Pembrokeshire County Council

Medium Term Financial Plan (MTFP)

2017-18 to 2020-21

"Identifying and Meeting the Financial Challenge"

Contents

Introduction

The Medium Term Financial Plan (MTFP) 2017-18 to 2020-21 is again comprised in two parts, the first **“Identifying the Financial Challenge”** which forecasts the resources the Council anticipates having over the next four years, and the second **“Meeting the Financial Challenge”** which sets out its plans and solutions for managing with reduced resources.

The MTFP is an integral part of the Council’s overall strategic planning process and aligns closely with the Single Integrated Plan 2013-18, the Council’s Improvement Plan 2016-17, the Council’s Corporate Plan (including Well-being Objectives) 2017-18, its Capital Strategy 2017-18 to 2020-21, its Treasury Management & Investment Strategy and its Strategic Asset Management Plan. The Council’s Budget Strategy for 2017-18, its plans to deliver a balanced revenue budget, and its capital programme are all detailed in the budget setting report for Cabinet (13 February 2017) and Council (2 March 2017). The Housing Revenue Account (HRA) Business Plan 2017-47 will incorporate the financial strategy and plans for the Council’s housing stock.

The Wales Audit Office report “Pembrokeshire County Council Financial Resilience Assessment 2015-16” identified that the Council sets its objectives for the year after the budget has been approved resulting in the risk of services key to delivery of the objectives not being provided with an appropriate level of funding. The Council has moved to align its processes for setting its objectives and its budget in order to ensure that those services key to ensuring delivery of the objectives are appropriately funded. In respect of 2017-18, the Council’s Corporate Plan and budget are aligned in terms of timing of approval, but for 2018-19 it is anticipated that the Corporate Plan will be approved prior to the budget setting process to ensure full alignment.

The assumptions made in the MTFP have been based on the best intelligence available now, but as a live plan it will be updated on an ongoing basis. The assumptions made in the MTFP 2016-17 to 2019-20 have been reviewed, validated and updated.

The Council has successfully integrated business risk management its strategic planning processes, with the corporate risk register identifying all those risks (threats) to the achievement of its annual improvement objectives and those actions required to mitigate them. Six of the fourteen corporate risks have a direct link to the MTFP:

- Delivery of the 21st Century Schools Programme
- Implementation of the Welsh Language Standards
- Delays in the Transformation Programme
- Grant Funding (or its Cessation)
- Achievement of the MTFP
- Increasing Demand and Demographics.

“Identifying the Financial Challenge”

Background

UK Government

Following the UK Government elections in 2015, the UK Government confirmed that its austerity measures would continue throughout its new term of office, including its policy to significantly reduce the cost of the public sector as part of its wider strategy to reduce net borrowing and the national debt.

On 25 November 2015, the Chancellor of the Exchequer announced a further round of real terms cuts to the Welsh Budget. Despite a slight lessening of the pace of cuts, the cumulative impact is pronounced. By 2019-20 the Welsh Budget will be 11% lower in real terms than in 2010-11.

Welsh National Assembly

Following the Welsh National Assembly elections in May 2016, the Welsh Government provided an indication of its own austerity measures as part of its first local government settlement of its new term of office.

On 17 October 2016, when publishing the provisional local government settlement for 2017-18, the Welsh Government Cabinet Secretary for Finance & Local Government warned of further austerity in future years, advising that “Uncertainty over future funding made it impossible to publish a three year budget as I had originally hoped”, “The big picture is that the impact of austerity on the Welsh Government’s budget during the rest of this Assembly term will be unremitting. The Institute of Fiscal Studies report a couple of weeks ago talked about the extraordinary period of 11 years of reductions in resources available to public services in Wales. There is nothing in the end that I can do as Finance Minister in Welsh Government to melt away this problem, and make it disappear. We are going to lay a budget that provides the best platform we can secure for all our public services against the fact that there are even tougher times ahead, and even tougher choices that will have to be faced later in the Assembly term if the deeply misguided policies of austerity continue” and “This is a good settlement for local government, particularly given the many competing pressures on the Welsh Budget. It constitutes the first increase in the settlement for local government since 2013-14 and is considerably better than most in local government have been expecting”.

The final Local Government settlement for 2017-18 was published on 21 December 2016. The individual authority allocations of Aggregate External Finance (AEF), which comprise of Revenue Support Grant (RSG) and Redistributed National Non Domestic Rates (NNDR) show an aggregate increase for Wales of 0.3% (£12.0m) from the 2016-17 funding level. When adjusted for transfers in and out of the settlement, this shows an aggregate increase for Wales of 0.2% (£10.0m).

The settlement for Pembrokeshire for 2017-18 is a reduction of 0.1% (£0.12m). When adjusted for transfers in and out of the settlement, the reduction for Pembrokeshire is 0.1% (£0.20m), the 16th worst settlement. The "real" decrease in the settlement is an effective reduction of 0.4% for Pembrokeshire when the impact of funding for increasing capital limits for residential care (£188k), war disablement pension disregard (£12k) and homeless prevention (£231k) are factored into the data. If the impact of the Local Borrowing Initiative (LGBI) was factored into the data, the "real" decrease would increase further.

Whilst the 0.1% reduction in AEF for 2017-18 was less than anticipated, a 0.4% real reduction was still significant, especially with the ever increasing demographic and legislative pressures in Adult Social Care and the additional pressures faced being a rural local authority, e.g. providing community based social services for older people over large geographic and sparse areas, and the provision of rural Schools. The Council has long argued that Pembrokeshire is an under-funded rural local authority under the local government funding formula and it continues to urge the Welsh Government to identify a mechanism to address this issue.

The final settlement did not incorporate any indicative settlement indications for future years, therefore, it is impossible to develop the Medium Term Financial Plan with any real accuracy.

Pembrokeshire County Council

Pembrokeshire County Council elections in May 2017 could see a change in priorities and objectives for the Council, so the MTFP will need to remain flexible and adaptable in this regard.

Projected Funding Gap

A funding gap of £41.5m has already been addressed for the period 2014-15 to 2016-17. A summary of the Council's projected funding gap for 2017-18 to 2020-21 is set out in the tables below. The Welsh Government Cabinet Secretary for Finance & Local Government has confirmed that the "better than expected" settlement for 2017-18 is a one-off and there will be significant reductions in future settlements. Aggregate External Finance (AEF) for 2017-18 to 2020-21 has been modelled using a 2.0% reduction (best case scenario), a 3.0% reduction (most likely scenario) and a 4.0% reduction (worst case scenario).

For the purposes of the MTFP, we have assumed the "most likely" scenario in respect of the projected funding gap and the minimum expectation in respect of the future cost reduction/efficiency/service transformation opportunities to meet the financial challenge. This risk based approach to financial planning gives the Council the best opportunity of ensuring delivery of the MTFP and balancing its budget.

Projected Funding Gap 2017-18 to 2020-21 (Best Case Scenario)

Pressures	16-17 £m	17-18 £m	18-19 £m	19-20 £m	20-21 £m	Total £m
Reduction in Aggregate External Finance (AEF)*	**3.1**	**0.1**	**3.1**	**3.1**	**3.0**	**9.3**
Transfers into the AEF	**1.3**	**0.1**	**-**	**-**	**-**	**0.1**
Workforce and Pay Pressures	**3.4**	**3.1**	**1.7**	**1.8**	**1.7**	**8.3**
Inflation and Demographic Pressures	**6.1**	**5.6**	**3.5**	**4.3**	**4.1**	**17.5**
Individual Schools Budget (ISB)	**2.4**	**1.4**	**0.7**	**0.7**	**0.7**	**3.5**
Capital Financing Costs	**(1.0)**	**0.4**	**1.5**	**0.2**	**-**	**2.1**
Unfunded Burdens/Other	**1.0**	**-**	**-**	**-**	**-**	**-**
Projected Funding Gap	**16.3**	**10.7**	**10.5**	**10.1**	**9.5**	**40.8**

***-0.1% for 2017-18 and -2.0% for 2018-19 to 2020-21**

Projected Funding Gap 2017-18 to 2020-21 (Most Likely Scenario)

Pressures	16-17 £m	17-18 £m	18-19 £m	19-20 £m	20-21 £m	Total £m
Reduction in Aggregate External Finance (AEF)*	**3.1**	**0.1**	**4.7**	**4.6**	**4.4**	**13.8**
Transfers into the AEF	**1.3**	**0.1**	**-**	**-**	**-**	**0.1**
Workforce and Pay Pressures	**3.4**	**3.1**	**1.7**	**1.8**	**1.7**	**8.3**
Inflation and Demographic Pressures	**6.1**	**5.6**	**3.5**	**4.3**	**4.1**	**17.5**
Individual Schools Budget (ISB)	**2.4**	**1.4**	**0.7**	**0.7**	**0.7**	**3.5**
Capital Financing Costs	**(1.0)**	**0.4**	**1.5**	**0.2**	**-**	**2.1**
Unfunded Burdens/Other	**1.0**	**-**	**-**	**-**	**-**	**-**
Projected Funding Gap	**16.3**	**10.7**	**12.1**	**11.6**	**10.9**	**45.3**

***-0.1% for 2017-18 and -3.0% for 2018-19 to 2020-21**

Projected Funding Gap 2017-18 to 2020-21 (Worst Case Scenario)

Pressures	16-17 £m	17-18 £m	18-19 £m	19-20 £m	20-21 £m	Total £m
Reduction in Aggregate External Finance (AEF)*	**3.1**	**0.1**	**6.3**	**6.0**	**5.8**	**18.2**
Transfers into the AEF	**1.3**	**0.1**	**-**	**-**	**-**	**0.1**
Workforce and Pay Pressures	**3.4**	**3.1**	**1.7**	**1.8**	**1.7**	**8.3**
Inflation and Demographic Pressures	**6.1**	**5.6**	**3.5**	**4.3**	**4.1**	**17.5**
Individual Schools Budget (ISB)	**2.4**	**1.4**	**0.7**	**0.7**	**0.7**	**3.5**
Capital Financing Costs	**(1.0)**	**0.4**	**1.5**	**0.2**	**-**	**2.1**
Unfunded Burdens/Other	**1.0**	**-**	**-**	**-**	**-**	**-**
Projected Funding Gap	**16.3**	**10.7**	**13.7**	**13.0**	**12.3**	**49.7**

***-0.1% for 2017-18 and -4.0% for 2018-19 to 2020-21**

Capital Strategy 2017-18 to 2020-21

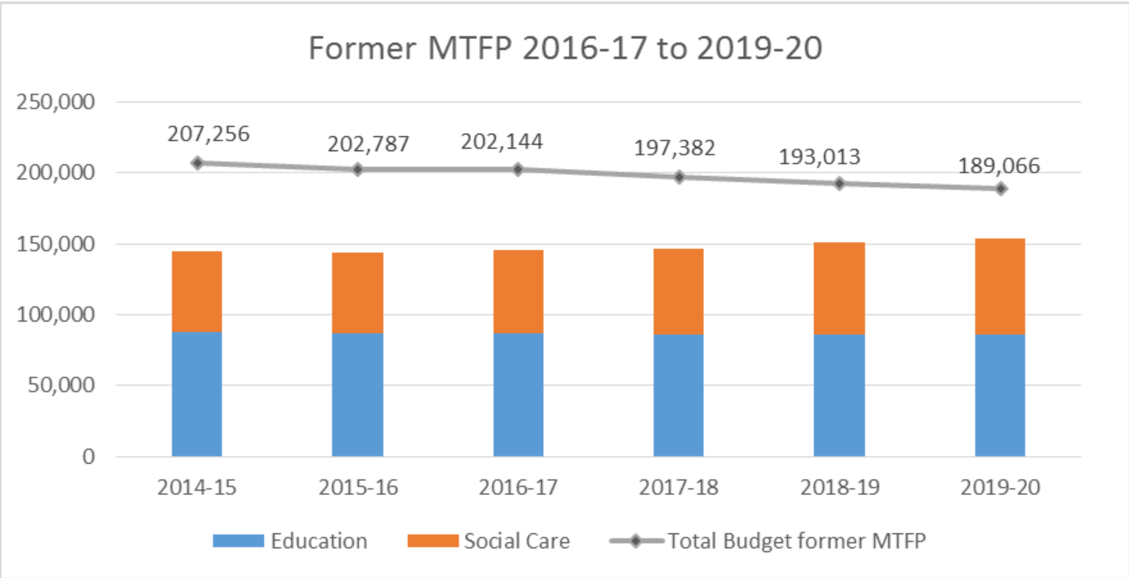
The Capital Strategy 2017-18 to 2020-21 outlines how the investment of capital resources will contribute to the achievement of the Council's key outcomes and improvement objectives set put in the Single Integrated Plan 2013-18, Improvement Plan 2016-17 and Corporate Plan (Including Well-being Objectives) 2017-18.

Capital Financing costs will increase by £2.1m per annum by 2019-20. This increase is attributable to the application of supported borrowing to fund the 21st Century Schools Programme. Use of supported borrowing increases the Council's Capital Financing Requirement (CFR) (i.e. the underlying need to borrow) upon which Minimum Revenue Provision (MRP) charges are based.

Availability of Funding for All Council Services

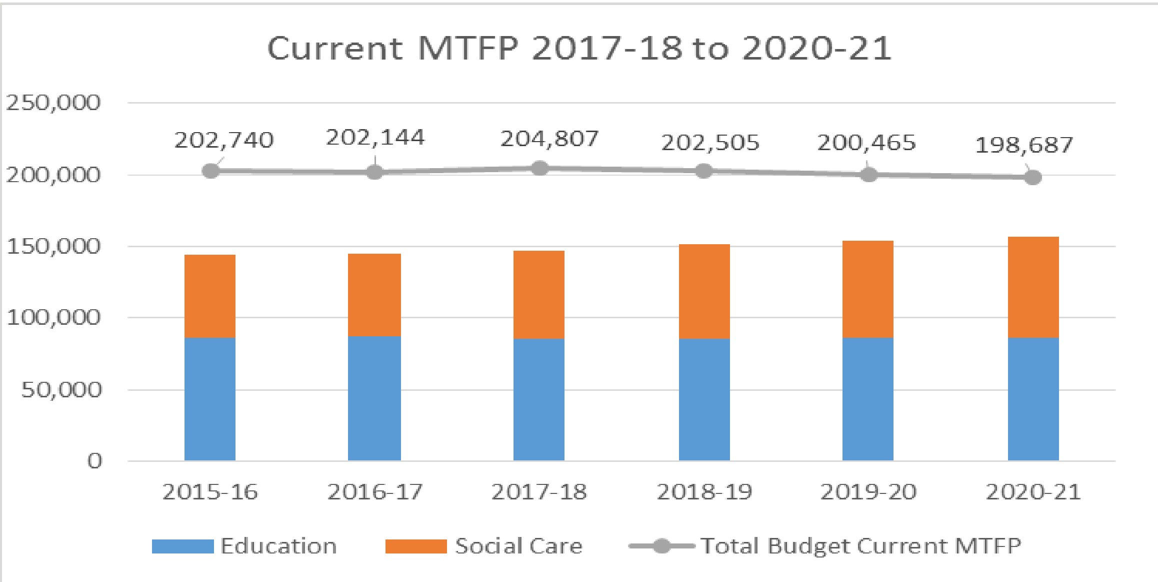
The Council's overall net expenditure budget reduced in the years to 2016-17, although the Education budget was afforded annual protection by Welsh Government and the Social Care budget (predominantly Adult Social Care) was subject to significant annual inflationary, demographic and legislative pressures. For 2017-18, primarily due to the better than anticipated AEF, the net expenditure budget will increase. Whilst the Education budget has not been afforded any protection by Welsh Government, the Social Care budget (predominantly Adult Social Care) has continued to be subject to significant inflationary, demographic and legislative pressures, which are likely to continue throughout the four year term of the MTFP.

Former MTFP 2016-17 to 2019-20 - Net Expenditure Budget Projection (£'000s)



Note:
2014-15 - Revised Budget - Cost Reductions/Efficiencies/Service Transformation Included
2015-16 - Revised Budget - Cost Reductions/Efficiencies/Service Transformation Included
2016-17 - Original Budget - Cost Reductions/Efficiencies/Service Transformation Included
2017-18 to 2019-20 - Total Budget - Incorporates AEF Reductions and Council Tax Increases Only
2017-18 to 2019-20 - Projected Service Budgets - Incorporates Known Pressures Only

Current MTFP 2017-18 to 2020-21 - Net Expenditure Budget Projection (£000's)



2015-16 - Actual Outturn - Cost Reductions/Efficiencies/Service Transformation Included
2016-17 - Original Budget - Cost Reductions/Efficiencies/Service Transformation Included
2017-18 - Original Budget - Cost Reductions/Efficiencies/Service Transformation Included
2018-19 to 2020-21 - Total Budget - Incorporates AEF Reductions & Council Tax Increases Only
2018-19 to 2020-21 - Projected Service Budgets - Incorporates Known Pressures Only

As can be seen from the second graph, the Council's net expenditure budget is predicted to reduce less significantly over the four year period of the MTFP than previously anticipated. Whilst the Education net expenditure budget is predicted to remain fairly constant over the term of the MTFP, the significant annual inflationary, demographic & legislative pressures on the Social Care net expenditure budget see it increasing year on year.

The Education and Social Care net expenditure budgets still account for a significant percentage of the Council's net expenditure budget throughout the four year period of the MTFP, so there will only be limited resources to fund all other Council Services. In order to address this, despite the significant cost reductions/efficiencies/service transformation within the Education and Social Care budgets for 2016-17, further significant cost reductions/efficiencies /service transformation will be required for 2017-18 to 2020-21.

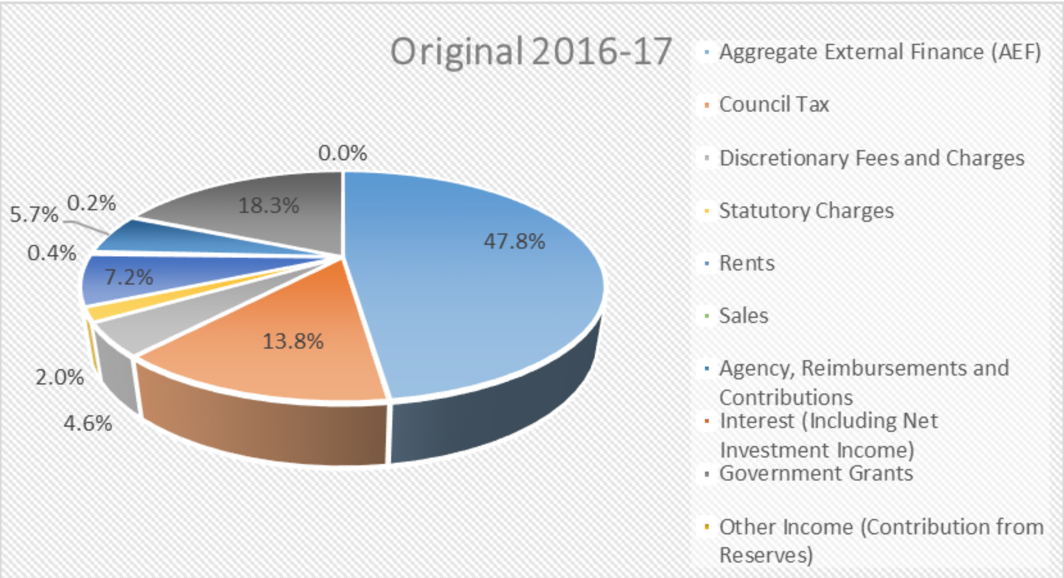
Income

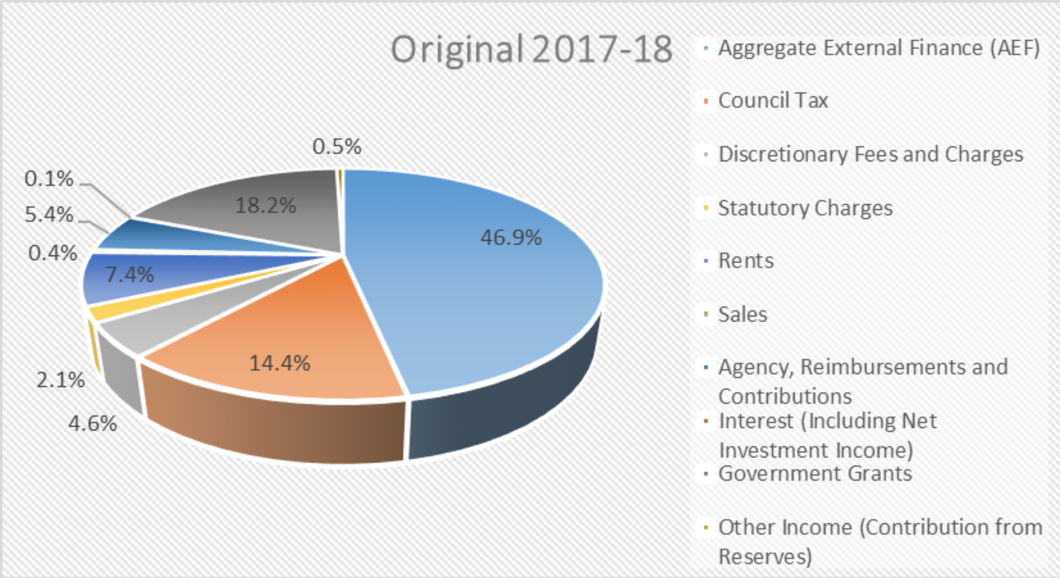
Funding Sources

The Council receives its funding from two main sources – Aggregate External Finance (AEF) and Council Tax. The AEF, comprising of Revenue Support Grant (RSG) and Redistributed National Non-Domestic Rates, is awarded by Welsh Government and for 2017-18 will account for 46.9% of the Council's total income, 0.9% lower than 2016-17. Council Tax received from residents will contribute a further 14.4%, 0.6% higher than 2016-17, with the remaining 38.7% coming from sources such as specific Government and European grants and income from fees and charges.

Council Income 2016-17 to 2017-18

Income Source	2016-17 Original £m	% Total Income	2017-18 Original £m	% Total Income
Aggregate External Finance (AEF)	156.9	47.8%	156.8	46.9%
Council Tax	45.3	13.8%	48.0	14.4%
Discretionary Fees and Charges	15.1	4.6%	15.3	4.6%
Statutory Charges	6.4	2.0%	6.9	2.1%
Rents	23.6	7.2%	24.6	7.4%
Sales	1.2	0.4%	1.2	0.4%
Agency, Reimbursements and Contributions	18.7	5.7%	18.0	5.4%
Interest (Including Net Investment Income)	0.5	0.2%	0.4	0.1%
Government Grants	60.3	18.3%	61.0	18.2%
Other Income (Contribution from Reserves)	0.1	0.0%	1.8	0.5%
Total	328.1	100.0%	334.0	100.0%





Aggregate External Finance (AEF)

The settlement for Pembrokeshire for 2017-18 is the fourth year of reductions in the AEF and is a reduction of 0.1% (£0.12m). When adjusted for transfers in and out of the settlement, the reduction for Pembrokeshire is 0.1% (£0.20m), the 16th worst settlement. The "real" decrease in the settlement is an effective reduction of 0.4% for Pembrokeshire when the impact of funding for increasing capital limits for residential care (£188k), war disablement pension disregard (£12k) and homeless prevention (£231k) are factored into the data. If the impact of the Local Borrowing Initiative (LGBI) was factored into the data, the "real" decrease would increase further.

Whilst the 0.1% reduction in AEF for 2017-18 was less than anticipated, a 0.4% real reduction was still significant, especially with the ever increasing demographic and legislative pressures in Adult Social Care and the additional pressures faced being a rural local authority, e.g. providing community based social services for older people over large geographic and sparse areas, and the provision of rural Schools. The Council has long argued that Pembrokeshire is an under-funded rural local authority under the local government funding formula and it continues to urge the Welsh Government to identify a mechanism to address this issue.

Funding Per Capita

In the final settlement for 2017-18, Pembrokeshire County Council has funding of £1,265 per capita, far below the average of £1,320 per capita. If funded at the average level, the Council would receive £6.8m more funding and if funded at the levels of our neighbouring authorities, it would receive between £2.7m and £11.4m more funding. The disparity between the Council and its neighbouring authorities and the £579 per capita difference between the highest and lowest levels in Wales cannot be justifiable or sustainable, particularly if local authorities are to collaborate on a regional footing, as outlined by the Welsh Government White Paper issued on 31 January 2017.

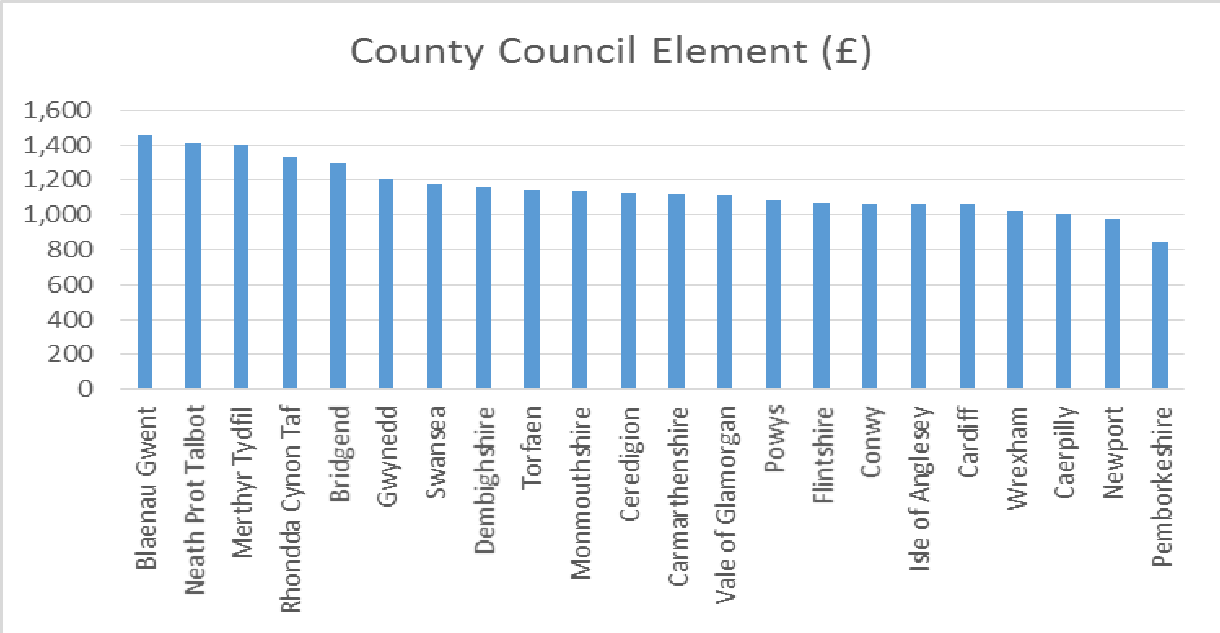
Council Tax

The Council collects the Council Tax from local residents and Business Rates (NNDR) from local businesses.

The annual setting of Council Tax is a significant challenge in the current financial climate, as more income is required year on year to contribute to bridging the funding gap and balancing the Council's budget (£48.0m from Council Tax for 2017-18).

Despite having Council Tax increases of 3.4% in 2014-15, 4.5% in 2015-16 and 5.0% in 2016-17 the Council still has the lowest Council tax in Wales as shown in the table below.

Band D Council Tax in Wales 2016-17



(25.4%) lower than the Wales average of £1,127.

As part of the budget and council tax setting process for 2017-18, the Council are being recommended to increase Council Tax by 5.0% (£883.15 - Band D). This is the same as the Council Tax rise in 2016-17, as the additional income continues to be required due to the challenging financial position faced by the Council, outlined in this MTFP. A 5.0% increase in Council tax will generate additional income of £2.28m in 2017-18, £456k per percentage increase. The difference between this and the £2.77m to be generated by Council Tax in 2017-18, is due to the increase in the Council Tax base for 2017-18.

The level of Council Tax increase for 2018-19 to 2020-21 will be determined by Council at the time of approving each annual budget. For the purposes of the MTFP, an annual increase of 5.0% has been built in, representing the view from the budget consultation and engagement exercises undertaken that increasing Council Tax is an acceptable way of generating additional income. In setting the Council Tax, the Council has to balance the financial requirements of the organisation to maintain its services with the affordability of Council Tax for local residents.

50% Premium on 2nd Homes Council Tax

On 10 March 2016 Council resolved that a Council Tax Premium of 50% be introduced for 2nd homes for 2017-18. It is anticipated that this will generate additional income of £1.3m. Council resolved to provide an assurance that at least 50% of the revenue would is to be utilised for the provision of affordable homes and that consideration be given to the remainder to support local services (community).

Business Rates (NNDR)

The Council collects local business rates (NNDR) from local businesses on behalf of Welsh Government. These are then paid into a national pool and redistributed on a per capita basis to Councils as part of the allocation of their AEF. The Council expects to collect £52.7m in 2017-18 (based on 2016-17 collection levels), but it will only retain £40.3m, with the remainder going into the national funding system. The Council is a significant net loser in the current system.

In England the UK Government has agreed to re-localise Business Rates by 2020 in return for local authorities picking up additional responsibilities. Whilst the WLGA has proposed re-localisation in Wales there has been no indication from Welsh Government as to whether this could form part of any future funding arrangement with local government.

Fees and Charges

The Council expects to generate £66.2m (£65.0m in 2016-17) from fees and charges in 2017-18, with £15.3m (£15.1m in 2016-17) of this total relating to discretionary fees and charges.

The Council recently undertook a high level review of its income generation and cost recovery processes resulting in an Income Generation Strategy being approved by Cabinet in July 2016. It identified that the Council has comparatively low fees and charges when compared to other Welsh Local Authorities. A comprehensive internal review of all the Council's services to ascertain whether they can recover their costs or potentially generate income has commenced. It should be acknowledged that there are legislative restrictions in Wales that do not apply to income generation in England. Any additional income received by the Council will contribute to bridging the funding gap.

The Council is dependent on being able to generate income to fund some of its non-statutory services, e.g. Leisure Services. As an example, Leisure Services relies on £3.7m of annual income from its customers in order to keep its subsidy from the Council to a minimum.

Reductions in Specific Grants

The Council relies on numerous specific grants which the Welsh Government and European Parliament allocate to fund services such as Education and Waste Management. In recent years, there have been significant reductions in these grants, with the Council sometimes having to make up the difference for services to continue. Late notification of specific grants, generally after the commencement of the new financial year, makes financial and staff resource planning challenging.

There is a significant risk that following the national referendum for Brexit, and when the UK Government exits from the European Union, Pembrokeshire will lose a significant number of opportunities to obtain European grant funding.

The risks to key services from reductions in specific grants include:

- Education Improvement Grant (EIG) – The grant funding for Wales has reduced from £134.282m for 2016-17 to £133.282m for 2017-18. It is anticipated that the ERW region will suffer a resultant loss of grant which could have an adverse impact on funding improvement for Pembrokeshire Schools.
- Post 16 Education Grant – This grant has been reducing since 2015-16 and for 2017-18, Pembrokeshire will lose a further £0.8m in grant. Falling pupil numbers combined with reduced funding will represent a significant funding challenge to our Secondary Schools.
- Single Revenue Grant (Environmental and Rural Affairs) – The grant funding for Wales has reduced from £64.320m for 2016-17 to £60.000m for 2017-18. It is anticipated that Pembrokeshire will lose further grant adding further financial pressure on the Waste Management Service. In addition to the reduction in grant, the Waste Management Service has also suffered substantial reductions in recycling income from waste recyclates in the open market during 2016-17 and this is likely to continue into future years.

Future grant allocations and potential reductions are unconfirmed at this stage and are subject to change.

National and Local Pressures

The Council is subject to financial pressures, both national and local, which are beyond its control. At a national level, they may derive from policy directions or new legislation from either the UK Government, e.g. National Living Wage and Apprenticeship Levy, or Welsh Government where powers are increasingly devolved, e.g. Welsh Language Standards. These pressures and new responsibilities are unfunded financial burdens with Councils expected to meet them without the receipt of any additional funding from Government. At a local level, pressure comes from demand for services and other local circumstances. These are not funded by Government grant with the cost falling on the Council.

Protection of Funding for Education (Schools)

For 2017-18, the Individual Schools Budget (ISB) has not been offered any protection by Welsh Government, resulting in Schools having to fund all pay awards and other price pressures from a reduced budget.

Council Tax Reduction Scheme (CTRS)

The Council Tax Reduction Scheme (CTRS) was introduced by Welsh Government in 2013-14 to provide financial assistance to eligible residents to pay their Council Tax. Welsh Government funding of £244m across Wales is maintained each year but does not increase. For 2017-18, the Council will receive funding of £6.984m (2016-17 £7.090m) which does not cover its estimated expenditure of £7.4m and any consequential increase in Council Tax benefit payments, as a result of increased claimant caseload or higher Council Tax levels will have to be absorbed by the Council.

Impacts of Legislation and Case Law

The introduction of new legislation, especially in the field of social care, e.g. Social Services & Wellbeing (Wales) Act 2014 and Deprivation of Liberty Safeguards (DOLS) case law, affect the way services are to be provided and people's rights. Councils have to manage the financial impact of changes in the law within their existing budget, without any additional financial support from Government.

The budget for DOLS will reduce by 60k for 2017-18, due to a cost efficiency. Training has been undertaken, during 2016-17, by core Social Workers so DOLS assessments are now undertaken by the existing workforce and not by specific trained staff.

21st Century Schools Programme

The Council is part way through an ambitious 21st Century Schools capital investment programme which seeks to deliver transformational change, enabling pupils in Pembrokeshire to have the very best learning facilities.

An investment of £149.9m was provisionally agreed with Welsh Government over the period 2013-14 to 2018-19, however, this has now been reduced to £121.6m to reflect a capital programme that is considered deliverable within the time frame. Even at the reduced level, this capital programme is the most significant the Council has ever undertaken with significant planned expenditure of £30.4m in 2016-17 and £54.2m in 2017-18 dwarfing the Council's core capital programme.

Welsh Government has committed to fund £60.8m (50%) of the approved expenditure, initially by way of capital grant and currently via the Local Government Borrowing Initiative (LGBI) through the AEF, whereby the Council will finance capital expenditure with borrowing, supported by Welsh Government, in substitution of capital grant.

The Council will fund its £60.8m from the 21st Century Schools Capital Fund and Capital Receipt Reserve £36.1m, contributions of £0.4m and supported borrowing £24.3m. There is no longer a need for any unsupported borrowing.

Housing Revenue Account (HRA)

The Housing Revenue Account (HRA) Business Plan 2016-46 incorporates the financial strategy and planning for the Council's housing stock for the next 30 years. The Business Plan 2017-47 must be completed by the end of March 2017, in order for the Council to obtain the estimated £4.0m Major Repairs Allowance (MRA) grant for 2017-18.

The exit from the HRA subsidy system in April 2015, the phased harmonisation of rent levels between local authorities and social landlords (target rents) and the de-pooling of costs from rents (service charges) have all been implemented (with the exception of grounds maintenance service charges), and this has provided the Council with additional resources to enable it to maintain the Welsh Housing Quality Standard (WHQS), whilst continuing to invest in and improve its housing service provision.

Economy

Both the UK Government and the Welsh Government have reduced public spending and this has resulted in ongoing reductions in local government funding.

Pembrokeshire's economy is relatively weak and, as such, it qualifies for the highest level of European Structural Funds as part of 'West Wales and the Valleys'. Structural weaknesses include a relatively high proportion of self-employment and micro businesses, a relatively low level of medium sized enterprises with growth potential, and low levels of employment in financial, professional and technology sectors. Its peripherality, low population density, low non-residential property values and over-reliance on relatively low value sectors such as tourism and agriculture contribute to a low wage, low productivity economy (KPMG 2015, Bevan Foundation 2015). The County Council is the largest employer.

One consequence of this weak economy is a greater need for public sector support, be that through farming subsidies, welfare benefits or local government services.

The referendum decision to withdraw from Europe means the current Structural Fund and Common Agricultural Programme Funds will be the last. As yet, there is no detail on either UK government or Welsh government plans for replacing either fund, the impact of which is creating uncertainty. Whilst early indicators are that some sectors e.g. tourism and energy, may benefit from 'Brexit', it is too early to model the wider implications for the local economy.

According to the 'Economic Profile of Pembrokeshire 2015' (PACEC consultants), sustained improvements are required in transport and infrastructure, business development and training and skills.

The Council is a partner in the Swansea Bay City Region City Deal submission 'The Internet Coast'. If successful, the bid would involve the Council in additional borrowing over the 15 year programme. The City Deal bid is designed to address the underperformance in the regional economy.

The Council is exposed to the risk of decreases in the income it relies on from fees and charges for the services it provides, such as leisure and planning. These fluctuations can depend on the health of the economy.

Interest rates continue to remain at low levels (Bank of England Base Rate 0.25%) resulting in limited expectations in regard to returns on investments, however, they do offer the opportunity of reduced borrowing costs.

Employment and Earning Indicators

Economic and social data is recorded in the Council's 2015-16 Local Development Plan Annual Monitoring Report. The Employment and Earning indicators for the period 2012 to 2015, comparing Pembrokeshire with Wales and GB as a whole, have been extracted and are shown in the table below.

Indicator	Pembrokeshire (Including the National Park)	Wales	GB
Unemployed December 2012	**6.4%**	**8.3%**	**7.9%**
Unemployed December 2013	**7.1%**	**7.9%**	**7.5%**
Unemployed December 2014	**5.7%**	**6.8%**	**6.2%**
Unemployed December 2015	**5.1%**	**5.9%**	**5.2%**
In Employment December 2012	**69.4%**	**67.3%**	**70.7%**
In Employment December 2013	**69.4%**	**68.9%**	**71.3%**
In Employment December 2014	**71.6%**	**69.5%**	**72.4%**
In Employment December 2015	**72.7%**	**70.3%**	**7.6%**
Gross Weekly Pay 2012	**£419.90**	**£454.90**	**£508.30**
Gross Weekly Pay 2013	**£478.83**	**£475.30**	**£517.90**
Gross Weekly Pay 2014	**£432.50**	**£479.40**	**£520.80**
Gross Weekly Pay 2015	**£430.00**	**£473.40**	**£529.00**

Rural Local Authorities

There is a rural premium associated with the cost of providing services in rural areas, examples being community based services for older people over large geographic and sparse area and the provision of rural Schools. Welsh Government provided three local authorities with a Rural Stabilisation Grant for 2016-17 but this has not been repeated for 2017-18.

Welsh Language Standards

A significant new, but unfunded, responsibility introduced for 2016-17 was the implementation of the Welsh Language Standards. There are more than 160 standards to be implemented with each incidence of failure punishable by a fine of £5k. The cost of implementation is expected to be in the region of £350k for 2016-17 with the projected funding requirement for 2017-18 being maintained at £300k.

Municipal Mutual Insurance (MMI)

Municipal Mutual Insurance (MMI) was the main insurer of the public sector prior to it closing its insurance business in 1992. A scheme is in place for any liabilities still outstanding from historic insurance with MMI. Any increase in claims arising from that period could impact on the levy to be paid by the Council. The Council has a provision in place to fund any liabilities arising.

Transitions into Adulthood

Every year, a number of clients are expected to have ongoing social care needs as they transfer from Children's Social Care to Adult Social Care. The cost of care packages for each client is based on a careful assessment of their future care needs. A pressure of £0.5m has been built into the budget for 2017-18.

Levies

The total levy on the Council for 2017-18 is £7.22m, £201k more than 2016-17. The PCNPA have confirmed that their levy for 2017-18 will remain at the 2016-17 level but the Mid and West Wales Fire & Rescue Service have again increased their levy, this time by £201k for 2017-18. Despite the annual reductions in Welsh Government funding for local authorities, the Mid & West Wales Fire & Rescue Service appear to have no cap on the level of their annual levy increase. The Council has urged Welsh Government to consider capping the level of annual increase in the Fire & Rescue Service levy or changing the system to fund them, and PCNPA, directly through precept arrangements.

Workforce

The biggest cost of managing a Council is the cost of employing its workforce. The Council employs people to provide services direct to communities and to customers, and commissions or contracts out other services. Where the Council commissions or contracts, it is not the employer. It also employs people to provide essential internal support services such as finance, human resources and ICT.

The costs of employing the Council's workforce are rising due to a combination of national and local pressures including annual pay rises, pension reform, and the Single Status Agreement.

The Council employs around 6,000 people, based on the December 2016 payroll, including those working in Schools. The annual cost of employing the workforce is in the region of £136m, 41% of its gross expenditure budget. The cost is made up of salaries, employer pension contributions, employer national insurance contributions and allowances and expenses.

The costs of employment are rising, with these pressures being the annual "cost of living" pay rises, low pay protection costs (National Living Wage) and increases in employers pension and employers national insurance contributions.

Workforce Efficiencies

As the Councils budgets reduce as it transforms, it is likely to need fewer staff in order to operate and therefore, where applicable, workforce efficiencies have been built into the cost reduction/efficiency/service transformation process. Over the four year period of the MTFP, there are likely to be future cost pressures through releasing more employees than ever before, through redundancy and early retirement (pension strain).

Cost of Living Pay Rises

All Council employees expect to receive an annual pay rise for their earnings to keep pace with inflation. These are commonly known as "cost of living" pay awards and are negotiated nationally between representatives of the local government employers and the trade unions.

Annual “cost of living” pay awards over recent years have averaged 1%, so this has been built into the MTFP. For 2017-18, this will cost £1.1m, roughly split between School and non-School based staff. Due to the way in which the pay awards are allocated, it can mean that the lower paid staff have a greater % increase that higher paid staff.

Workers are protected from being low paid through the UK Government’s setting of the national minimum wage. The lowest levels of pay in local government are above the national minimum wage of £6.95 set in October 2016, rising to £7.05 in April 2017. The national minimum wage has effectively been superseded by the introduction of the National Living Wage, introduced by the UK Government from 1 April 2016, with a minimum wage of £7.50 per hour from April 2017. The Council’s lowest rate of pay is currently £7.52 per hour and will rise to £7.78 per hour for 2017-18. The pressure, currently estimated to be more than £1.9m for 2017-18, has been built into the budget. An ongoing annual pressure of £200k has been built into the MTFP.

Annual Increments

The Council introduced a new pay & grading structure in 2013-14. Staff who are not yet on the maximum spinal point for their grade receive an annual increment. Staff who were regarded in 2013-14 and were not yet on the maximum spinal point for their grade received an annual increment until 2016-17 but many of these staff reached their maximum spinal point in 2016-17, therefore there is no additional pressure for 2017-18. Any costs relating to the reallocation of pay and grading following appeals will be met from within existing service budgets.

Local Government Pension Scheme – Employer Contributions

Local government employees (except Teachers, Police and Fire-fighters) are entitled to be members of the local government pension scheme (Dyfed Pension Fund for Pembrokeshire County Council employees). The pension scheme is a funded one where both employers and employees contribute to the costs of building their “pension pot” for their eventual retirement. Their monies are invested in the Dyfed Pension Fund for capital gain and income to pay pension liabilities both now and in the future.

Public service pension schemes are being reformed to ensure financial sustainability. For the local government pension scheme, this meant another change with the CARE (Career Average) scheme replacing the final salary scheme on 1st April 2014. At a national level, the Welsh Government have reviewed how the pension provided is shared more fairly between employees and scheme employers, if costs continue to increase. This may result in further changes to employee contributions or scheme benefits in the future.

The employer contribution for the Council is set by the Dyfed Pension Fund Actuary every three years. The Fund Actuary will advise of future service cost contributions and any deficit payments for previous financial years. The employers' contribution rate is a percentage of pensionable pay and for 2016-17 it was 15.5%. For 2017-18 to 2019-20 a stepped increase of 0.4%, 0.4% and 0.5% will be introduced year on year resulting in a rate of 16.8% in 2019-20. An additional pressure of £233k has been built into the budget for 2017-18 and the MTFP. It can be difficult to estimate the cost of employer contributions for the four year period of the MTFP as returns on asset investments and the funding level of Fund at the latter end are unknown.

The employer contributions into the Dyfed Pension Fund are low when compared to those made by some other Welsh Local Authorities into their respective Pension Funds.

Teachers' Pension Scheme

The Teachers' Pension Scheme is a central government controlled Public Service Pension Scheme that, unlike the Local Government Pension Scheme, is unfunded. The contributions are set by Central Government. The employer's contributions for Teachers' pensions were not increased for 2017-18.

Employers National Insurance Contributions

Pensions Reform is causing inflationary pressures. Under a change called the Single Pension Scheme implemented in 2016-17, local government pension schemes will no longer qualify for a rebate for national insurance contributions made towards the additional State Pension known as the Second Pension. The change resulted in an increased employer's national insurance contributions of 1.8% in April 2016. No further increase is anticipated or has been budgeted for in 2017-18.

Apprenticeship Levy

In the November 2015 Comprehensive Spending Review the Apprenticeship Levy was introduced requiring all UK employers with a total pay bill above £3m per annum to pay a levy of 0.5% of their total pay bill. The levy is to come into effect from April 2017. A pressure of £0.6m has been built into the budget for 2017-18.

Inflation and Demographics

Inflation is the rate at which the prices for goods and services are expected to rise. The inflation costs the Council has to meet are not the same as those that households face. Even at the current times of low Retail Price Index (RPI) and Consumer Price Index (CPI) inflation, the Council can have big inflationary pressures. The Council builds inflation for both expenditure and income into the MTFP based on the latest market intelligence and recent trends and this is updated at the time of compiling the annual budget. Within the annual allocation of AEF from Welsh Government, there is no provision made for inflation, which means the Council has to meet the costs of annual inflation from within existing resources.

Price Inflation

The current forecast for general price inflation and electricity, gas, biomass, oil/LPG and vehicle fuel (diesel) inflation, based on market intelligence, is that it will remain close to 0%. No provision has been built into the MTFP so services will have to absorb any price inflation within their budgets. Inflation of 1% has been built into the MTFP for water and 1% for NNDR for 2017-18.

Service/contract specific inflation had been included within budgets in accordance with contractual requirements. Building and highways services inflation has been set at 4% based on the BCIS Index, which has fluctuated over recent years from a low of 1.8% to a high of 7.0%. There is a real risk that depending on the level of building inflation rates, the buying power of the £121.6m capital investment in 21st Century Schools will be reduced.

Insurance inflation for external premiums of 0% for 2017-18 and 2% for future years has been built into the MTFP.

The inflation risks and costs of energy, fuel and food are subject to many economic and other factors beyond the control of the Council. Market intelligence will be used to ensure inflation forecasts in the MTFP are as accurate as possible.

Inflationary pressures of more than £3.5m, predominantly in respect of Social Care contracting arrangements, have been built into the budget for 2017-18. These pressures include the impact of the implementation of the National Living Wage and will continue throughout the four year duration of the MTFP.

Pay Inflation

Provision for nationally agreed pay awards is based on the latest information from the national negotiating bodies. Pay inflation has averaged 1% per annum over recent years and it has been assumed that it will remain at this level for the four year duration of the MTFP.

Income Inflation

Income budgets have included increases in line with the new "Income Generation Strategy". Increases in charges in excess of inflation levels require Cabinet approval.

Demographics

The Adult Social Care element of the Council's budget continues to increase. This is primarily due to the ageing population in Pembrokeshire resulting in increased demand for Council services and an increase in the complexity of care.

Different ways of working in areas such as reablement, domiciliary care (outsourcing), commissioning and fairer charging have contributed significantly to the Council's cost reduction/efficiency/service transformation targets, however, there is an ongoing risk that the ever increasing demand will outstrip them.

This has resulted in a significant pressure of £5.5m being built into the budget for 2017-18; £3.5m in respect of increases in the cost of social care contracting arrangements outlined above (including implementation of the National Living Wage) and £2.0m in respect of demographic pressures. These pressures will continue throughout the four year duration of the MTFP.

Welsh Government Population and Household Projections 2011 Based (Published 2013)

The Local Development Plan (LDP) housing requirement is derived from Welsh Government's (WG) 2008-based household projections. These were a starting point for the figures, but the LDP makes provision for 1,605 dwellings more than the 5,724 units required, to allow for choice, flexibility and renewal of the existing housing stock and for non-take up of sites.

Since LDP adoption in 2013, the WG has published 2011-based Local Authority Population and Household Projections for Wales, which reflect the data from the 2011 census. For Pembrokeshire, these show a higher population than the 2008-based population projections, but lower household numbers. The 2008-based projections included separate National Park projections, enabling PCC to produce figures for Pembrokeshire excluding the National Park. Only whole county figures have been released for the 2011-based projections.

Population and household projections were recorded in the Council's **2013-14 and 2014-15 Local Development Plan (LDP) Annual Monitoring Reports**, with some of the key information detailed below. No new WG population and household projections have been produced during the 2015-2016 AMR3 monitoring period. Since AMR3 however, WG has published 2013-based household projections for the National Park and 2014-based population projections for Pembrokeshire.

At 2021 (the end date of the LDP), the population figures are broadly consistent in both the 2008 and 2011-based projections (*At 2021 the 2008-based projection indicates a population of 125,088. The 2011-based projection indicates a population of 125,798. This equates to a difference of 700 people between the two projections*). The 2014-based population projection indicates a population of 124,412. (*This equates to an overall reduced population of 670 people since the 2008 projection).* The 2011-based household projections show a significantly lower household figure at 2021 (*At 2021 the 2008-based projection indicates 59,637 households and the 2011-based indicates 56,021. This equates to a difference of 3,616 fewer households in the 2011-based projections*), with a higher household size than the 2008-based projections. These remain the current projections for Pembrokeshire as a whole, however 2013 based household projections for the National Park alone indicate 10,080 households within the National Park at 2021, a reduction of 1,100 households from the 2008 projection.

Welsh Government is clear that household projections should be a starting point for LDP housing requirements. However the Minister for Housing and Regeneration noted in a letter to Local Planning Authorities in April 2014 that the assumptions underlying projections are based on past trends, which have been significantly affected by economic conditions of the recent past arising from the global economic downturn.

The LDP housing requirement will provide for more than the number of households anticipated by the 2011-based projections. The higher than anticipated household size in the 2011-based projections is likely to be a reflection of some of the issues the Plan is seeking to address (such as a lack of affordable housing making it difficult for new households to form).

The variation between the 2008, 2011 and 2014 based household projections is not significant enough to require a Review of the Plan, given that the overall population projections demonstrate a relatively small difference in the population total (the 2011-based projections indicate 700 more individuals than the 2008-based projections did and 2014 projections indicate 670 fewer people than 2008-based projections). The trends used for the 2008-based projections assumed a continuing decline in average household size, due largely to increasing divorce rates and increasing numbers of older people living alone. The different trends for the 2011-based projections are probably in part due to the 2008 assumptions on household sizes, based on social trends starting to stabilise.

The most significant change between 2008 and 2011 was an increasing problem of affordability. In the early years this was caused by dramatic increases in house prices in comparison with wages, and in the later part of the period, the economic downturn and difficulties accessing finance also prevented new household formation. AMR 3 (2015-2016) indicates that the Local Development Plan is delivering high levels of affordable housing.

The 2011 household projections for Pembrokeshire show fewer 1 and 2 person all adult households and fewer 1 adult 1+ child households, with a greater number of larger households (those with over 2 adults present).

Although in light of the 2011 based projections the housing land provision in the LDP might seem generous, it will reduce some of the historic pressure on housing costs that might be resulting in lower rates of household formation than would otherwise be expected. The rate of house building, even if it increased dramatically, is not expected to result in sufficient houses being built to meet identified need, and so any increase in the theoretical over provision will not cause any harmful effects.

Future Annual Monitoring reports will consider population and household projections as they emerge.

“Meeting the Financial Challenge”

The forecast for the resources the Council anticipates having over the next four years is based on the most reliable intelligence currently available.

This element of the MTFP identifies the Council’s plans and solutions for meeting the financial challenges it faces over the next four years, to be implemented via its Transformation Programme and related Cost Reduction/ Efficiency/Service Transformation Programme.

In tandem with addressing the financial challenges, the Council will continue to build on the work undertaken during 2015-16 and 2016-17 on its approach to transformation to enable it to become a more innovative, modern, digitally enabled, commercially minded and high performing Council, which is resilient in continuing to provide quality services to its customers.

Whilst not currently incorporated into “meeting the financial challenge”, there is the potential for each Town and Community Council to increase their precepts in the future, without any cap, in order to aid local service provision.

Cost Reduction/Efficiency/Service Transformation Programme and Council Tax

Reductions in the AEF allocation from Welsh Government sparked the creation of the Cost Reduction/Efficiency/Service Transformation programme with a £1.6m requirement in 2013-14 followed by £11.4m in 2014-15, £10.1m in 2015-16 and £13.8m in 2016-17 (excluding Council Tax increases). This £36.9m combined with the £7.4m for 2017-18 will bring the total over the five year period to £44.3m.

The £13.8m cost reduction/efficiency/service transformation target for 2016-17 was the most significant to date and has been challenging. Current projections are that £0.6m of the planned cost reductions/efficiencies/service transformations for 2016-17 will not be achieved during the year and this will contribute to a projected budget overspend of £967k for 2016-17.

The requirement for the Cost Reduction/Efficiency/Service Transformation programme over the four year period of the MTFP is **£34.5m**, as shown in the table below.

MTFP 2017-18 to 2020-21						
	16-17 £m	**17-18 £m**	**18-19 £m**	**19-20 £m**	**20-21 £m**	**Total £m**
Projected Funding Gap	**16.3**	**10.7**	**12.1**	**11.6**	**10.9**	**45.3**
Council Tax (5% Increase)	***(2.5)**	***(2.7)**	**(2.4)**	**(2.5)**	**(2.6)**	**(10.2)**
Contribution from 2nd Homes Council Tax (Community)	**-**	**(0.6)**	**-**	**-**	**-**	**(0.6)**
Cost Reductions/Efficiencies/ Service Transformation	**13.8**	**7.4**	**9.7**	**9.1**	**8.3**	**34.5**

*Includes Additional Income from Increase in Council Tax Base

Council Tax

The low Council Tax ethos of the Council has resulted in a 2016-17 Band D Council Tax which is 25% lower than the Welsh average and 25% lower than its neighbours, Carmarthenshire County Council and Ceredigion County Council, whom it will be required to work with as part of the proposed local government regional collaboration proposals outlined in the White Paper issued on 31 January 2017.

The reason for proposing an annual Council Tax increase of 5% throughout the period of the MTFP is threefold, firstly the current low base, secondly to raise additional income to compensate for the anticipated future reductions in AEF, and thirdly to mitigate the effect on local residents of any future harmonisation of Council Tax levels. The view from the budget consultation and engagement exercises undertaken during recent years was that increasing Council Tax was one of the most acceptable sources of generating income, as the Council continues to have the lowest Band D Council Tax in Wales.

The Council Tax figures included for 2016-17 and 2017-18 in the table above incorporate increases to the Council Tax base. The change to the Council Tax base for 2017-18 should generate nearly £0.5m in additional council tax income (included in the £2.7m). Any increases to the Council Tax base in future years would generate additional council tax income for the Council.

Council Tax 2nd Homes

On 10 March 2016, Council resolved that a Council Tax premium of 50% be introduced for second homes for 2017-18. This has the potential of generating additional council tax income of £1.35m and Council resolved to provide an assurance that at least 50% of the revenue is to be utilised for the provision of affordable homes and that consideration be given to the remainder to support local services (community). The £1.35m is a prudent estimate but will reduce if owners of second homes transfer from the Council Tax regime to NNDR (115 transferred to date) or the anticipated collection rate is not achieved. For 2017-18, it has been proposed that £0.6m of the income is utilised as a contribution towards the supporting local services (community) elements of the Council's revenue budget.

Cost Reductions/Efficiencies/Service Transformation

The required monetary value of cost reductions/efficiencies/service transformation were achieved in 2013-14, 2014-15 and 2015-16 although achievement was not always via the cost reductions/efficiencies/service transformation originally proposed. In 2015-16, nearly £2m of the proposed cost reductions/efficiencies/service transformations were not achieved, over £1m in Adult Social Care. However this was offset by cost reductions/efficiencies/service transformation in respect of capital financing costs and a change in the way in which the Council calculates its Minimum Revenue Provision (MRP) for the Council fund. For 2016-17, delivery of £0.6m of the planned cost reductions/efficiencies/service transformations is proving to be challenging. Any unachieved cost reductions/efficiencies/service transformations will be rolled forward to the next financial year.

£10.8m (31.3%) of the £34.5m required cost reductions/efficiencies/service transformations over the four year period of the MTFP have already been identified and allocated to specific service areas, as shown in the table on the following page. It is anticipated that the shortfall of £23.7m will be bridged by cost reductions/efficiencies/service transformation delivered from the Transformation Programme outlined on the following pages.

Cost Reductions/Efficiencies/Service Transformation Identified

Service Areas	MTFP 2017-18 to 2020-21					
	16-17 £m	17-18 £m	18-19 £m	19-20 £m	20-21 £m	Total £m
Cost Reduction/Efficiency/Service Transformation Requirement	**13.8**	**7.4**	**9.7**	**9.1**	**8.3**	**34.5**
Education Services	**2.7**	**2.2**	**0.4**	**0.1**	**-**	**2.7**
Social Care – Children	**1.0**	**0.4**	**0.3**	**0.5**	**-**	**1.2**
Social Care – Adults	**4.0**	**2.3**	**0.6**	**0.9**	**-**	**3.8**
Housing General Fund	**0.2**	**0.1**	**-**	**-**	**-**	**0.1**
Highways & Transportation Services	**0.6**	**0.6**	**0.1**	**0.1**	**-**	**0.8**
Culture & Related Services	**0.5**	**0.4**	**0.3**	**-**	**-**	**0.7**
Planning & Development Services	**0.5**	**0.2**	**0.1**	**-**	**-**	**0.3**
Environmental Services	**0.9**	**0.5**	**-**	**-**	**-**	**0.5**
Central, Corporate & Democratic Services	**0.6**	**0.7**	**-**	**-**	**-**	**0.7**
Transformation/In Year Savings (Net)	**0.4**	**-**	**-**	**-**	**-**	**-**
Capital Financing Costs (Including MRP)	**2.4**	**-**	**-**	**-**	**-**	**-**
Total Cost Reductions/Efficiencies/Service Transformation Identified	**13.8**	**7.4**	**1.8**	**1.6**	**0.0**	**10.8**
Cost Reductions/Efficiencies/Service Transformation to be Identified	**-**	**-**	**7.9**	**7.5**	**8.3**	**23.7**

Each of the cost reductions/efficiencies/service transformations identified has been RAG rated in terms of their deliverability. The £7.4m total required for 2017-18 has £4.8m rated as green, £2.0m as amber and £0.6m as red. Specific detail, risks and impacts behind each of the proposed cost reductions/efficiencies/service transformations was produced for the Members Budget Workshop on 16 January 2017 and a full copy will be circulated to all Members.

Transformation Programme

It was evident during the budget setting exercise for 2016-17 that the “salami slicing” approach to identifying cost reductions/efficiencies/service transformation was not an effective or efficient mechanism and a more sophisticated approach would be required in order to deliver the significant cost reductions/efficiencies/service transformation for future years. It was recognised that the Council needed to consider a number of approaches:

- Do less of the same;
- Stop providing some services;
- Do things differently.

As a result, the Council initiated a Transformation Programme with three distinct work streams:

1. **Internal transformation programme** involving staff from all Council Directorates to develop ideas, e.g. Operating model design principles, income generation with full cost recovery and effective asset management.
2. **Collaborative working with other public sector partners**, e.g. ICT, Social Care Commissioning and Procurement.
3. **Engaging a third party to undertake an operating model assessment** to understand the potential for a whole Council transformation approach to delivering services within a much smaller budget envelope and development of a sustainable and transformational programme that enables efficiencies to be made.

Each of these work streams have identified opportunities for transforming the way in which the Council functions, operates and delivers services to its customers, whilst also identifying opportunities to realise cost reductions/ efficiencies/service transformation along with increased income generation.

The transformation agenda for the Council will also encompass the consideration of devolution, co-production and co-design as part of a programme to change behaviour (from dependency) to support more self-reliant and sustainable communities.

During 2016-17, the Transformation Programme has evolved into eleven specific work streams, as shown in the table overleaf. Each one has a specific work stream lead and a potential base budget saving over the MTFP 2017-18 to 2020-21. Work has commenced on most of the work streams, although it will take the full four year period of the MTFP for some to be fully realised.

A Transformation Programme Board consisting of three elected Members, the Chief Executive, the Director of Finance, the Director of Development and the Head of Transformation will ensure appropriate governance arrangements are in place for effective and efficient delivery of the Transformation Programme.

The Head of Transformation will co-ordinate and drive the efforts and initiatives of Heads of Service and Directors and will provide challenge and scrutiny where necessary. This role will enable full time oversight of the programme, a detailed review of the deliverability of each work stream to agreed timescales, and examine whether the potential base budget savings are realistic.

Transformation Opportunities

Transformation Programme Opportunities	Work Stream Lead	Potential Full Year Base Budget Saving (Excludes Implementation Costs)				
		17-18 £m	18-19 £m	19-20 £m	20-21 £m	Total £m
Income Growth and Full Cost Recovery	Business Development Officer	4.0	-	-	-	4.0
Establishment Control	Director of Finance/Employee Relations Manager	1.0	-	-	-	1.0
Procurement and Category Management	Head of Procurement	3.9	-	-	-	3.9
Service Prioritisation	Corporate Improvement Manager	-	3.2			3.2
Customer Management	Head of Public Protection (Lead)	-	2.6			2.6
Information Management	Head of ICT	-	Included in Other Work Streams			-
Digitally Enabled Re-design	Corporate Improvement Manager	-	14.2			14.2
Strategic and Support	Director of Finance/Director of Development	-	1.5			1.5
Assets and Agile	Head of Property & Asset Management	0.2	-	-	-	0.2
Investment Portfolio	Director of Finance	-	New Work Stream			-
Collaboration and Shared Services	Director of Development	-	New Work Stream			-
Total		*9.1	21.5			30.6

***Any savings achieved during 2017-18 will be transferred to reserves in order to contribute to bridging the projected future funding gap over the term of the MTFP.**

The figures included in the table above are yet to be confirmed as deliverable and realistic. Clarity on this will be provided by Easter 2017.

Detailed business cases will be developed for each of the transformation opportunities/work streams identified above. These will identify the full implementation costs, e.g. Staff time, external expertise, technology, training, redundancy or early retirement (pension strain). These have been excluded from the figures shown in the table above, but guideline costs are shown in the table below.

Guideline Implementation Costs	**17-18 £m**	**18-19 £m**	**19-20 £m**	**20-21 £m**	**Total £m**
Assumed 5% of In Year Saving 17-18 Opportunities (£9.1m)	**0.5**	**-**	**-**	**-**	**0.5**
Assumed 30% of Following Year Saving 18-19, 19-20 and 20-21 Opportunities (£21.5m)	**2.1**	**2.1**	**2.1**	**-**	**6.3**
Total	**2.6**	**2.1**	**2.1**	**-**	**6.8**

The timescale for the delivery of these Transformations work streams is both ambitious and challenging. Many will require early investment in order to meet the targets outlined.

Earmarked Reserves

In accordance with its Strategy for Holding and Utilising Reserves, approved by Council on 10 March 2016, the Council holds a number of earmarked revenue and capital reserves to fund predicted liabilities and provide resources for service improvement and delivery.

Working Balances

For 2017-18, the Council will continue to maintain a Council Fund working balance of £7.0m (increased by £500k for 2016-17) and an HRA working balance of £0.752m to cushion the impact of emergencies, offsetting the impact of uneven cash flow and as a general contingency (unless any of the Council Fund working balance has to be utilised to contribute to the projected overspend for 2016-17). Interest earned on the working balances and positive cash flow is credited and therefore supports revenue service expenditure.

Capital Reserves (Excluding HRA) (2015-16 Outturn £27.7m)

At the end of 2016-17 the Council is projecting to hold capital reserves of £1.6m due to £26.2m being utilised during the year, primarily on the Council's 21st Century Schools programme.

Earmarked Revenue Reserves (2015-16 Outturn £29.0m)

At the end of 2016-17 the Council is projecting to hold earmarked revenue reserves of £25.8m, each reserve being held for a specific purpose and at a prudent level.

Invest to Save and Service Reconfiguration (2015-16 Outturn £8.7m)

During 2015-16, the Council created two earmarked reserves from within existing funds; an "Invest to Save" and a "Service Reconfiguration" reserve, for the purposes of funding the implementation of the transformation opportunities outlined above. The reserve balances are projected to be £4.3m and £4.1m respectively at the end of 2016-17, sufficient to fund the Transformation Programme guideline implementation costs outlined above. These are part of the £25.8m earmarked revenue reserves.

Schools and Related Reserves (2015-16 Outturn £6.0m – Including PFI)

At the end of 2016-17 the Council is projecting to hold Schools and related reserves of £4.8m (including £2.8m notional PFI). Whilst shown to reduce only marginally over the four year duration of the MTFP, it is likely that the School ISB Balances will decrease more rapidly due to the ongoing financial challenges they face.

Utilisation of Reserves

With the exception of using the Service Reconfiguration Reserve to pump prime the Transformation Programme in 2017-18, the Council does not plan to use any of its Earmarked Reserves or Working Balance to bridge the funding gap during the four year period of the MTFP.

Summary and Conclusion

If the potential Transformation Programme and proposed Cost Reduction/Efficiency/Service Transformation Programme savings are fully realised, when combined with an annual 5% increase in Council Tax and contribution from 2nd Homes Council Tax for 2017-18, this will be sufficient to meet the **£45.3m** projected funding gap over the four year period of the MTFP 2017-18 to 2020-21, as shown in the table below.

Meeting the Financial Challenge	MTFP 2017-18 to 2020-21					
	16-17 £m	17-18 £m	18-19 £m	19-20 £m	20-21 £m	Total £m
Projected Funding Gap	**16.3**	**10.7**	**12.1**	**11.6**	**10.9**	**45.3**
Council Tax (5% Increase)	**2.5**	**2.7**	**2.4**	**2.5**	**2.6**	**10.2**
Contribution from 2nd Homes Council Tax (Community)	**-**	**0.6**	**-**	**-**	**-**	**0.6**
Cost Reduction/Efficiency/Service Transformation Programme	**13.8**	**7.4**	**1.8**	**1.6**	**-**	**10.8**
Transformation Programme Opportunities*	**-**	****9.1**	**7.1**	**7.2**	**7.2**	**30.6**
Total	**16.3**	**19.8**	**11.3**	**11.3**	**9.8**	**52.2**
Positive Cashflow/(Negative Cashflow)	**-**	**9.1**	**(0.8)**	**(0.3)**	**(1.1)**	**6.9**

*** Excludes Implementation Costs**

****Any savings achieved during 2017-18 will be transferred to reserves in order to contribute to bridging the projected future funding gap over the term of the MTFP.**

Over the period of the MTFP, positive cashflow of £6.9m would be achieved, excluding Transformation Programme implementation costs. This would be enough to fund the guideline implementation costs (£6.8m) without utilisation of the "Invest to Save" or "Service Reconfiguration" reserves (albeit they would have to be used to provide initial funding.) There is an assumption that savings from the Transformation Programme opportunities in the initial years would be reinvested as funding for the opportunities in the later years.

The **key risks** to highlight are:

1. It has been assumed in the above table that each of the Transformation Programme opportunities is fully deliverable and the potential base budget savings are realistic. The Transformation Board will have oversight of this programme and clarity on this issue will be provided by Easter 2017.
2. It has been assumed that there will be a 5% increase in Council Tax each year of the MTFP. This increase may not be approved by Members on an annual basis.

Addressing the Financial Challenge

Should the financial challenge over the four year period of the MTFP 2017-18 to 2020-21 not be as significant as predicted or the savings generated exceed expectations, additional funds would be available for the provision of services to the customers of the Council or the burden of a 5% Council Tax increase on local residents could be reduced.

Conclusion

The Council is not in unchartered territory in terms of having to bridge a significant funding gap having done so in 2014-15, 2015-16 and 2016-17, however, the scale of the **£45.3m** funding gap for the four year period of the MTFP 2017-18 to 2020-21 is considerable and will be extremely challenging.

The Council needs to transform in order to enable it to become a more innovative, modern, digitally enabled, commercially minded and high performing Council, which is resilient in continuing to provide quality services to its customers. This transformation will assist it in delivering the cost reductions/efficiencies/service transformation needed to bridge the funding gap. Time is not on our side and the Transformation Programme must be implemented as soon as is practicably possible if the Council is to have the best opportunity of bridging the funding gap.

The MTFP is a live document and as such it will be reviewed and updated on an ongoing basis, formally on an annual basis. The Council will continue to lobby Welsh Government for an improved "per capita" allocation of AEF and will work collaboratively with its neighbouring authorities and the public and voluntary sector in Pembrokeshire to deliver services to customers in the most efficient and cost effective manner. Finally, the Council will continue to consult and engage with local residents and all relevant stakeholders to glean their views on the services they want from the Council during these times of ongoing financial constraint.

Equalities Impact Assessment

The Council has a duty to provide an Equality Impact Assessment to support the budget planning process, in order to fully understand whether its proposals will have an adverse impact on any particular group of people or could result in direct or indirect discrimination. An assessment has been undertaken to meet the requirements of the Equality Act 2010 (Statutory Duties) (Wales) Regulations 2011.

Individual budget proposals which are deemed to be high or medium risk are likely to require full Equality Impact Assessments and these proposals should not be implemented until those assessments have been undertaken and properly considered.

Well-being of Future Generations Act Impact Assessment

The Council has a duty to provide a Well-being of Future Generations Act Impact Assessment which considers the five ways of working (long term, prevention, integration, collaboration and involvement), the sustainable development principle and the well-being goals.