

Torfaen County Borough Council

Medium Term Financial Plan

2016/17 - 2018/19

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MEDIUM TERM FINANCIAL PLAN 2016/17 – 2018/19

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1. INTRODUCTION

In recognising an anticipated continued reduction in our un-hypothecated Welsh Government funding, the increasing costs of our existing services, the rising demand for our services and the increasing expectations of customers, this document sets out the likely financial position facing this Council over the medium term and outlines possible work streams that will be undertaken to assist in enabling the Council in meeting the significant financial challenges and ensuring that we produce a legally balanced annual budget and deliver our priorities.

The financial environment and funding outlook for the UK public sector continues to be extremely difficult with public sector austerity set to remain for the foreseeable future. The 2014 Autumn Statement indicated further cuts to departmental expenditure limits, with spending in non-protected departments, such as police local government and justice, projected to fall from £147 billion in 2014/15 to £86 billion in 2019/20. The Office of Budget Responsibility has also commented that spending on public services as a share of gross domestic product (GDP) will fall considerably more over the next five years than it did over the last five years. The OBR re-affirmed this by stating that so far the UK has seen 40% of the necessary cuts in this parliament and the next 60% of required cuts would come under the next parliament.

Turning our view to a Welsh perspective, the 2015/16 Welsh Government budget process has produced the following departmental expenditure limits for 2015/16, with the continued protection of the Health Service. Any further Welsh Government policy shift towards additional protection of the Welsh Health Service would impact further on the position of the remaining Welsh Public Services.

<i>£million</i>	2014/15	%	2015/16	%
Health & Social Services	6,379	42	6,622	43
Local government	4,592	30	4,404	29
Other services	4,351	28	4,319	28
Total	15,322	100	15,345	100

Our Corporate Plans have provided an overarching policy direction to the Council, and based upon the 2014/15 budget decisions the Council has re-focused its service priorities towards Schools – raising educational attainment; Social Care - Protecting front line social care services and Waste - increasing recycling rates. It should be remembered that with the continued national austerity programme impacting upon our un-hypothecated funding resource the inclusion / protection of any service within priority areas cannot be seen as a guarantee of a static funding level, it is more an intent to protect, as far as is possible, a specific outcome. Clearly the protection of any service area will necessitate a corresponding reduction in other service areas.

In line with Welsh Government policy, this Council will work to continue to honour the protection of schools at the prescribed levels, whilst recognising the impact this will have on other services.

In addition to the financial factors above, a further consideration is the potential impact of any restructure of local government in Wales and the impact on this Council. However, it is imperative that this Council is not deflected by this and our

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continued focus is applied to the medium term to ensure that this Council can continue to provide the essential services necessary whilst retaining its financial viability and our statutory requirements.

2. REVENUE FORECASTS 2016/17 to 2018/19

This MTFP is complimentary to the 2015/16 Budget.

The financial forecasts have been developed over the life of this MTFP, with the objective of ensuring that all significant / material risks are identified and included. The net forecast figures outlined in this section have been constructed with the following assumptions:

Cost assumptions:

In the main these are inflationary or risk based forecasts with the exception of social care where demand increases have also been factored in.

- A pay award of 2% has been included for 2016/17 to 2018/19;
- Local Government Pension Scheme deficit recovery repayment;
- National Insurance rebate for staff in pension funds removed in 2016/17;
- Welsh Government (WG) protection of school funding recognised for 2016/17 to 2018/19 @ 1%;
- Replacement Prudential Borrowing for the previously Welsh Government funded Highways LGBI;
- Replacement long-term borrowing will be undertaken in 2016/17 & 2017/18 in line with our current loans portfolio;
- Long term borrowing in 2016/17 & 2017/18 to remove £10million of the Council's forecast under-borrowed position equally over 2016/17 and 2017/18;
- Stable borrowing interest rates of 4%;
- Contributions to our Insurance Reserve to ensure a stable / funded environment;
- Appropriate estimates and adjustments in respect of schools falling rolls;
- Social Care demand modelled on agreed anticipated levels;
- Any increase in the Council Tax Reduction Scheme (CTRS) is assumed at a consistent level to Council Tax increases and will be netted off against the increased Council Tax yield;
- Removal of reliance on corporate reserve support over a three year period.

Funding / resource assumptions:

- The lack of any forward indication beyond 2015/16 makes forward planning of our un-hypothecated Welsh Government funding difficult. However in compiling this document we have assumed a 4% reduction in each of the years 2016/17 to 2018/19, with these reductions assumed to be sufficient to include the effect of any base data reductions - this latter assumption will however be refined as information becomes available;
- Removal of Welsh Government support in 2016/17 within the general settlement associated with support of historic leasing payments;
- The full continuation of the £1 million Outcome Agreement Grant from WG;
- Council Tax is modelled at a 3.95% increase for the life of the MTFP, this is consistent with the 2014/15 Torfaen CBC Council Tax increase;
- No generic increase has been assumed for service fees and charges;
- No new income streams included.

This Council receives a high percentage of grant income which supports both recurring services and one off initiatives. In the current economic climate the continuation of the present hypothecated grant levels should be viewed with a high degree of caution, and in that regard it is essential that for all our externally

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funded recurring revenue schemes Council understands and supports the rationale for the funding, and ensures that robust “exit strategies” exist.

	Gross Budget 2015/16	Grant funding
	£000s	£000s
Education	86,930	13,759
Social Care and Housing	57,319	4,414
Neighbourhood Services	29,180	5,055
Community Services	12,960	4,520
Other	86,617	1,529
Total	273,006	29,277

Specifically in this MTFP it is assumed that grant receipts that support recurring service delivery i.e. not one off schemes / projects, will continue unless otherwise known, whilst grants that support of projects / schemes have not been included after their indicative end dates.

The Council use of reserves to fund recurring spending has reduced in recent years, however the 2015/16 budget still includes corporate reserve funding of £750,000 and £125,000 of service specific reserves. In relation to the on-going reserve support this MTFP has removed service specific reserve support completely in 2016/17, whilst the corporate reserves have been removed in equal increments over the next three years.

Utilising these assumptions, the following tables summarise the forward revenue projections. As can be seen, the forecasts indicate that circa £30 million of mitigation measures have to be identified, and implemented, over the term of the MTFP.

	Original Budgets		Projections		
	2014/15	2015/16	2016/17	2017/18	2018/19
	£000's	£000's	£000's	£000's	£000's
<i>Schools</i>	56,206	56,088	59,098	61,104	63,243
<i>Local Education Authority</i>	10,424	9,816	10,162	10,385	10,593
Education	66,630	65,904	69,260	71,489	73,836
Social Care and Housing	41,759	41,212	43,037	44,224	45,448
Neighbourhood Services	17,975	17,218	17,893	18,273	18,637
Planning and Public Protection	2,282	2,187	2,305	2,366	2,423
PSSU	853	1,025	1,054	1,070	1,085
ICT	3,342	3,072	3,122	3,122	3,122
Resources	6,064	5,466	5,824	5,987	6,142
Community Services	2,226	1,933	2,267	2,411	2,535
Strategic services	4,237	4,096	4,271	4,294	4,364
Capital Financing	11,554	11,092	11,192	11,392	11,492
Council Tax Reduction Scheme	8,194	8,380	8,735	9,103	9,486
Fire Levy	4,262	4,183	4,183	4,183	4,183
Outcome Agreement Grant	(953)	(952)	(952)	(952)	(952)
General Fund Contribution	(750)	(750)	(500)	(250)	0
Corporate Property Maintenance	831	842	842	842	842
Other	385	1,540	2,291	2,490	2,492
Total General Fund	168,891	166,448	174,824	180,044	185,135
Generic WG Support	(135,486)	(130,545)	(124,808)	(119,815)	(115,023)
Council Tax	(33,405)	(35,903)	(37,321)	(38,796)	(40,328)
Projected Shortfall	0	0	12,695	21,433	29,784
Prior year's budget resolutions			0	(12,695)	(21,433)
Annual Projected shortfall			12,695	8,738	8,351

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A subjective analysis of the forecast is outlined in the following table:

	2016/17	2017/18	2018/19	Total
	£000's	£000's	£000's	£000's
Pay inflation	2,149	2,230	2,293	6,672
Increments	1,087	957	875	2,919
Removal of National Insurance rebate	1,855	0	0	1,855
Pension (LGPS) contribution increase	0	200	0	200
Service specific costs	1,830	1,014	1,190	4,034
Contribution to Insurance Reserve	750	0	0	750
Removal of General Fund Balance support	250	250	250	750
Other costs	100	200	100	400
Total	8,021	4,851	4,708	17,580
Generic WG Support	5,737	4,992	4,792	15,521
Council Tax	(1,418)	(1,474)	(1,532)	(4,424)
Less Increase in CTRS	355	369	383	1,107
Projected Shortfall	12,695	8,738	8,351	29,784

3. **BRIDGING THE GAP 2016/17 to 2018/19**

As recognised earlier the forecast deficit projections will ultimately result in a requirement to further review, over the life of this plan, our priority areas with the likelihood that some services will be further reduced, whilst others will cease completely.

Our proposals to bridge the gap

Section 2 outlines the Council's possible financial position and the level of savings that will be required to mitigate these projected deficits positions.

In order that we can tackle the financial pressures outlined, it is proposed that these will be addressed through two separate actions, namely:

- Activities that deal with the cost pressures, and
- Activities that deal with the reduction in Welsh Government funding.

Dealing with cost pressures

In line with the current policy intent of the Council the following provides a suggested initial approach that should be adopted to address the MTFP forecast shortfalls arising due to increasing demand and cost inflation (including pay):

- Schools to absorb all pressures from any uplift provided by the Council committing to the Welsh Government's Education policy;
- Front line Social Care to be limited to a flat line to its 2015/16 original budget, and the service area will absorb all pressures. Additionally the service area will identify further measures of up to 2% of their 2015/16 budget;
- The Waste service area budget to be limited to a flat line to its 2015/16 original budget, and the service area will absorb all pressures. Additionally the service area will identify further measures of up to 2% of their 2015/16 budget;
- Request all other service areas to absorb all their pressures and in addition identify mitigation proposals equivalent to both 4% and 10% reductions to their 2015/16 budget levels.

These measures will allow members the opportunity to prioritise mitigations within and between services using their refocused service priorities.

Dealing with the reduction in Welsh Government funding

Undertake fundamental reviews of over-arching service provisions using the following activity themes:

- To review the use of technology and appropriateness of levels;
- Implementation of the Transportation review;
- A full and thorough review of existing vacancies;
- Implement the findings of the Demand Management project;
- Review our service subsidisation policy;
- Review of where and how we spend our money;
- Efficiency / Support Service Review / Channel shift / Technology – doing things differently.

In developing both action groups it is proposed that the following activities will also be undertaken:

- a) Examining the future mitigations put forward by Service Areas for 2016/17 & 2017/18 as part of the 2015/16 process;

- b) Examine the 2015/16 mitigation measures identified by Chief Officers as achievable, but not actioned as part of the final budget;
- c) Full review of comments / thoughts derived from the 2015/16 budget engagement events / process;
- d) Undertake an early engagement exercise with our citizens to generate ideas, views and alternative options.

If we are to ensure that we continue to provide services in an effective manner and set a legally balanced budget, we have to ensure that we review all our services in a structured and strategic manner. If we do not approach addressing the challenging position in a planned manner, the end result will inevitably lead to future services being stretched or curtailed through a programme / succession of very big “salami cuts” which will inevitably lead to a deterioration of service delivery across all areas, including those deemed a priority.

4. OUR FINANCIAL STANDING (*Reserves and Balances*)

Financial reserves have an important role to play in the overall management of the Council, not only in covering risk, but also in providing support to changes to service delivery. Without reserves any organisation, whether private or public sector, would have no resilience to deal with the unexpected without destabilising current services. This Council's operational requirement is that all Service Areas will manage their service delivery requirements within their annually approved budgets and that they will contain spending pressures that materialise during a financial year, with reserves being called upon only when unavoidable.

Consideration of the appropriate level of reserves and balances is an integral part of the Council's medium term financial plan. There is no "correct" level of reserves for the Council, the judgement of the appropriate level flows from the assessment of the strategic, financial and operational risks facing the Council and is a responsibility of the Statutory Finance Officer to advise Council upon. Torfaen has never held excessive general balances, and our service specific reserves have also provided a useful way of smoothing pressures over years. The following provides projections for all fund categories against the 31st March 2014 actual position. As part of the 2014/15 closure of accounts process we will be further rationalising the number of Corporate Reserves.

Reserves and Provisions	£000s					
	31 March 2014	31 March 2015	31 March 2016	31 March 2017	31 March 2018	31 March 2019
General reserves						
General Fund	5,523	4,246	2,691	2,191	1,941	1,941

Corporate Reserves & Provisions						
Insurance (<i>including provision</i>)	3,075	2,746	2,123	2,223	2,296	2,340
Risk management	506	364	14	14	14	14
Innovation / Invest to save	1,276	1,267	1,135	1,135	1,135	1,135
Corporate Redundancies	1,035	931	931	0	0	0
Corporate Accommodation	91	0	0	0	0	0
Corporate Demolition costs	621	621	621	621	621	621
iLearn Wales project	111	0	0	0	0	0
21st Century schools	0	209	209	209	209	209
Welfare	200	300	300	300	300	300
TCBC elections	100	100	150	150	25	25
Section 106	213	153	93	33	33	33
Regeneration partnerships	287	79	29	0	0	0
Other provisions	49	49	0	0	0	0
Total	7,564	6,819	5,605	4,685	4,633	4,677

Specific reserves & Provisions						
Social Care & Housing	1,160	542	542	542	542	542
Education	1,476	957	215	215	215	215
Neighbourhood Services	355	265	265	265	265	265
Planning & Public Protection	64	47	47	47	47	47
PSSU	200	200	200	200	200	200
ICT	403	151	151	151	151	151
Resources	217	217	217	217	217	217
Community Services	288	307	297	297	297	297
Strategic Services	269	181	134	134	134	134
Total	4,432	2,867	2,068	2,068	2,068	2,068

General School Reserves

Under the Council's local management of schools arrangements each school is responsible for its own financial affairs and can retain its own balances for specific projects or issues.

£000s	31 March 2014	31 March 2015	31 March 2016	31 March 2017	31 March 2018	31 March 2019
Primary & Nursery	1,437	1,335	1,135	1,135	1,135	1,135
Secondary	940	800	900	1,000	1,000	1,000
Special	14	10	40	40	40	40
Total	2,391	2,145	2,075	2,175	2,175	2,175

The level of individual school balances is governed by the Council's "Scheme for Financing of Schools (February 2013)", which sets out a number of provisions to avoid excessive surplus balances and on how the Council treats deficit balances.

5. Risks

Effective risk management will be essential to ensure that we can deal with the difficult times ahead. As an organisation concerned with service provision and social cohesion it is essential that the risks to achieving our objectives are managed so that we create an environment without surprises. Through sound management of our risks and the threats and opportunities which flow from them we will be in a stronger position to deliver our business objectives, provide services to the community and achieve better value for money.

The Council's existing Risk Management Framework requires the proactive participation of all those responsible for planning and delivering services in identifying, evaluating and managing significant risks to the Council's priorities, services and major projects. The risks and the controls necessary to manage them are recorded in their relevant risk registers. The Council's Strategic Risk Management Group reviews, provides feedback to Service Areas and reports to the Leadership Team on a quarterly basis throughout the year on the risk management framework.

In terms of risks associated with this MTFP the following are the most significant:

- The number of 2015/16 mitigation measures and the absolute requirement to deliver on them, their achievement will be monitored with particular rigour through the budget monitoring process and the formal CPA process;
- The continued use of grants by WG as a basis of directing investment into their priority areas, and the late announcements on awards / indications;
- The need to ensure that the pension deficit contribution arising from the actuarial valuation can be made in full;
- Rising demand for our services;
- Delivery of the service standards required by the Outcome Agreement Grant;
- The need to ensure that our Insurance reserve is in a position where it can meet any potential liabilities;
- In the face of the uncertainty surrounding Local Government Re-organisation / Reform, maintaining a focus on providing our essential services necessary whilst retaining its financial viability and our statutory requirements;
- The lack of resource outside of the base budget by which to supplement our reserves which are projected to fall significantly particularly with respect to the general reserve.

To mitigate these anticipated risks the Council will rely on its embedded wider governance / financial management arrangements.

6. Sensitivity analysis

The key assumptions and sensitivity projections are as follows:

	MTFP Assumptions	Effects of 1% variation to assumed rates				
Pay Awards: General	The MTFP assumes pay awards of: <table border="1"> <tr> <td>2016/17 – 2%</td> <td>2018/19 – 2%</td> </tr> <tr> <td>2017/18 – 2%</td> <td></td> </tr> </table>	2016/17 – 2%	2018/19 – 2%	2017/18 – 2%		Approximately £700,000.
2016/17 – 2%	2018/19 – 2%					
2017/18 – 2%						
Pay Awards: Teachers	The MTFP assumes pay awards of: <table border="1"> <tr> <td>2016/17 – 2%</td> <td>2018/19 – 2%</td> </tr> <tr> <td>2017/18 – 2%</td> <td></td> </tr> </table>	2016/17 – 2%	2018/19 – 2%	2017/18 – 2%		Approximately £400,000.
2016/17 – 2%	2018/19 – 2%					
2017/18 – 2%						
Pension Fund Contributions	The MTFP assumes constant common contribution rate to the Greater Gwent (Torfaen) Pension Fund (LGPS) and the Teachers' Pension Fund (TPF).	Approximately £500,000 (LGPS) and circa £300,000 (TPF).				
National Insurance	The MTFP assumes, after the removal of the contracted out allowance of the LGPS in 2016/17, a constant contribution rate for the remainder of the plan.	Approximately £600,000.				
WG School protection	The MTFP has assumed that direct school budgets will be protected as follows. These protections will be offset by any allowances for pay awards or other inflations. <table border="1"> <tr> <td>2016/17 – 1%</td> <td>2018/19 – 1%</td> </tr> <tr> <td>2017/18 – 1%</td> <td></td> </tr> </table>	2016/17 – 1%	2018/19 – 1%	2017/18 – 1%		Approximately £560,000.
2016/17 – 1%	2018/19 – 1%					
2017/18 – 1%						
Price Inflation - Energy	No allowance has been provided in the MTFP.	Approximately £25,000.				
Interest Rates	The MTFP assumes long term borrowing interest rates of 4%.	Circa £100,000 impact on borrowing costs.				
Contract Inflation	The MTFP has been based upon major 3 rd party contracts of circa £40 million.	Approximately £400,000.				
School Falling Rolls	The MTFP has assumed that the school rolls will in aggregate reduce as follows: <table border="1"> <tr> <td>2016/17 – £270,000</td> <td>2018/19 – £0</td> </tr> <tr> <td>2017/18 – £75,000</td> <td></td> </tr> </table>	2016/17 – £270,000	2018/19 – £0	2017/18 – £75,000		
2016/17 – £270,000	2018/19 – £0					
2017/18 – £75,000						
Revenue Support Grant, & Non-Domestic Rates Funding	The MTFP has assumed that the Welsh Government un-hypothecated funding will reduce as follows: <table border="1"> <tr> <td>2016/17 – 4% less</td> <td>2018/19 – 4%</td> </tr> <tr> <td>2017/18 – 4% less</td> <td></td> </tr> </table>	2016/17 – 4% less	2018/19 – 4%	2017/18 – 4% less		Approximately £1.3 million.
2016/17 – 4% less	2018/19 – 4%					
2017/18 – 4% less						
Council Tax	Council Tax increases have been assumed and that the government would not consider this increase 'excessive' and that no cap would occur. <table border="1"> <tr> <td>2016/17 – 3.95%</td> <td>2018/19 – 3.95%</td> </tr> <tr> <td>2017/18 – 3.95%</td> <td></td> </tr> </table>	2016/17 – 3.95%	2018/19 – 3.95%	2017/18 – 3.95%		Approximately £360,000 gross (£270,000 Net)
2016/17 – 3.95%	2018/19 – 3.95%					
2017/18 – 3.95%						
External Grants	The MTFP is based upon a static grant level, unless specific information has been provided by the awarding body.	Approximately £280,000 based upon the 2014/15 grant level of £28 million				
Outcome Agreement Grant	The MTFP assumes the full continuation of the £1 million grant from WG					

7. CAPITAL FORECASTS 2015/16 to 2018/19

Our forecast capital programme has been constructed to principally support the three policy frameworks of C21 schools, DFGs and Asset protection. The following table summarises the proposed programme, including the approved Council funding towards Phase A of the 21st Century schools programme, no allowance has yet been made for Phase B of the 21st Century schools programme.

£000's	Estimate			
	2015/16	2016/17	2017/18	2018/19
Education				
21 st Century schools Phase 1A	23,402	11,831	10,642	6,630
Other	429	0	0	0
Social Care & Housing				
DFGs	1,100	1,100	1,100	1,100
Renewal Areas (WG grant)	643	643	643	643
Neighbourhood Services				
Asset protection – Highways	1,425	425	425	0
Asset protection – Premises	624	460	460	0
Pontypool Settlement Area	300	0	0	0
Vibrant & Viable Places	221	1,194	0	0
Other	700	0	0	0
Corporate				
Professional fees	400	400	400	400
Total	29,244	16,053	13,670	8,773

In assessing the funding sources of the capital programme the following summarises the current position.

- *Revenue:* The scope for using revenue resources for capital purposes is limited given the pressure on the overall revenue budget. The Council does not provide for any general revenue contribution, this strategy will continue.
- *Capital Receipts:* Releasing resources by the disposal of surplus and non-operational assets has been a significant source of capital financing. Over the period of this plan capital receipts have only been included where they have been realised, or where sites are being actively marketed or where surplus assets have been identified as part of the 21st Century Schools programme.
- *Unsupported borrowing:* The only other significant source of local capital resources is from the Council committing to unsupported borrowing, whereby the Council receives no revenue grant support towards the financing costs of such borrowing. Unsupported borrowing is generally funded by revenue savings within the relevant service area's revenue budget.

Given the impact unsupported borrowing has on the revenue resource of the Council its' future use must continue to be carefully considered against the principles of being prudent, affordable and sustainable. Any future prudential borrowing initiatives will need to demonstrate the value for money / cost benefits of any investments, with the Council satisfying itself that such borrowing is prudent, affordable and that the financing costs are sustainable within the context of this Financial Plan.

Revenue consequences of capital projects

The recurring costs of capital schemes must be recognised when considering both individual capital projects and when compiling an overarching capital strategy. It is essential that decisions to progress projects clearly demonstrate how the revenue implications would be funded by the owning service area, prior to any scheme being approved.