

Powys County Council's

Medium Term Financial Strategy

2017 to 2020

Foreword by the Leader

In last year's Medium Term Financial Strategy (MTFS) I noted that the setting of the budget and medium term financial strategy in the face of continuing reductions in grant income from Government remains the most critical challenge facing Powys County Council. It is evident that little has changed in the intervening year to adjust this view.

The final settlement from Welsh Government confirms that the unique pressures of delivering services in rural areas is recognised. I am pleased to see the inclusion of adjustments to the local government formula through the implementation of the sparsity allowance. This has not provided 'extra' funding as there is little doubt that without this change we would have seen further support from the funding 'floor' that minimizes the impact of grant reductions. However it does mean there is a fairer distribution of funding and when the second phase is implemented in 2018/19 Powys will have a clearer and more transparent funding settlement from Welsh Government. Even so, we remain bottom of the funding league table due to population changes and other factors that impact on the amount of money we receive.

Welsh Government does not receive longer term indication of its funding from Westminster and as a result the Strategy seeks to make a realistic assessment about future funding levels. The new Chancellor has adjusted his predecessor's financial policy framework but even so the position will remain challenging.

The 2017/18 budget proposal seeks to protect front line services wherever possible and includes additional funding for schools of £1m. The pressure faced by social care services is recognized and the budget allows for additional funding but the challenges presented by service delivery in a sparsely populated rural area remain a significant issue.

This year's MTFS continues to see closer alignment between the policy framework and the way we plan to use our finances. Our vision is a Council that places working with our communities at the heart of its response and 'Stronger Communities in the Green Heart of Wales' underpins this approach. This along with a Corporate Improvement Plan provides the framework to deliver services over the medium term.

Over the previous year greater stability has been provided by Welsh Government's announcement to seek greater collaboration rather than changing local government structures. We were already fortunate to have recognition that we had a unique position in Wales with the same boundary as our single Local Health Board. The future will see closer working develop whilst remaining separate organisations.



**Barry Thomas,
Leader of Powys County Council**

Introduction

This document is the financial strategy for Powys County Council for the period 2017 to 2020. It has been developed as part of the overall strategic planning process alongside the Corporate Improvement Plan which captures the financial, regulatory and policy drivers affecting the council and sets the direction and approach. It also incorporates the plan for delivering a balanced budget for 2017/18, and indicative budgets for the following 2 years to March 2020. This means the Council has an on-going financial plan to enable service transformation within a realistic estimated funding envelope.

This financial strategy includes all Council services and activity funded by the revenue budget, the Housing Revenue Account and the Capital programme. This information is presented in a 3 year Financial Resourcing Model (FRM) attached as Appendix 2 and a 3 year Capital Strategy (Appendix 4).

The FRM sets out how a balanced budget will be delivered for 2017/18, however, this position is reliant on the delivery of £9.6m savings during the year.

The FRM identifies the requirement for further savings of £16.4m over the remaining period of this strategy. Given that local government does not have funding data from Welsh Government beyond 2017/18, this assessment is based on indicative figures and work undertaken by the WLGA and the Institute for Fiscal Studies focusing on how Local Government Settlements in Wales may be affected by central government's finances in the future. It is therefore based on best possible available information. However, forecasting for future years is difficult to predict with any great certainty and is subject to multiple internal and external influences. Even so, it is highly likely the reducing funding for Powys will continue because of population changes and the continuing reductions in national funding.

Strategic Context

Economic and Demographic Context

The Council's budget settlement continues to be adversely affected by the UK Government's austerity measures to significantly reduce public spending although the approach being taken by the current administration signals a less steep reduction in funding.

The UK Government will no longer seek 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.

Economic Forecasts project growth to be confirmed at 2.1% in 2016 (down from the OBR forecast before the EU referendum), 1.4% in 2017, 1.7% in 2018, 2.1% in 2019 and 2% in 2020.

The spending plans set out in the 2015 Spending review are to remain in place.

Day-to-day spending is set to fall by £18 billion or 6% between 2015/16 and 2019/20 in real terms, meaning that many departments will see budget reductions. Some departments are protected from spending reductions, including the NHS, some schools spending, defence spending and the international development budget. This means that other departments have seen larger reductions, in many cases on top of reductions seen over the previous Parliament.

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.

The Autumn Statement included more than £400m of additional capital funding for Wales between 2016/17 and 2020/21 which will assist Welsh Government 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.

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.

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.

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.

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.

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.

Capital Funding has increased slightly.

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.

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.

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.

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.

The work undertaken by the Local Government and Welsh Government joint Distribution Sub Group has been vital in bringing these issues to the fore, this is only the start and we would welcome further 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.

Delivering the vision for Powys 2020: Corporate Improvement Plan 2016/20

The Council's considered response to the challenges that it faces is captured in the Corporate Improvement Plan that sets out what the Council will look like and how public services will be provided by 2020. It envisages 'strong communities in the green heart of Wales' that are vibrant, economically active and work in partnership with the Council to deliver services locally.

It details how the council will meet its citizen, service and financial obligations over the medium term in a deliverable and sustainable way. To deliver this vision, the Council has established four key priorities. They are:

1. Services delivered for less – remodelling council services to respond to reduced funding

What difference do we plan to make?

- Better value for money for our citizens.

- Effective, efficient and sustainable services.
- Local communities are better able to provide services for themselves
- More local suppliers are being used in our contracts, either directly or through the supply chain.
- Powys benefits from the council trading its professional expertise
- Customer requirements are more easily met using digital technology

Why did we choose this priority?

We need to find a way of dealing with increased demand and expectations on some of our services while spending less than we do now. This means taking a fresh look at how we deliver services rather than simply carrying on doing what we did in the past so that we meet people's needs in the most appropriate and cost effective way. This process is part of our commissioning approach.

This may mean re-designing a current service or working with a partner so that they provide the service on our behalf. In the future the council will be smaller with people employed by other organisations, such as the voluntary sector, town and community councils, not-for-profit organisations or commercial enterprises.

2. Supporting people in the community to live fulfilled lives

What difference do we plan to make?

- Communities will take a greater role in supporting carers and the cared for.
- Older people will feel:
 - Supported, independent, safe, dignified and connected
 - A valued member of their communities
 - Informed and empowered to make choices about their support and care
- Carers:
 - Are able to maintain employment, education and training where they choose
 - Have good physical, emotional and mental health
- People with a learning disability:
 - Have improved health and well-being
 - Receive services that meet their needs and enable them to maximise their independence and live in the community of their choice
 - Have improved opportunities for valued occupation including paid employment
 - Experience smooth and effective transitions from childhood to adulthood
- Children and families:
 - Feel safe and supported in their lives
 - Are empowered to make the best decisions
- Suitable housing for everyone in Powys is ensured.

Why did we choose this priority?

The good news is that people are living longer. But this does put more pressure on our services for older people. As people live longer, their care needs are likely to cost more money.

We need to move away from traditional based services which are expensive and not built around the personal requirements of those in need. We need to ensure that the homes we provide for older people meet the needs of this generation of vulnerable older people. Our aim is to design new services with our partners that promote prevention and personal control which are community based. We need to build on our current commissioning relationship with the health board and the voluntary sector to design and deliver services that promote independence and alternatives to institutional care. We will need to develop the local care economy to make this possible. This will contribute to the long-term sustainability of our communities by providing employment and training opportunities.

3. Developing the economy

What difference do we plan to make?

- A thriving tourism economy with increased day and stay visitors taking advantage of outdoor activity opportunities and festivals, and increasing spend.
- A dynamic, driven and confident council that finds and exploits opportunities for increasing the Powys economy.
- A county that is recognised as a great place to live, work and play which is known for its amazing scenery, as a place for outdoor life and interesting and cultural events and festivals.
- An increased population of high earners and professional who live in Powys and either work in the county or from home for organisations elsewhere in the world.
- A larger percentage of small to medium sized growth businesses in industry sectors that contribute to the prosperity of the county.
- Opportunities, including appropriate training and apprenticeships are available and accessible, ensuring workforce skills are aligned to the skills needs of businesses.
- A safe, efficient and reliable transport service and network that enables people and businesses to travel safely to their destination

Why did we choose this priority?

A healthy and enterprising economy is essential for sustaining communities which is why economic development is one of our top priorities. In addition, a healthy economy contributes to reduced deprivation and in turn helps create a healthier community. Low levels of economic activity have contributed to the number of young people who leave in search of opportunities elsewhere and don't return. This has had a direct impact on services such as schools, as the number of young people in our county declines. It also affects the supply of people in the local workforce and on the ability of successful local businesses to grow within the county.

Traditional approaches to regeneration have not secured sufficient economic growth. Our new Economic Development Strategy will focus upon how we can support the local economy, particularly in respect of jobs and growth. For example, through using our land ownership and influence to promote economic activity in all sectors, and through the decisions we make in respect of the improvement and maintenance of our existing housing stock and the development of new homes.

We will work with partners including Ceredigion County Council, in order to maximise the benefits of being identified as one of four economic regeneration regions in Wales by the Welsh Government now known as Growing Mid Wales. Given the importance of activity across the border with England we will also work closely with the Marches Local Enterprise Partnership (LEP) to maximise cross border regeneration and economic development opportunities.

Improved transport links and access to superfast broadband will make Powys an attractive proposition to invest in, or to relocate to. That's why we are already lobbying for, and securing, investment in infrastructure that will encourage growth, including an hourly service on the Cambrian railway line, the Newtown Bypass and working with BT to introduce high speed broadband to rural communities.

- 41% of people are in full time employment in Powys.
- Within the next 5 years, an estimated 7,600 young people will need a job, unless they leave the county. If you also take into account the number of unemployed people (3,207), this means that there may potentially be 10,000 jobs required over next 5 years.
- GVA and GDP in Powys are both quite low. In 2012 GVA per head in Powys was £12,999. Powys has the lowest GVA in Wales and Great Britain and the gap continues to widen.
- Powys's median gross weekly full pay of £425 is lower than both Wales (£479) and the UK (£518).
- Although we have the worst internet speeds, 3 and 4G mobile coverage in the UK, people are using the internet and are not digitally excluded.

4. Learning – Improving learner outcomes for all, minimising disadvantage

What difference do we plan to make?

- Our learners will be supported to achieve their potential in a modern learning environment.
- Access to Welsh medium education will have improved.
- The needs of the local economy will be reflected in the range of attractive courses on offer to pupils in Powys.

Why did we choose this priority?

We want Powys to be an attractive place for young people to learn and progress into work with ambition to succeed. In the past the county has been rightly proud of the academic achievement of its young learners. However, there are many Powys pupils whose attainment could be better, especially those from low income households.

Transforming skills and learning is a key aim of the council to make sure all children and young people are supported to achieve their full potential.

To succeed in our ambition we need first class teaching, high quality leadership, and appropriate class sizes with a fair distribution of resources.

Although many of our schools are highly regarded it's clear that the quality of most of our school buildings are no longer suitable for education in the 21st century. Our young people demand the investment to compete with other parts of the country. We need to provide modern learning environments to take advantage of the latest technology.

It is in everyone's interest that the council's focus is on driving up the attainment and ambition of the majority of its pupils with a special emphasis on those from more disadvantaged backgrounds. We must also provide stimulating learning environments for our able and gifted students and provide improved access to Welsh medium education.

To be successful we must ensure that our schools can offer the range of courses that are both attractive to our pupils but also meet the needs of the local economy. This way we can attract investment and economic growth from within.

Budget Strategy and Principles

The Council's Budget Strategy centres on the Council's vision and the four organisational priorities that aim to meet the challenges presented by the combination of reduced funding and service pressures.

In 2014 the Cabinet adopted a set of Budget Principles which provide a greater link between the Council's Vision, the key corporate plans and the use of resource. The budget principles are key in order to deliver our priorities and achieve our efficiency targets by shaping our decisions to allocate resources.

The budget principles are as follows:

- Valued Services- in future services must support the Council's outcomes. Those that don't will have to be provided by others
- Supporting the Vulnerable - Scarce resources mean we must focus on the truly vulnerable not those who have historically received support and services
- Local Delivery – Services delivered within communities by communities are more responsive and efficient
- Personal Responsibility – Nationally we must move from the entitlement culture; our population and our employees will be encouraged to take more control of their lives and take on greater responsibility
- Value for Money – the council must look for value for money in everything it does

- Improving Productivity – once the preserve of private enterprise productivity and performance now matters in the public sector.

These principles remain in place and underpin and shape our budget. In addition, the Council reviews its governance arrangements as a key part of its business and financial planning process. This helps us shape the organisation's directorates to deliver the Corporate Improvement Plan and realise the Powys 2020 vision.

People Directorate

Our people services include adult social care and children's services. These services are developing a number of 'whole system' approaches both within the services, the council and in our work with partners in order to make our contribution to the Council's savings requirements. By 'whole system' approach we mean that we look at the broader picture of what is being delivered to service users as a whole and work to redesign our approach so that each component part of service delivery compliments and contributes to the overall service delivered and improves the impact and service users experience.

Schools Service

Our schools service has an overall annual budget of approximately £99m, £69.8m of which goes directly to schools and forms their delegated budget. An additional £9.5m per annum is used to provide home to school or college transport.

Transforming learning and skills is one of the five main themes of the One Powys Plan. We are committed to ensuring that "All children and young people are supported to achieve their full potential".

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

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

Place Directorate

Our place services include recreation and leisure, highways, housing, transport and waste, property, regeneration, regulatory services (trading standards for example) and commissioning. These are front line services, many of which are highly valued and essential to health and wellbeing.

We will seek to achieve maximum efficiency and effectiveness whilst remaining within the allocated budget.

Resource Directorate

The Directorate provides a range of corporate services such as strategic planning, finance, Customer Services, ICT, payroll and business intelligence. The focus is on changing the services delivered by working with the rest of the organisation to determine service levels and areas for priority support. There will be a requirement to demonstrate value for money and this will require the assessment of alternative models of service provision either through collaboration or in partnership with other providers.

Revenue Budget Funding

The Council's net revenue budget is funded from Welsh Government (WG) Grant (including redistributed business rates), locally generated income and Council Tax income.

The Final settlement was announced on the 21st December 2016.

The Welsh Government (WG) will fund 70.6% of the Council's 2017/18 net revenue budget, compared to 71.9% in 2016/17 and 73.2% in 2015/16. The funding is provided in a settlement known as Aggregate External Finance (AEF).

The AEF has increased slightly across Wales by an average of 0.2%. Powys along with one other Authority received the lowest settlement in Wales with a 0.5% decrease, equivalent to a decrease in funding of £0.394m after adjusting for transfers.

Powys has £1,287 of funding per capita, compared to the Wales average of £1,320 and the year on year change ranks 19th out of all the Unitary Authorities.

Powys' settlement sees a favourable change through the implementation of the social services formula and less favourable changes in pupil numbers and population projections. The underlying reason for Powys' reduction in the settlement is the inclusion of one-off top-up funding provided outside of the Settlement for 2016-17, which has been included in the base year for comparison with 2017-18. Powys Settlement includes £1.2 million of additional top-up funding afforded to two local authorities.

The AEF for Powys for 2017/18 totals £170.028 million and consists of the following:

- Revenue Support Grant (RSG) totalling £126.177m
- Non Domestic Rates (NDR) totalling £43.851m. Powys collects rates from business ratepayers on behalf of WG. It is then redistributed to local authorities in proportion to resident population over 18.

The settlement for 2017/18 does not include any specific requirement to protect the funding of any individual service.

For 2017/18 a Council Tax increase of 4.50% for a Band D property has been included in our planning assumptions. This represents an increase of £49.05 per

annum and a Council Tax of £1,139.11. Powys continues to remain below the previous year average for all Welsh authorities.

Housing Revenue Account

The authority exited the Housing Subsidy in April 2015. The 11 Welsh local authorities which have retained their social housing stock all exited the Housing revenue subsidy system from 2nd April and became self-financing. The change enables councils to retain all the rental income they receive from tenants.

The Councils holds 5,375 units of Housing stock. The proposal for Housing rents is to increase by 2.5% plus £0.96 in line with the Welsh Government policy for Social Housing Rents. This equates to an average increase of £2.93 per week or 3.7%.

Grants

In addition to RSG and Council Tax raised the Council receives income from specific grants and income from fees and charges. These form part of the gross budget which is an indication of overall spending power. The general direction is to see these reduce in number in line with greater 'freedom and flexibility' that Welsh Government is seeking to provide. The further reduction in specific grants will provide a greater ability to bring a Powys dimension to large areas of expenditure.

In 2017/18 a further 4 grants will transfer into the RSG, these include:-

- Delivering Transformation £112.6k
- Blue Badge Funding £0.4k
- Deprivation of Liberty Standard £10k
- Food Hygiene Rating Scheme £1.8k

A number of grants have been combined into single grants.

- Six Children Services grants have been combined into one grant
- Five Education grants have been combined into two new grants with additional funding for a new grant for Delivery Support
- Two Youth grants have been combined
- The Social Care Workforce Development Programme has been transferred to Social Care Wales.

Budget Delivery Plan 2017/18

Due to inflation and spending pressures from increasing regulation and the ageing population the Council's savings target for 2017/18 amounts to £9.636m. The details of how the council will manage its finances in the medium term are reflected in the Cabinet's headline policy initiatives which appear below:

- A move to a balanced three year financial strategy based on a more strategic approach to financial planning that better understands the links between revenue, capital and reserves

- A greater emphasis on a more transformational approach to service change in order to work within a reducing funding envelope.
- Council Tax increases – within the range 3.5% to 5%. For subsequent years a notional increase of 3.75% will be used.
- Reserves – The policy remains to maintain general fund reserves at a target level of 3% of budget. 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 proposal. 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 this reserve by £300k. From 2017/18 an Adult Social Care Reserve of £2.75m is proposed to reflect the significant risk in this area.
- To continue to increase the focus of income generation and cost reduction opportunities with £400k in each of the next 2 years.
- Capital – Refresh the Council's Capital Strategy and Capital Programme ensuring it is aligned to the priorities of the Council and the delivery of savings.
- Property – Increase the pace of disposals; single occupancy buildings to be challenged together with an assessment of the long term future of County Hall, Neuadd Brycheiniog and Neuadd Maldwyn.
- Schools – The current number of schools in the primary and secondary sector is not sustainable:
- The School transformation Policy will be used to determine the schools to be reviewed. A further additional £1m per annum for schools is proposed throughout the three year lifetime of the MTFs. This would add £6m over the next three years in order to support increasing standards
- The number of post 16 centres / secondary schools will continue to be reviewed.
- Schools modernisation will need to make a net contribution to the Council's overall savings annually.
- Highways, Transport and Waste – The service will be re-commissioned to produce significant savings over the next two years. The number of depots are being reviewed. There will also be a review of waste disposal contracts, a review of waste collection rounds, increased fleet/transport targets, increased fee recovery and a review of working practices across all services.
- Community Delivery – We will continue to re-commission services by transferring delivery to town and community councils with the aim of securing a significant reduction in the current cost of provision.
- Corporate Services – New delivery model is being created including, where appropriate, integration with the Powys Teaching Health Board. It will also look at continuing the development of a more commercial approach to services
- 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.
- Change Capacity – The Cabinet recognises that making the significant changes we must deliver will require resources and will invest in change capacity.

The full schedule of proposals to balance the Council's budget are presented on a service by service basis in Appendix 3.

Looking Further Ahead and Funding Assumptions beyond 2017/18

Any organisation must prepare for the future and whilst financial projections as far as the end of the decade will always be difficult and have a high level of uncertainty they give a basis for planning. Significant concerns exist about demographic costs and the age profile of the population will require Powys to assess where its future budgets should be allocated so that it addresses this risk. Whilst this Medium Term Financial Strategy presents a balanced position for 2017/18 and 2018/19, there is much more to be done. The relatively easy savings have been taken and major service redesign and transformation are necessary to deliver services as a much lower cost.

It has been assumed that the settlement from WG for 2018/19 will be a decrease of 2.5%. This is based on the indicative figure from WG and work undertaken by the WLGA and the Institute for Fiscal Studies focusing on how Local Government Settlements in Wales may be affected in the future.

Forecasting inflation includes a number of assumptions. It assumes an ongoing pay award of 1% per annum. Inflation can be a major cost driver and although it is £909k currently we need to keep this under review because if inflation rises above Bank of England projections this will be a pressure on our budgets.

We have adjusted our indicative future increases in Council tax to an increase of 3.75% and this is included in 2018/19 and 2019/20. This will be subject to political determination on an annual basis, but if the funding settlement is worse than assumed and no safety net is provided this would need to be revised upwards or further cuts sought.

Service pressures particularly around Adult Social Care are likely to continue and the trend around pupil numbers will be closely monitored because the council will have to ensure it also provides a level of provision to meet the numbers of pupils. This may require difficult decisions to be made about the number of schools we can afford.

These factors will have a significant impact on the longer term strategic planning given their link to the Council's funding requirement, especially as significant further

savings are required through to 2020 to produce balanced budgets as required by the Local Government Act.

Looking to 2020, it is clear that we are seeing a significant change in local government driven by funding reductions leading to the need to reduce the size of local government and in some cases challenge whether current services are the best way to provide value for money. Part of our response will see the review of whether our service provision is sustainable.

The savings identified will continue to reduce headcount, and generate service efficiencies, some of which are transformational, however a large number of the proposals put forward will inevitably impact on front line service delivery. The figures beyond 2017/18 are therefore subject to revision as alternative models of delivery and other savings are identified through the Council's budget and cost improvement strategy, these together with any unforeseen budget pressures will be considered as the Council determines its budget.

The council is already working with strategic partners to ensure we have access to the latest best practice for corporate cross cutting activities. This approach already covers transport, third party expenditure and income. We will seek to build on this approach. For example we are revising our approach to income generation where we will seek to recover the full cost of services where it is appropriate to do so and develop income generating opportunities. This is in line with the response of many other local authorities and is a strategic approach to an important source of funds.

Our future approach will also centre on Community Delivery. In the One Powys Plan there is a commitment to develop a scheme that encourages communities to work with local organisations to improve services at neighbourhood level.

This approach is in effect a new relationship with communities and will see a different response to service reduction that has generally seen the removal of services to save money. Inevitably some services will have to stop or be scaled down because the funding is no longer available. The Community Delivery approach will see some services provided locally in a different way by local organisations. This will play a role in our response to funding reductions and this different relationship with local organisations will see some services delivered locally for less money. At the moment we have not factored any savings into our financial plan from this approach but these will be included in future years.

Further Approach to Savings through 2019/20

In addition to the approaches already in place we will continue to identify different ways of delivering the savings that will continue to be required. A series of 'themes' are beginning to be developed to provide a framework for meeting this ongoing challenge.

a. Flexible, Remote and Mobile working

This is already underway and should be aligned to downsizing corporate offices and increasing productivity. There is considerable cost tied up in the corporate estate and a possible savings target for accommodation savings is worth exploring. This must be based on a new approach to working arrangements.

b. Improving Collaboration

The Minister will shortly announce the White Paper on future local government collaboration whilst maintain the 22 local authorities. There may be scope to explore the various collaborative models including partnerships and shared services. We already collaborate but more can be done and the LHB is a key partner under this theme.

c. Customer Insight

The Business Intelligence function has made progress since its creation. However we are still richer in data than information. Improved decision making and performance through better customer insight may be an area where financial gains can be made.

d. Business Process Improvements

There is already good evidence that progress has been made in this area. However, this is perhaps patchy and the organisation needs to fully embrace business process improvement techniques. Technology can assist this area and the introduction of a new finance system will be a key element as well as integrating systems to make processes more efficient. Investment here can bring significant savings which may not impact directly on front-line service delivery and therefore should be politically easier to deliver.

e. Productivity

Access to information better techniques and relevant training can increase productivity and more responsive services (this should be linked to business process improvements outlined above). The roots programme can be a key foundation for improving productivity. Areas such as customer relationship management, workflow and case management can also looked at under this theme.

f. Flexibility

It may be appropriate to support the workforce in work/life balance issues whilst remaining within Local Government terms and conditions. Some councils have offered the workforce the options of a more flexible approach to leave arrangements that sees staff `buy` additional holiday by being able to take unpaid leave to external holidays. Clearly this would need to be carefully managed but has the benefit of avoiding reducing workforce numbers as a result of change.

g. Commercialisation.

A more commercial approach is already evident in Business Services within the Resources Directorate with contracts being won and services provided to other public organisations. This can be a key part meeting the 2019/20 requirement and may require an exploration of the model in order to remain compliant with local government legislation. There is great scope to increase

the income flows to the Council. In addition to business services there is potential for a range of services such as catering, cleaning and vehicle/plant maintenance to trade. The services will need to be run on a commercial basis and will have to compete locally as well as nationally.

Property is another area where we can increase income from taking a more speculative approach to acquisitions, leases and development.

Income Generation and Cost Improvement

In January 2016 the Council has introduced an Income and Cost Improvement Policy which establishes the framework within which income generation and cost improvement activity is carried out. It will also review its fees and charges on an annual basis, using appropriate benchmarking to ensure that its fees and chargers are commensurate with other providers.

Income targets have been included within the budget over recent years and this continues into 2017/18 and 2018/19, however for future years, explicit targets for income generation or cost improvement will not be set but it will be expected that these funding streams will be actively pursued as part of an overall response to efficiency demands.

The Strategic Overview Board will play a key role in monitoring cost improvement.

Third Party Spend Improvement

The Council has a partnership with Northgate Public Services with the objective of reducing 3rd party spend on goods and services, implementing a greater level of commercial business practice. The Council has developed internal capacity to support and influence this area. The target cumulative spend improvements for this work is £8.5m between 2015 and 2019 with total cumulative spend improvements achieved by March 2016 standing at £6.2m. It should be noted however that some of the savings relate to cost avoidance and are therefore not 'cashable savings'.

Work plans for 3rd party spend reductions have been established and agreed for each service and a Commissioning and Procurement Board comprising Cabinet Members and officers provides governance, challenge and oversight for this activity.

Capital Programme

It is important that the Council continues to renew its core infrastructure, such as schools and housing, in spite of cuts by central government. The Council is also aware that much of its capital investment is spent with businesses within Powys or its near neighbours.

Maintaining the capital programme has a significant regeneration impact on the economy of Powys alongside the direct effect of better infrastructure to deliver services from.

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.

The Council receives a core capital allocation from Welsh Government. In 2017/18 this allocation is £7.473m. This is the General Capital Grant of £2.287m and a Supported Borrowing allocation of £4.646m. The Settlement includes the revenue funding to allow the authority to borrow the £4.646m.

In addition to this the capital programme is funded through borrowing money and repaying this over a number of years together with the interest on the loan. The repayment costs form part of the annual revenue budget.

The Capital Strategy is included with the budget papers as Appendix 4. The Strategy itemises the Council's capital programme for the next 3 years with the budget totalling £164.287m. This is a significant commitment. In addition a further £56.271m is included for the Housing Revenue Account (HRA). The HRA priority is the Welsh Quality Housing Standard Programme with the standard to be achieved by March 2018.

Reserves

The Council holds reserves so that it can meet unforeseen expenditure and to smooth expenditure across financial years. This is recognised good financial management. Reserves are also a key indicator of the Council's overall financial standing and a component of its financial management arrangements.

Reserves are an essential part of good financial management. They enable the Council to manage unexpected financial pressures and plan for future spending commitments.

It is important that the Council makes well-informed decisions about reserves, and are accountable for these to local taxpayers and service users.

While there is no mandated appropriate level for Council reserves, the reserves held should be proportionate to the scale of future spending plans and the risks faced as a consequence of these.

In setting the annual budget, a further risk-based review of the level of reserves is undertaken, alongside any underspend in the current year, to make an assessment as to whether it is possible to release funding to support the following year's budget. That review is informed principally by an assessment of the role of reserves in supporting future spending plans.

When taking decisions on utilising reserves or not, it is important that it is acknowledged that reserves are a one-off source of funding and once spent, can

only be replenished from other sources of funding or reductions in spending. Furthermore if used to support a revenue budget this will have a cumulative effect in future years when the reserve funding is withdrawn.

The reserves policy was approved by Cabinet in December 2015 and it establishes the 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.

Summary of Impacts and Risk Assessment for 2017/18

We have taken steps to increase our awareness of the consequences of our savings and ensure we are taking into account legislative requirements. The scale of the reductions required means that we must carefully assess the impacts. For this reason the process has been reviewed so that we have a comprehensive assessment of impacts to support decision making.

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.

Impact Assessment Process

The council has a combined assessment approach that helps ensure statutory compliance with key legislation.

This integrated process is in place for this year's budget and considers impacts against the council's guiding principles in a holistic and proportionate way. It recognises that the principles are not exclusive, often interconnect and form a well-rounded evidence base for planning and decision making.

Guiding principles

The council's guiding principles are based on the well-being of future generations.

The Well-being of Future Generations (Wales) Act 2015 is about improving the social, economic, environmental and cultural well-being of the nation. It will ensure the council thinks more about the long-term, works better with people and communities and each other, looks to prevent problems and take a more joined-up approach. This will help create a Powys and a Wales that everyone wants to live in, now and in the future.

To make sure we are all working towards the same vision, the Act puts in place seven well-being goals:

1. A prosperous Wales

Efficient use of resources, skilled, educated people, generates wealth, provides jobs

2. A resilient Wales

Maintain and enhance biodiversity and ecosystems that support resilience and can adapt to change (eg climate change)

3. A healthier Wales

People's physical and mental well-being is maximised and health impacts are understood

4. A more equal Wales

People can fulfil their potential no matter what their background or circumstances. Equality is about making sure people are treated fairly. It is not about "treating everyone the same" but recognising everyone's needs are met in different ways. We will ensure that we have due regard for the Equalities Act.

5. A Wales of cohesive communities

Communities are attractive, viable, safe and well connected

6. A Wales of vibrant culture and thriving Welsh Language

The Welsh language and culture are an integral part of our communities, and contribute to the rich heritage of the county. We will have due regard for the requirements of the Welsh Language Measure.

7. A globally responsible Wales

Taking account of impact on global well-being when considering local social, economic, environmental and cultural well-being.

We need to act in a way that meets our current needs without compromising the ability of future generations to meet their own needs. The Act identifies the following five sustainable development principles to help ensure we do this:

- **Long-term**

Balancing short term need with long term and planning for the future

- **Prevention**

Putting resources into preventing problems occurring or getting worse. We will address issues through prevention and early intervention rather than reaction

- **Integration**

Positively impacting on people, economy, culture and environment and trying to benefit all four

- **Collaboration**

Working together with other partners to deliver

- **Involvement (Communications and engagement)**

Involving those with an interest and seeking their views. We are committed to open communication with our citizens, partners and businesses. We continually seek to improve our communication to raise awareness of the services we provide and encourage use of them by our citizens. We believe all our citizens, partners and businesses should be regularly consulted and have an opportunity to get involved, so that their voice influences future decisions and service provision

Other key principles

- **Preventing Poverty:**

Reducing poverty, especially persistent poverty amongst some of our poorest people and communities, and reducing the likelihood that people will become poor.

- **Safeguarding:**

Preventing and responding to abuse and neglect of children, young people and adults with health and social care needs who can't protect themselves.

Key Impacts and Corporate Risks

The 2017/18 budget proposals continue to seek to protect families, communities and front line services where possible, as well as continuing to support the delivery of the Council's key priorities within the Corporate Improvement Plan. Furthermore they are shaped by consideration of the impacts on equality groups and the vulnerable in our society.

The individual impact assessments will assist and inform the Cabinet and full Council at the meetings as part of setting the 2017/18 budget.

Mitigation, Review and Monitoring

As part of the impact assessment process the author of the assessment is asked to identify mitigation to any negative impacts that have been identified. The risks and the identified mitigation must be managed within the appropriate project risk register to ensure continual monitoring and management of the risks.

The corporate risk register is reported to the Strategic Overview Board, Management Team and Audit Committee on a regular basis and forms part of on-going monitoring of risk.

Heads of Service and their management teams are responsible for reviewing and managing risks within their service areas. Risks identified for services will need to be integrated into the service planning process and regularly reviewed to ensure that they are being managed appropriately.

Risks

There are a number of risks associated with the budget plans. Since 2014 the council's approach to risk management sees it managed on a corporate basis with regular reports to the Strategic Overview Board and Audit Committee. A risk assessment has been undertaken of each of the budget savings proposed by service areas. This assessment identifies the deliverability of the saving, along with the likely impact to service delivery. As well as Risk, the impact on Equalities, Welsh Language, Future Generations, Safeguarding and Poverty are also included within the assessment.

The risk assessment allows a risk status to be attached to each saving, and significant risks are monitored within project or service risk registers. The corporate risk register has also formed part of the background data assisting the budget setting process.

The following budget related risks are noted below:

Budget Savings - The level of savings required in 2017/18 is significant. Any unforeseen delays in implementation will impact on the achievement of the reductions required. Progress on the delivery of agreed savings targets will be reported to Cabinet on a monthly basis. The Reserve position of the Authority is in line with the prudent range of 3 - 5% and these are available to "smooth" any slippage in delivery of the savings. However the emphasis is placed on ensuring savings are delivered. The approach is supported by the policy around the use of reserves: all reserves are corporate rather than service based. If reserves are used for temporary support of the revenue budget the replenishment of these reserves will be required in the following year in addition to the achievement of the saving itself. Plans within service areas need to be managed robustly in order to limit any underachievement and monthly budget monitoring and savings delivery monitoring ensures Cabinet and has visibility of financial performance.

Income – the budget is supported by approximately £60m of generated income and therefore services need to constantly review their income levels and develop creative plans to ensure that they are sustained. This risk is being mitigated by an overall strategy for income and a move to full cost recovery wherever appropriate.

Council Tax – collection rates continue to be good in Powys at a level of 97.67% at the end of a financial year with the figure rising above 99% after the accounts have been closed. However the most recent data shows that across the UK collection levels are falling. Our good performance needs to be sustained. It is not yet known whether the welfare reform will have an impact on the collection of council tax within Powys but future assumed collection levels will be kept under review. The budget includes an increase in the council tax base for 2017/18 based on known data.

Equal Pay – the council has mitigated the financial risk of potential future equal pay claims by holding a reserve to support these costs. This is kept under review.

Treasury Management – the revenue budget and capital programme are supported by daily cash movement managed within our borrowing and investment strategies, the financial climate has a significant impact on these activities. We continue to monitor these on a daily basis. Any variation in the cost of borrowing is being mitigated by a proactive approach to refinancing our borrowing wherever possible. This ensures that wherever possible our long term borrowing for our capital projects takes advantage of the historically low level of debt interest.

Change Delivery Capacity – a number of savings are now categorised as ‘transformational’. In other words a proactive approach to change is required rather than the more traditional percentage budget cut. It is important the council recognises that at a time of change investment may be needed to deliver change. In some cases specialist skills will be required for short periods. The 2017/18 budget includes funding for this change.

Variations to Settlement Assumptions - the Council makes every effort to ensure that its assumptions about budget settlements for future years are based upon the best available evidence. However, future settlements cannot be predicted with absolute accuracy and can be influenced by political and economic policy changes.

Political Approval of Budget – the Council is required under the Local Government Act 2003 to set a balanced budget for the forthcoming financial year, and this must be approved by Full Council.

Availability of Reserves – the Council may suffer other costs that may arise due to unexpected events such as: -

- Civil emergencies and Natural Disasters
- Failure to deliver statutory duties – failure to deliver, including safeguarding activity in relation to adults, children, Health and Safety or Public health could result in possible negligence claims.
- Increased threat of legal litigation in respect of service delivery standards and regulations and multiple Insurance Claims. This risk is the likelihood of needing to replenish the insurance fund immediately from reserves as a result of several claims above our excess.
- Increase in energy cost prices.

If the actual position is different to the assumptions which we made in producing the budget and we may have limited time to change our plans and therefore may be unable to balance the budget. This is particularly evident if less funding is received than assumed in the annual funding from Welsh Government.

Consultation and Engagement

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 then, 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.

The views of residents have been sought and received in a number of ways during the past year/18 months including:

The Powys Budget Simulator – Autumn 2015 and December 2016/January 2017

- 476 residents submitted a budget that helped the council to consider and address the necessary savings targets to set a balanced budget for the financial year 2016/17.
- The simulator was again launched in December 2016 seeking residents' views on £22m worth of savings proposals over a three year time period. The simulator allowed residents to see the consequences of reducing a service budget by between 10% and 30% and this time enabled them to increase council tax up to offset service reductions that they felt were unpalatable. The average amount above the suggested increase of 3.75% was 0.5%.

Service Consultations

Post the budget simulator results being fed back to the Cabinet and Full Council in February 2016 and the budget being agreed, services were tasked with meeting their required savings target. To do so a number of service consultations followed to ensure residents had their say on some of the final proposals around service reductions for:

- Day care centres
- Libraries
- School modernisation plans
- 2 x Leisure Centres and Stay little Outdoor Centre
- Household Waste and Recycling Centres

Legislative Consultations

Alongside service consultations the council engaged residents on other legislative consultation documents like Active Travel, conducted a population assessment as part of the duties under the Social Services and Well-being Act and began engagement around the Well-being of Future Generations Act with the Powys Youth Forum and Citizens Panel.

Conclusions:

The research and consultation exercises 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 and via the simulator have provided clear evidence that residents are clearly aware of the budget deficit issue and the need to make savings over the next three financial years.

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

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%.

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.

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

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.

Mechanisms for Delivery

There are many pathways leading to improvement / change objectives that services will need to consider. These can be summarised as follows

- Change in statutory requirements
- Improvement priorities agreed in response to a service self-evaluation
- Objectives agreed in response to regulatory recommendations
- Objectives identified to deliver budget savings / MTFs commitments
- Objectives identified to manage / mitigate corporate risks
- Objectives required to ensure statutory compliance
- Other

The Corporate Improvement Plan clearly articulates the key change activities the council undertakes, drawing on commitments made in 3 levels of corporate planning:

- One Powys Plan (OPP) Transformation Programmes:
 - Integrated Health and Adult Social Care
 - Older People
 - Carers
 - Mental Health
 - Learning Disabilities
 - Children and Young People
 - Vulnerable Families
 - Healthy Lives
 - Transforming Learning and Skills
 - Education
 - Training and Jobs for Young People
 - Stronger Communities
 - Stronger Communities
 - Transport
 - Organisation and Partnership Development
- Service Improvement Plans (SIP): These are evaluated and renewed on an annual basis and are the key documents for communicating the services key improvement objectives. The plan follows the standard principle planning questions, namely:
 - Where are we now?
 - Where do we want to get to?
 - How will we get there?

SIPs are developed by the following services

- Chief Executive
 - Schools Service
 - Chief Executive and Member Services
 - Corporate Legal and Democratic Services
- People Directorate
 - Adult Social Care
 - Children's Services
 - Housing Services
- Place Directorate
 - Regeneration, Property and Commissioning Service
 - Highways, Transport and Recycling Service
 - Leisure and Recreation Service
- Resource Directorate
 - Business Services
 - Professional Services
 - ICT
- Workforce and Organisational Development

- Annual Budget and Savings Proposals

Within some basic corporate parameters, services are able to adjust their planning arrangements meet service needs.

A quarterly monitoring process is in place to ensure effective monitoring of agreed improvement / change objectives and budget savings. This should provide assurance to members that agreed commitments will be met as planned.