484	100	0	3,584	0	3,584
21st Century Schools Reserve	6,297	(1,297)	0	5,000	(5,000)	0
Adult Services Reserve	2,750	(750)	0	2,000	(2,000)	0
Other Ringfenced & Specific Reserves	15,895	(6,442)	0	9,453	13	9,466
Schools Delegated Reserves	(8)	(2,001)	(67)	(2,076)	(768)	(2,844)
Housing Revenue Account	1,761	(82)	143	1,822	16	1,838
Total Revenue Reserves	38,764	(11,151)	76	27,689	(7,739)	19,950

- 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 and the further replenishment of the General Fund has not now been implemented in 2018/19.
- 6.5 For 2018/19 the Budget Management Reserve has been 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, the risk inherent in the budget and the significant challenge to balance the budget over the medium term.
- 6.6 The budget and MTFs to be approved at Council in February 2018 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 continue to fund School Severance Costs as staffing structures are reviewed to deliver curriculums within the funding available.
- 6.7 Reserves held in the Transport and Equipment Fund previously set aside to support the Capital Programme will continue to be used in 2018/19.
- 6.8 The 21st Century Schools Programme was initially developed with support from revenue reserves that had been set aside over a number of years, however, it is now proposed to redirect this reserve to support the revenue budget in 2018/19. This one off funding will reduce the need for further immediate savings, providing more time for the development of the transformational programme that needs to be implemented. The 21st Century Schools programme will now be supported by additional borrowing and this has been included in the FRM.
- 6.9 The Specific Reserve set aside in last year's budget to support Adult Social Care remains in place with only a minimal use expected during 2017/18, it is therefore proposed to draw on this reserve to partly fund the investment during 2018/19.
- 6.10 The use of these reserves will continually be reviewed particularly if alternative funding sources become available.
- 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 Income Generation

- 7.1 Income Generation continues to form a significant part of the Council's financial strategy, the revenue budget is supported by over £60m of generated income. The Income and Cost Improvement Policy approved in January 2016 forms the framework within which income is reviewed annually. The budget proposed for 2018/19 includes the increasing of fees and charges in line with inflation where permitted and where appropriate the principle of full cost recovery has been applied. This will generate at least an additional £0.400m to contribute to the budget. In line with policy the Fees and Charges register has been updated and it together with briefing paper is attached as Appendix 4 and 5.

8.0 Impact Assessment

- 8.1 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 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.
- 8.2 Impact Assessments have been undertaken for all budget proposals and these have informed and assisted the Cabinet in forming the proposed budget. (Appendix11)
- 8.3 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.

9.0 Proposal – Capital Budget 2018/19 to 2022/23

- 9.1 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.
- 9.2 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.
- 9.3 The Capital Strategy is attached as Appendix 6. The Strategy sets out the priorities for the next 5 years with the Capital Programme totalling £241.122m. This is a significant commitment. The Capital Programme is included in Appendix 6 in the Capital Strategy.
- 9.4 The Projects included in the Capital Programme include:-
- 21st Century Schools
 - Highways Asset Management Plan
 - Waste Management
 - Vehicle Replacement Programme
 - Community Regeneration and development
 - Office accommodation
 - Investment in our IT infrastructure
 - Disabled Facilities Grants
 - Community Equipment and Telecare
- 9.5 A further £46.138m 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 December 2018, but also includes funding for additional housing provision and Zero Carbon initiatives.

- 9.6 The Council's Capital budget for 2018/19 is proposed at £67.564m and in addition the Housing Revenue Account Capital Budget is proposed at £20.139m.
- 9.7 The FRM includes the funding of the capital programme for 2018/19 together with an increase in the following year's budgets to support the prudential borrowing requirements of the capital budget over the whole programme. The Programme is also supported by grant funding, reserves, and capital receipts.

10.0 Prudential Indicators

- 10.1 The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of the local authority are affordable, prudent and sustainable. The statutory Prudential Indicators are shown in full in Appendix 7. The tables include the 2016/17 actual figure, the original estimate and revised estimate for 2017/18, as well as the indicators for the next three years, up to 2020/21.
- 10.2 The key indicator of affordability is the estimate of the ratio of financing costs to net revenue stream (Table 1). The ratio of financing costs for the council fund is 4.93% in 2018/19 rising to 6.17% in 2020/21. The amount of HRA income required to pay for financing increases is 22.65% in 2018/19 rising to 21.01% in 2020/21.
- 10.3 The capital financing requirement (CFR) is shown at 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 has not yet been financed by capital receipts, capital grants or contributions from revenue.
- 10.4 The CFR is £278m in 2018/19 and will rise to £332m by the end of 2020/21, and £104m dropping to £102m for HRA debt. The level of external debt is lower than the CFR reflecting the current Treasury Management policy to internally borrow and when necessary borrow short.
- 10.5 The operational boundary (Table 4) and authorised limits for external debt (Table 3) both reflect the Treasury Management policy and are set at a level to be affordable and prudent.
- 10.6 Members are asked to note that the authorised limit for 2018/19 will be the statutory limit under Section 3(1) of the Local Government Act 2003. It is recommended that the level for the authorised limit is set at £400m.

11.0 Medium Term Financial Strategy

- 11.1 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% through to 2022/23.
- 11.2 For the first time Welsh Government had within the provisional settlement provided an indicative settlement for the following year of a further reduction of 1.5%. This includes the impact on the Welsh Government budget of the £3.5 billion unallocated cuts which the Chancellor of the Exchequer intends to impose in 2019-20. The indicative settlement

was not mentioned further within the final settlement papers but the improved Welsh Government settlement may help to mitigate this to some degree. In the absence of clarity our original assumption will be maintained.

- 11.3 Forecasting inflation includes a number of assumptions. It is assumed that the pay award will be at 2% for future years.
- 11.4 Council tax increases of 3.75% are currently included for the remainder of the plan.
- 11.5 Continuing increases in service demand and the commitment to provide additional funding to schools are key elements of the plan.
- 11.6 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.
- 11.7 The level of investment included in 2018/19 particularly to support the rising pressures and improvement within our Social Services is unprecedented and is a significant challenge to our financial planning. The use of one off sources of funding such as the adjustment to our minimum revenue provision eases the impact over a number of years but as this ceases it creates further pressure within our medium term plan.
- 11.8 It is recognised that we can no longer afford to maintain the Council in its current form.
- 11.9 In order to deliver a balanced budget over the medium term a significant corporate transformational approach is required, and required at pace. This will require some radical thinking, drawing on experience of other authorities and learning from others. We will have to reconsider the discretionary services we provide and review the levels of service we can afford to deliver for our statutory services.
- 11.10 The developing commissioning strategy for Social Services, will describe how we will align the finances in that area; what investment/reinvestment and disinvestment is required to reshape the service; and what outcomes will be achieved in the short, medium and long term, including savings. This work is key to the development of the Councils financial strategy.
- 11.11 We have already commenced this work and this will determine changes to our financial strategy as it develops. The Medium Term Financial Strategy will be updated as this work develops over the next few months.
- 11.12 On the current modelling transformational change is required to deliver reductions in expenditure of over £17m in 2019/20 with a further £20m over the following 3 years.

12.0 Timetable of Key dates

30 th January 2018	Cabinet agree Budget, Medium Term Financial Strategy, Capital Strategy and proposed Council Tax.
22 th February 2018	Council approve Budget, Medium Term Financial Strategy and Capital Strategy.
8 th March 2018	Council set Council Tax.

13.0 Longer Term Strategy

- 13.1 Central government remains committed to eliminating the budget deficit and this will affect the level of funding received by Welsh Government.
- 13.2 Welsh Government state that in order put us in the best place to prepare for more challenging times ahead, it is vital that they press ahead with their plans for local government reform, to provide the mechanisms to deliver systematic and mandatory regional working. This, along with the greater freedoms such as through making available to authorities the general power of competence, are essential for ensuring that local authorities continue to be financially sustainable and deliver effective and resilient services.
- 13.3 Working with wider public sector partners is also important. Local authorities have shown their ability to work with Local Health Boards through the Integrated Care Fund. Now authorities need to meet their statutory obligations in terms of pooling budgets for key services.
- 13.4 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 2025.
- 13.5 The scale of the budget reduction required 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.
- 13.6 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.
- 13.7 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.

14. Corporate Improvement Plan

- 14.1 The budget has been developed 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 and reflected in the council's budget.

15. Options Considered/Available

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

16. Preferred Choice and Reasons

16.1 The preferred choices are set out in this report.

17. Local Member(s)

Not applicable

18. Other Front Line Services

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

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

19.1 The Finance function have been an integral part of developing the budget proposal working closely with service managers to support the development of service and Directorate FRM's and the identification and assessment of savings proposals.

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

20. Corporate Communications

20.1 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.

21. Statutory Officers

21.1 The Head of Financial Services (Acting Section 151 Officer) comments as follows:

The Local Government Act 2003 requires an authority's Section 151 officer 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 Head of Financial Services as Acting 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 and increasing financial pressures, can be mitigated.

An independent assessment of the budget proposal was commissioned through the Chartered Institute of Public Finance and Accountancy (CIPFA) to provide an independent review and assist in the assessment of how the Council has developed its budget proposals in line with the requirements of the Local Government Act 2003. The subsequent report provides assurance on the robustness of the estimates, highlighting the risks associated with its deliverability and the adequacy of the reserves allowed for in the budget proposals. The report is attached as (Appendix 9).

The report concludes that:

- The Council has appropriate procedures in place to set a robust budget for 2018/19. Notwithstanding this conclusion the budget has been balanced using

one-off accounting adjustments with the result that inherent budget pressures will be carried forward in the base budget for subsequent years;

- Based on our discussions with officers and Members we are satisfied that the Council is well aware of the difficult financial position that it is facing and that it will need to monitor the budget closely during 2018/19;
- We are also satisfied that the Council operates a sound system of budget monitoring during the financial year with monthly figures available on a timely basis. This enables corrective action to be taken in-year;
- There is a sound process in place for monitoring the level and use of reserves although, at the time of writing this report, further adjustments to reserves will be required at the year end.

The report's conclusion also highlights concern relating to the financial position for 2019/20 and beyond. Whilst recognising that the Council is taking positive steps to address the situation, there is concern that the savings are dependent on Transformational Change but there is no current definition of what that means; and given the time required to effect major change it is viewed as an area of high risk for the Council. This is the major challenge facing us in 2018.

This needs to be tackled with urgency to plan the necessary transformational change early in 2018 if solutions are to be implemented in time to affect spending decisions in the 2019/20 budget cycle.

A series of documents and policies 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 evident that given future pressure and the need to deliver savings the levels proposed in the budget and MTFs should not be reduced.

The current and projected financial position of our Schools continues to be a challenge, the additional funding included in the budget plan assists schools in meeting the pressures they face, but it is essential that all Governing Bodies take action to provide a curriculum that can be delivered within the funding provided to them. The school reserves are ring fenced but ultimately represent a potential council risk. It is essential that compliance work is undertaken to ensure that school budgets are managed in accordance with regulations by Governing Bodies.

The budget continues 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 not only to improve its Social Services provision but to manage the increasing demand for these services. The proposed increase in council tax will help mitigate the position but the Council must seek other opportunities to identify alternative sources of funding.

The proposed budget presents a balanced position for 2018/19 but the 2019/20 position identifies a significant gap between the anticipated funding and expenditure. It is essential that the Council defines and strengthens its transformation programme to radically remodel services and identify the savings opportunities to ensure balanced budgets are set in future years and does this at pace.

Taking all of the above into account the Section 151 Officer concludes the estimates used in the budget proposal for 2018/19 are adequately robust but significant risk remains. Based on the assessment of reserves (including the proposed use of reserves within the plan) the overall level is adequate but at the lower end of acceptability given the scale of savings required in the future.

21.2 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.

22. Members' Interests

22.1 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 2018 to 2023 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 2018/19 shown in the Financial Resource Model in Appendix 2 is approved.	Statutory Requirement
3. That the Fees and Charges proposed within the Fees and Charges Register are approved. (Appendix 4 and 5)	To comply with Powys County Council Income Policy
4. The proposed Capital Strategy for 2018/19 shown in Appendix 6 approved.	Statutory Requirement
5. That a Council Tax increase of 5% is included in the budget and approved.	There is a Statutory Requirement to set Council Tax but the level is a matter for local determination.
6. The authorised borrowing limit for 2018/19 as required under section 3(1) of the Local Government Act 2003 be approved at £400.0m as set out in section 10 of the report.	Statutory Requirement

7. The Prudential Indicators for 2018/19 are approved as set out in section 10 of the report and Appendix 7.	Statutory Requirement
8. That revised Medium Term Financial Strategy is brought forward by the end of May 2018.	To ensure the Council operates within its means in future years.

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 2018

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

Background Papers used to prepare Report:

Provisional Settlement
Final Settlement
WLGA Briefing – Autumn Budget 2017
Independent Assessment of Budget - CIPFA

List of Documents

Appendix 1 Medium Term Financial Strategy
Appendix 2 Financial Resource Model
Appendix 3 Budget Savings
Appendix 4 Income Report
Appendix 5 Fees and Charges Register
Appendix 6 Capital Strategy
Appendix 7 Prudential Indicators
Appendix 8 Reserves Policy
Appendix 9 CIPFA Independent Assessment of Budget
Appendix 10 Investment in Social Services
Appendix 11 Impact Assessments