Pembrokeshire County Council

Medium Term Financial Plan (MTFP)

2016-17 to 2019-20

“Identifying and Meeting the Financial Challenge”
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Introduction

This Medium Term Financial Plan (MTFP) 2016-17 to 2019-20 is 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 links closely with the Single Integrated Plan 2013-18, the Council’s Improvement Plan 2016-17, its Capital Investment Programme, its Treasury Management & Investment Strategy and its Strategic Asset Management Plan. The Council’s Budget Strategy for 2016-17, its plans to deliver a balanced revenue budget, and its capital programme are all detailed in the budget setting report for Council (10 March 2016). The Housing Revenue Account (HRA) Business Plan 2016-46 incorporates the financial strategy and plans for the Council’s housing stock.

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 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 sixteen corporate risks have a direct link to the MTFP:

- Delivery of the 21st Century Schools Programme
- Implementation of the Welsh Language Standards
- Achievement of Cost Reductions/Efficiencies
- Grant Funding (or its Cessation)
- Financial Capacity and Planning
- Increasing Demand and Demographics.
“Identifying the Financial Challenge”

Background

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.

The Welsh Government Minister for Public Services has proposed that Local Government revenue funding is set at £4.099bn for 2016-17. This represents a decrease of 1.4% (£57m) compared to 2015-16. Despite the further reductions in funding, this was a better settlement than Welsh Local Government was expecting.

The UK Government Secretary of State for Local Government & Communities has recently announced a 6.7% reduction in funding for English Local Authorities between 2016-17 and 2019-20.

Despite already being a low funded rural local authority, the Council’s resources have reduced considerably since 2013-14 and it is anticipated that this will continue, year on year, through significant reductions in funding received from Welsh Government.

In addition to this, the Council has to cope with annual pay, inflation and unfunded financial burdens, combined with significant demographic pressures and demand for social care. These all increase its costs and reduce its available resources.
**Welsh National Assembly Elections**

The Welsh National Assembly elections in May 2016 will be key to determining the direction of the Council’s MTFP for future years. The current Welsh Government’s plans for local government reorganisation in Wales from 2020 would see the Council merge with Carmarthenshire County Council and Ceredigion County Council. Should this be approved, all financial planning will be focussed on the reorganisation date and it is expected that Welsh Government will put stringent financial controls in place to limit spending, contracting and use of reserves. A key risk to the Council and its residents is that of Council Tax harmonisation with Carmarthenshire and Ceredigion, both of whom have their Band D County Council element of Council Tax 34% higher than Pembrokeshire. It would be for Welsh Government to determine whether Council Tax harmonisation would take place pre or post reorganisation and whether it would be funded by them or by local residents.

**Pembrokeshire County Council Elections**

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 summary of the Council’s projected funding gap for 2016-17 to 2019-20 is set out in the tables below. Aggregate External Finance (AEF) for 2017-18 to 2019-20 has been calculated using a 4.5% reduction (worst case scenario) and 2.5% reduction (best case scenario).
### Projected Funding Gap 2016-17 to 2019-20 (Worst Case Scenario)

<table>
<thead>
<tr>
<th>Pressures</th>
<th>2016-17 £m</th>
<th>2017-18 £m</th>
<th>2018-19 £m</th>
<th>2019-20 £m</th>
<th>Total £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction in Aggregate External Finance (AEF)*</td>
<td>3.1</td>
<td>7.1</td>
<td>6.7</td>
<td>6.4</td>
<td>23.3</td>
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<tr>
<td>Transfers into the AEF</td>
<td>1.3</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1.3</td>
</tr>
<tr>
<td>Workforce and Pay Pressures</td>
<td>3.4</td>
<td>2.1</td>
<td>1.4</td>
<td>1.4</td>
<td>8.3</td>
</tr>
<tr>
<td>Inflation and Demographic Pressures</td>
<td>4.1</td>
<td>1.6</td>
<td>3.7</td>
<td>2.4</td>
<td>11.8</td>
</tr>
<tr>
<td>15-16 Cost Reductions/Efficiencies Unachieved</td>
<td>2.0</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2.0</td>
</tr>
<tr>
<td>Unfunded Burdens/Loss of Specific Grant</td>
<td>1.0</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1.0</td>
</tr>
<tr>
<td>Individual Schools Budget (ISB)</td>
<td>2.4</td>
<td>0.7</td>
<td>0.7</td>
<td>1.0</td>
<td>4.8</td>
</tr>
<tr>
<td>Capital Financing Costs</td>
<td>(1.0)</td>
<td>-</td>
<td>0.5</td>
<td>0.5</td>
<td>0.0</td>
</tr>
<tr>
<td>Projected Funding Gap</td>
<td>16.3</td>
<td>11.5</td>
<td>13.0</td>
<td>11.7</td>
<td>52.5</td>
</tr>
</tbody>
</table>

*-2.0% for 2016-17 and -4.5% for 2017-18 to 2019-20

### Projected Funding Gap 2016-17 to 2019-20 (Best Case Scenario)

<table>
<thead>
<tr>
<th>Pressures</th>
<th>2016-17 £m</th>
<th>2017-18 £m</th>
<th>2018-19 £m</th>
<th>2019-20 £m</th>
<th>Total £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction in Aggregate External Finance (AEF)*</td>
<td>3.1</td>
<td>3.9</td>
<td>3.8</td>
<td>3.7</td>
<td>14.5</td>
</tr>
<tr>
<td>Transfers into the AEF</td>
<td>1.3</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1.3</td>
</tr>
<tr>
<td>Workforce and Pay Pressures</td>
<td>3.4</td>
<td>2.1</td>
<td>1.4</td>
<td>1.4</td>
<td>8.3</td>
</tr>
<tr>
<td>Inflation and Demographic Pressures</td>
<td>4.1</td>
<td>1.6</td>
<td>3.7</td>
<td>2.4</td>
<td>11.8</td>
</tr>
<tr>
<td>15-16 Cost Reductions/Efficiencies Unachieved</td>
<td>2.0</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2.0</td>
</tr>
<tr>
<td>Unfunded Burdens/Loss of Specific Grant</td>
<td>1.0</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1.0</td>
</tr>
<tr>
<td>Individual Schools Budget (ISB)</td>
<td>2.4</td>
<td>0.7</td>
<td>0.7</td>
<td>1.0</td>
<td>4.8</td>
</tr>
<tr>
<td>Capital Financing Costs</td>
<td>(1.0)</td>
<td>-</td>
<td>0.5</td>
<td>0.5</td>
<td>0.0</td>
</tr>
<tr>
<td>Projected Funding Gap</td>
<td>16.3</td>
<td>8.3</td>
<td>10.1</td>
<td>9.0</td>
<td>43.7</td>
</tr>
</tbody>
</table>

*-2.0% for 2016-17 and -2.5% for 2017-18 to 2019-20

For the purposes of the MTFP, we have assumed the worst case scenario in respect of the projected funding gap and the minimum expectation in respect of the future cost reduction/efficiency 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.
Availability of Funding for All Council Services

The Council’s overall net expenditure budget has reduced over recent years, although the Education budget has been afforded protection by Welsh Government and the Social Care budget (predominantly Adult Social Care) has been subject to significant annual inflationary and demographic pressures.

Former MTFP 2015-16 to 2019-20 - Net Expenditure Budget Projection

Current MTFP 2016-17 to 2019-20 - Net Expenditure Budget Projection
As can be seen from the first graph, the Council’s net expenditure budget was predicted to reduce significantly over the four year period of the MTFP, whilst the Education and Social Care net expenditure budgets were predicted to increase, taking up an ever increasing percentage of the Council’s net expenditure budget. The effect of this would be limited resources available to fund all other Council Services by the end of the MTFP in 2019-20.

As can be seen from the second graph, the Council has started to address this scenario in its budget setting for 2016-17. The reduction in Aggregate External Finance (AEF) for 2016-17 was £4.1m less than anticipated and the combined increase in the Council Tax base and the proposed 5% increase in Council Tax for 2016-17 (0.5% more than predicted) will generate an additional £0.6m. Whilst the Education net expenditure budget has increased by £367k (0.4%) over the 2015-16 revised budget and £371k (0.4%) over the 2015-16 original budget, this was after accounting for cost reductions/efficiencies of £2.7m. The Social Care net expenditure budget has increased by only £30k (0.05%) over the revised 2015-16 budget and £903k (1.6%) over the original 2015-16 budget, but this was after accounting for cost reductions/efficiencies of £5.0m, £4.0m within Adult Social Care.

The combined effect of this is that the Education and Social Care net expenditure budgets are taking a lesser percentage of the Council’s net expenditure budget for 2016-17 than was predicted, albeit by 2019-20 there will still only be limited resources to fund all other Council Services. In order to address this, despite the significant cost reductions/efficiencies within the Education and Social Care budgets for 2016-17, further cost reductions/efficiencies will need to be identified for 2017-18 to 2019-20.
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 2016-17 will account for 47.7% of the Council’s total income. Council Tax received from residents will contribute a further 13.8%, with the remaining 38.5% coming from sources such as specific Government and European grants and income from fees and charges, as shown in the table below.

Council Income 2015-16 and 2016-17

<table>
<thead>
<tr>
<th>Income Source</th>
<th>2015-16 Original £m</th>
<th>% Total Income</th>
<th>2015-16 Revised £m</th>
<th>2016-17 Original £m</th>
<th>% Total Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate External Finance (AEF)</td>
<td>160.0</td>
<td>48.2</td>
<td>160.0</td>
<td>156.9</td>
<td>47.7</td>
</tr>
<tr>
<td>Council Tax</td>
<td>42.8</td>
<td>12.9</td>
<td>42.8</td>
<td>45.3</td>
<td>13.8</td>
</tr>
<tr>
<td>Discretionary Fees and Charges</td>
<td>14.7</td>
<td>4.4</td>
<td>14.2</td>
<td>15.1</td>
<td>4.6</td>
</tr>
<tr>
<td>Statutory Charges</td>
<td>6.1</td>
<td>1.8</td>
<td>6.8</td>
<td>6.4</td>
<td>1.9</td>
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<tr>
<td>Rents</td>
<td>23.1</td>
<td>7.0</td>
<td>23.0</td>
<td>24.1</td>
<td>7.3</td>
</tr>
<tr>
<td>Sales</td>
<td>1.8</td>
<td>0.5</td>
<td>1.3</td>
<td>1.2</td>
<td>0.4</td>
</tr>
<tr>
<td>Agency, Reimbursements and Contributions</td>
<td>17.9</td>
<td>5.4</td>
<td>19.0</td>
<td>18.7</td>
<td>5.7</td>
</tr>
<tr>
<td>Interest (Including Net Investment Income)</td>
<td>0.5</td>
<td>0.2</td>
<td>0.5</td>
<td>0.5</td>
<td>0.2</td>
</tr>
<tr>
<td>Government Grants</td>
<td>64.5</td>
<td>19.4</td>
<td>66.2</td>
<td>60.3</td>
<td>18.4</td>
</tr>
<tr>
<td>Other Income (Contribution from Reserves)</td>
<td>0.7</td>
<td>0.2</td>
<td>2.2</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Total</td>
<td>332.1</td>
<td>100.0</td>
<td>336.0</td>
<td>328.6</td>
<td>100.0</td>
</tr>
</tbody>
</table>
Aggregate External Finance (AEF)

In announcing the provisional settlement for 2016-17, the Welsh Government Finance Minister commented that “the Welsh Government had faced a 3.6% cut in UK Government funding over five years, once the effects of inflation were taken into account”.

The Welsh Government Minister for Public Services has proposed that Local Government revenue funding is set at £4.099bn for 2016-17. This represents a decrease of 1.4% (£57m) compared to 2015-16. Despite the further reductions in funding, this was a better settlement than Welsh Local Government was expecting.

The allocation of AEF for the Council has decreased considerably year on year since 2013-14 and Welsh Government had advised local authorities to plan for continued reductions in the medium term, at the same time as they are affording other areas of the public sector a significant level of protection.

The Council received a reduction in its provisional AEF of £3.1m (2.0%) for 2016-17. When adjusted for the £1.3m transfer of the Outcome Agreement Grant into the settlement, the reduction in the AEF is £4.4m (2.8%) for 2016-17. These pressures have been built into the budget for 2016-17.

Welsh Government have indicated that they will not be providing any indicative allocations of AEF for future years, therefore, this MTFP has been based on AEF annual reductions of 4.5% for 2017-18 to 2019-20 (worst case scenario), with sensitivity analysis undertaken on an annual reduction of 2.5% (best case scenario). Over the four year period of the MTFP, it could mean a £23.3m reduction in AEF (worst case scenario) and a £14.5m reduction (best case scenario), however, the MTFP has been planned around the worst case scenario.

Rural Stabilisation Grant

It has been noticeable during recent years that rural local authorities are receiving the worst financial settlements from Welsh Government. The Council has received the 19th worst financial settlement for 2016-17 and this does not recognise the additional pressures faced by rural authorities such as providing community based services for older people over large geographic and sparse area and the provision of rural Schools.
The Council urged Welsh Government to seriously consider the request of the Welsh Local Government Association to identify a mechanism to address this issue, e.g. a Rural Stabilisation Grant. On 9 February 2016, the Welsh Government Finance Minister announced that the three rural local authorities with a worse financial settlement than Pembrokeshire would receive increases of between £109k and £1.93m in additional funding. Pembrokeshire did not receive any additional funding.

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 financial 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 (£45.3m for 2016-17).

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

**Band D Council Tax in Wales 2015-16**

![Band D Council Tax in Wales 2015-16](image)

For 2015-16, the Council had a Band D Council Tax of £801 which was £287 (26.4%) lower than the Wales average of £1,088.
As part of the budget and council tax setting process for 2016-17, the Council are being recommended to increase Council Tax by 5.0%. This will be the highest Council Tax rise ever set but the additional income is 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 approximately £2.15m in 2016-17, approximately £431k per percentage increase. The £350k difference between this and the £2.5m to be generated by Council Tax in 2016-17, is generated by an increase in the Council Tax base for 2016-17.

The level of Council Tax increase for 2017-18 to 2019-20 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 majority view from the budget consultation and engagement exercises undertaken during 2015-16. 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.

**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 £58m in 2016-17 (based on 2015-16 collection levels), but it will only retain £37m, with the remainder going into the national funding system. The Council is a significant net loser in the current system.

**Fees and Charges**

The Council expects to generate £64.3m from fees and charges in 2015-16 and plans to generate £65.5m in 2016-17. In respect of its discretionary fees and charges, the figures are £14.2m for 2015-16 and £15.1m for 2016-17.
The Council recently undertook a high level review of its income generation and cost recovery processes resulting in an Income and Cost Recovery Strategy being put in place. 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.

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

- **Education Improvement Grant (EIG)** – This grant was created for 2015-16 by amalgamating 11 specific education grants, albeit the total grant was substantially reduced. It was understood that it would be moved into the AEF for 2016-17 but Welsh Government have decided to keep it as a grant. The ERW region will suffer a loss of grant totalling £1.9m (4.8%) for 2016-17, which could have an adverse impact on funding improvement for Pembrokeshire Schools.

- **Post 16 Education Grant** – This grant was reduced in 2015-16 and has been reduced again for 2016-17, with the Council suffering a loss of grant totalling £363k (7.39%) due to falling pupil numbers. This pressure has been built into the budget.
• Sustainable Waste Management Grant – This grant was amalgamated in 2015-16 with those previously received in respect of flood risk and “Tidy Towns” and rebranded as the Single Revenue Grant. The funding received under the new arrangement was significantly reduced in 2015-16, with a further reduction in 2016-17 along with an indication to expect further significant reductions over the next few years. On top of this the Environmental & Sustainable Development Directorate of Welsh Government have indicated that they expect the new Single Revenue Grant funding to now be utilised for a wider range of purposes such as biodiversity, where other funding reductions have been made. Intelligence suggests the grant will be reduced by at least 25% for 2016-17 so a £400k pressure has been built into the budget. Pressures for future years will be added to the MTFP as soon as there is clarity over the level of future reductions.

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 2015-16 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.

There is a significant risk that if following a national referendum, the UK Government were to exit from the European Union, Pembrokeshire would lose a significant number of opportunities to obtain European grant funding.
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, or Welsh Government where powers are increasingly devolved, e.g. Welsh Language Standards. These pressures 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)

As in previous years, Welsh Government have confirmed the protection of Education (School) budgets in the provisional settlement for 2016-17, protecting their funding at 1% above the Welsh Government’s block grant settlement from the UK Government. This equates to protection of 1.85% after adjusting for pupil number fluctuations. The protection was applied after accounting for the Council’s reduction in AEF and resulted in the Individual Schools net expenditure budget for 2016-17 increasing by £547k when compared to the revised 2015-16 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 is maintained each year but does not increase, therefore the annual increase in the Council Tax benefit payments paid by the Council is a pressure on the budget. For 2015-16, the anticipated £300k pressure is now looking to materialise at only £100k, but a pressure of £350k has been built into the budget for 2016-17.

Impacts of Legislation and Case Law

The introduction of new legislation, especially in the field of social care, e.g. Social Services Bill and Deprivation of Liberty Safeguards (DOLS) Case Law, can affect the way services are to be provided and people’s rights. Council’s have to manage the financial impact of changes in the law within their existing budget, without any additional financial support from Government.
As an example, the Council attempted to contain DOLS within existing service budgets but a pressure of £83k has had to be built into the budget for 2016-17.

**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. This capital programme is the most significant the Council has ever undertaken with significant planned expenditure of £55.6m in 2016-17 and £62.5m in 2017-18 dwarfing the Council’s core capital programme.

Welsh Government has committed to fund £75m (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 £75m from the 21st Century Schools Capital Fund and Capital Receipt Reserve £35.3m, other contributions £5.0m, supported borrowing £27.6m and unsupported borrowing £7.0m. The level of unsupported borrowing will depend on the level of capital receipts derived from the sale of assets prior to March 2019. The need for unsupported borrowing to finance the Council’s capital investment programme will result in additional capital financing costs estimated at £500k per annum for 2018-19 and 2019-20 and these have been factored into the MTFP.

**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. Significant changes and financial challenges during 2015-16, namely the £80.7m 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) were implemented. 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.

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 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 0.5%) 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 2014-15 Local Development Plan Annual Monitoring Report. The Employment and Earning indicators for the period 2012 to 2014, comparing Pembrokeshire with Wales and GB as a whole, have been extracted and are shown in the table below.

<table>
<thead>
<tr>
<th>Employment and Earning Indicators</th>
<th>Pembrokeshire (Including the National Park)</th>
<th>Wales</th>
<th>GB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployed December 2012</td>
<td>6.4%</td>
<td>8.3%</td>
<td>7.9%</td>
</tr>
<tr>
<td>Unemployed December 2013</td>
<td>7.1%</td>
<td>7.9%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Unemployed December 2014</td>
<td>5.7%</td>
<td>6.8%</td>
<td>6.2%</td>
</tr>
<tr>
<td>In Employment December 2012</td>
<td>69.4%</td>
<td>67.3%</td>
<td>70.7%</td>
</tr>
<tr>
<td>In Employment December 2013</td>
<td>69.4%</td>
<td>68.9%</td>
<td>71.3%</td>
</tr>
<tr>
<td>In Employment December 2014</td>
<td>71.6%</td>
<td>69.5%</td>
<td>72.4%</td>
</tr>
<tr>
<td>Gross Weekly Pay 2012</td>
<td>£419.90</td>
<td>£454.90</td>
<td>£508.30</td>
</tr>
<tr>
<td>Gross Weekly Pay 2013</td>
<td>£478.83</td>
<td>£475.30</td>
<td>£517.90</td>
</tr>
<tr>
<td>Gross Weekly Pay 2014</td>
<td>£432.50</td>
<td>£479.40</td>
<td>£520.80</td>
</tr>
</tbody>
</table>

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. As outlined in the Income section above, Pembrokeshire has not qualified for any Rural Stabilisation Grant.

Welsh Language Standards

A significant unfunded financial burden introduced for 2016-17 is 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 Council has estimated that in the worst case scenario, the cost of implementation could be as high as £1m. However, ways of achieving the standards without such significant costs will have to be identified and only a £300k pressure has been built into the budget for 2016-17.
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 £403k has been built into the budget for 2016-17.

Levies

The total levy on the Council for 2016-17 is £7.0m, roughly the same as in 2015-16. The PCNPA have reduced their levy by £46k but the Mid and West Wales Fire & Rescue Service have again increased their levy, this time by £48k (0.8%) after adjusting for population.
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 6,500 people, including those working in Schools. The annual cost of employing the workforce is in the region of £135m, 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 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 2016-17, this amounted to £1.2m, 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 £6.70 set in October 2015. 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 £7.20 per hour. The Council’s lowest rate of pay is currently £7.05 per hour, but this is likely to rise to £7.52 per hour based on the current NJC pay offer and will also incorporate the removal of spinal points at the lower end of the Council’s pay scale. The pressure, currently estimated to be more than £1m for 2016-17, has been built into the budget. An ongoing annual pressure of £400k 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 and this has been built into the budget as a £600k pressure for 2016-17. It is anticipated that many of the staff regraded in 2013-14 will reach their maximum spinal point in 2016-17, therefore there will be no additional pressure in future years. 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 2015-16 it was 15.4%. For 2016-17 to 2018-19 it has been confirmed as 15.5% so this additional pressure of 0.1%, £60k per annum, has been built into the budget for 2016-17 and 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. Under pensions reform the employers contributions for Teachers’ pensions are to be increased by 1.2% from 2016-17, a pressure of more than £500k for Schools which has been built into the budget.

**Employers National Insurance Contributions**

Pensions Reform is causing inflationary pressures. Under a change called the Single Pension Scheme, 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 will increase employer’s national insurance contributions by 1.8% in April 2016. This has resulted in a significant pressure of £2.3m being built into the budget for 2016-17, roughly split between School and non-School based staff.
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 2% has been built into the MTFP for water.

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 the past two years from a low of 2.2% to a high of 7.0%. There is a real risk that if building inflation rates remain at these levels, it will considerably reduce the buying power of the £149.9m capital investment in 21st Century Schools.

Insurance inflation for external premiums of 2% 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 £2m for 2016-17, predominantly in respect of Social Care contracting arrangements, have been built into the MTFP for 2016-17. These pressures include the impact of the implementation of the National Living Wage.
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 inflationary increases to reflect the need to raise prices in line with costs. Increases in charges in excess of inflation levels require Cabinet approval.

Demographics

The Adult Social Care element of the Council’s budget has increased significantly in recent years, primarily due to an 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 targets, however, there is an ongoing risk that the ever increasing demand will outstrip them.

This has resulted in a significant pressure of £3.6m being built into the budget for 2016-17; the £2.0m in respect of increases in the cost of social care contracting arrangements outlined above (including implementation of the National Living Wage) and £1.6m in respect of demographic pressures.

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.

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 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.

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 and 2011 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). 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.

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 Cost Reduction/Efficiency Programme and Transformation Programme.

In tandem with addressing the financial challenges, the Council will also build on the work undertaken during 2015-16 to embark on its journey of 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 Town and Community Council’s to increase their precepts in the future, in order to mitigate the impact of future cost reductions/efficiencies.
Cost Reduction/Efficiency Programme

Reductions in the AEF allocation from Welsh Government sparked the creation of the Cost Reduction/Efficiency Programme with a £1.6m requirement in 2013-14 followed by £11.4m in 2014-15 and £10.1m in 2015-16 (excluding Council Tax increases).

The requirement for the Cost Reduction/Efficiency Programme over the four year period of the MTFP is £42.8m, as shown in the table below.

<table>
<thead>
<tr>
<th>MTFP 2016-17 to 2019-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>16-17 £m</td>
</tr>
<tr>
<td>----------</td>
</tr>
<tr>
<td>Projected Funding Gap</td>
</tr>
<tr>
<td>Council Tax (5% Increase)*</td>
</tr>
<tr>
<td>Cost Reductions/Efficiencies</td>
</tr>
</tbody>
</table>

Council Tax

The low Council Tax ethos of the Council has resulted in a Band D Council Tax which is 26.4% lower than the Welsh average and 34% lower than its neighbours, Carmarthenshire County Council and Ceredigion County Council, whom it may be forced to merge with as part of the proposed local government reorganisation. The reason for proposing an annual Council Tax increase of 5% throughout the period of the MTFP is twofold, firstly the current low base and secondly, to mitigate the effect on local residents of any future harmonisation of Council Tax levels. The majority view from the budget consultation and engagement exercises undertaken during 2015-16 was for a Council Tax increase of 5%.

*The figures included in the table above incorporate assumptions in regard to increases to the Council Tax base, but should there be any increase over and above the assumptions made, this would generate additional council tax income for the Council.
Cost Reductions/Efficiencies

The required monetary value of cost reductions/efficiencies were achieved in 2013-14, 2014-15 and 2015-16 although achievement was not always via the cost reductions/efficiencies originally proposed. Approximately £2m of the proposed cost reductions/efficiencies for 2015-16 were not achieved, over £1m in Adult Social Care. The £2m was offset by cost reductions/efficiencies 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. The unachieved cost reductions/efficiencies have been rolled forward to 2016-17 and included in the budget as a pressure.

£19.5m (46%) of the £42.8m required cost reductions/efficiencies over the four year period of the MTFP have already been identified and allocated to specific service areas, as shown in the following table.
### Cost Reductions/Efficiencies Identified

<table>
<thead>
<tr>
<th>Service Areas</th>
<th>MTFP 2016-17 to 2019-20</th>
<th>16-17 £m</th>
<th>17-18 £m</th>
<th>18-19 £m</th>
<th>19-20 £m</th>
<th>Total £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost Reduction/Efficiency Requirement</td>
<td></td>
<td>13.8</td>
<td>9.2</td>
<td>10.6</td>
<td>9.2</td>
<td>42.8</td>
</tr>
<tr>
<td>Education Services</td>
<td></td>
<td>2.7</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2.7</td>
</tr>
<tr>
<td>Social Care – Children</td>
<td></td>
<td>1.0</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1.0</td>
</tr>
<tr>
<td>Social Care – Adults</td>
<td></td>
<td>4.0</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4.0</td>
</tr>
<tr>
<td>Housing General Fund</td>
<td></td>
<td>0.2</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.2</td>
</tr>
<tr>
<td>Highways &amp; Transportation Services</td>
<td></td>
<td>0.6</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.6</td>
</tr>
<tr>
<td>Culture &amp; Related Services</td>
<td></td>
<td>0.5</td>
<td>*0.8</td>
<td>-</td>
<td>-</td>
<td>1.3</td>
</tr>
<tr>
<td>Planning &amp; Development Services</td>
<td></td>
<td>0.5</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.5</td>
</tr>
<tr>
<td>Environmental Services</td>
<td></td>
<td>0.9</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.9</td>
</tr>
<tr>
<td>Central, Corporate &amp; Democratic Services</td>
<td></td>
<td>0.6</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.6</td>
</tr>
<tr>
<td>Vacancy Management &amp; In Year Savings (Net)</td>
<td></td>
<td>0.4</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
<td>1.9</td>
</tr>
<tr>
<td>Capital Financing Costs (Including MRP)</td>
<td></td>
<td>2.4</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2.4</td>
</tr>
<tr>
<td>Council Tax (2nd Homes)*</td>
<td></td>
<td>-</td>
<td><strong>3.4</strong></td>
<td>-</td>
<td>-</td>
<td>3.4</td>
</tr>
<tr>
<td><strong>Total Cost Reductions/Efficiencies Identified</strong></td>
<td></td>
<td>13.8</td>
<td>4.7</td>
<td>0.5</td>
<td>0.5</td>
<td>19.5</td>
</tr>
<tr>
<td><strong>Cost Reductions/Efficiencies to be Identified</strong></td>
<td></td>
<td>-</td>
<td>5.5</td>
<td>11.1</td>
<td>9.7</td>
<td>26.3</td>
</tr>
</tbody>
</table>

*Early Development Stage Only  **Consultation Stage Only

Specific detail, risks and impacts behind each of the cost reductions/efficiencies identified has been included in the 2016-17 budget setting report for Council and in presentations given to Members.
Transformation Programme

It was evident during the budget setting exercise for 2015-16 that the salami slicing approach to identifying cost reductions/efficiencies was no longer an effective or efficient mechanism and full scale transformation would be required in order to deliver the significant cost reductions/efficiencies for future years. It was recognised that the Council needed to:

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

Due to this, 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 of opportunities 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 the opportunity to realise cost reductions/efficiencies additional to those identified above, as shown in the table overleaf.

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.
Future Cost Reduction/Efficiency Opportunities

<table>
<thead>
<tr>
<th>Transformation Programme Opportunities for Future Cost Reductions/Efficiencies</th>
<th>Identifying Work stream</th>
<th>Potential Full Year Base Budget Saving (Excludes Implementation Costs)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>16-17 £m</td>
</tr>
<tr>
<td>Operating Model Design</td>
<td>1 and 3</td>
<td>-</td>
</tr>
<tr>
<td>Income Growth/Full Cost Recovery</td>
<td>1 and 3</td>
<td>-</td>
</tr>
<tr>
<td>Establishment Control</td>
<td>1 and 3</td>
<td>1.0</td>
</tr>
<tr>
<td>Efficient and Effective Procurement</td>
<td>1, 2 and 3</td>
<td>-</td>
</tr>
<tr>
<td>Service Prioritisation</td>
<td>1 and 3</td>
<td>-</td>
</tr>
<tr>
<td>Customer Offering</td>
<td>1, 2 and 3</td>
<td>-</td>
</tr>
<tr>
<td>Strategic and Support</td>
<td>1, 2 and 3</td>
<td>-</td>
</tr>
<tr>
<td>Information Management</td>
<td>2 and 3</td>
<td>-</td>
</tr>
<tr>
<td>Digitally Enabled Re-design</td>
<td>2 and 3</td>
<td>-</td>
</tr>
<tr>
<td>Assets and Agile</td>
<td>1, 2 and 3</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>1.0</td>
</tr>
</tbody>
</table>

*Excludes Implementation Costs

A fully detailed business case will be developed for each of the transformation opportunities identified above and this 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.

<table>
<thead>
<tr>
<th>Guideline Implementation Costs</th>
<th>16-17 £m</th>
<th>17-18 £m</th>
<th>18-19 £m</th>
<th>19-20 £m</th>
<th>Total £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Assumed 30% of Following Year Saving)</td>
<td>3.3</td>
<td>1.4</td>
<td>4.8</td>
<td>-</td>
<td>9.5</td>
</tr>
</tbody>
</table>
The timescale for implementation of these transformation opportunities is such that early investment will be needed, e.g. Investment early in 2016-17 will be required in order to fully implement the transformation and generate a full year cost reduction/efficiency from 2017-18.
Earmarked Reserves

In accordance with its existing Strategy for Holding and Utilising Reserves, the Council has established a number of earmarked revenue and capital reserves to fund predicted liabilities and provide resources for service improvement and delivery. A revised Strategy for Holding and Utilising Reserves will reported to Cabinet in February 2016 and Full Council in March 2016.

Working Balances

From 2016-17, the Council will maintain a Council Fund working balance of £7.0m and an HRA working balance of £0.75m to cushion the impact of emergencies, offsetting the impact of uneven cash flow and as a general contingency. Interest earned on the working balance and positive cash flow is credited and therefore supports revenue service expenditure.

Capital Reserves (Excluding HRA)

At the end of 2015-16 the Council will hold capital reserves of £18.3m, however these will decrease substantially to only £2.4m during 2016-17 as the 21st Century Schools capital reserve is utilised to fund programme expenditure.

Earmarked Revenue Reserves

At the end of 2015-16 the Council will hold earmarked revenue reserves of £23.7m, each reserve being held for a specific purpose and at a prudent level.

Invest to Save and Service Reconfiguration

The Council has created two earmarked reserves from within existing funds; an “Invest to Save” reserve of £4.0m and a “Service Reconfiguration” reserve of £1.9m for the purposes of early investment in the transformation opportunities outlined above. These are part of the £23.7m earmarked revenue reserves.

An additional “Invest to Save/Service Reconfiguration” budget of £2.1m has also been identified for 2016-17 in order to provide necessary funding to develop the opportunities identified and generate future cost reductions/efficiencies.
Schools and Related Reserves

The Council currently holds Schools and related reserves of £5.3m, which will reduce marginally over the four year period of the MTFP.

Utilisation of Reserves

The Council does not plan to use any of its Earmarked Reserves or Working Balance to balance the budget during the four year period of the MTFP.
Summary and Conclusion

The savings generated by the Cost Reduction/Efficiency Programme and Transformation Programme, combined with an annual 5% increase in Council Tax will be sufficient to meet the £52.5m financial challenge over the four year period of the MTFP 2016-17 to 2019-20, as shown in the table below.

<table>
<thead>
<tr>
<th>Meeting the Financial Challenge</th>
<th>MTFP 2016-17 to 2019-20</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>16-17 £m</td>
</tr>
<tr>
<td>Projected Funding Gap</td>
<td>16.3</td>
</tr>
<tr>
<td>Council Tax (5% Increase)</td>
<td>2.5</td>
</tr>
<tr>
<td>Existing Cost Reduction/Efficiency Programme</td>
<td>13.8</td>
</tr>
<tr>
<td>Transformation Programme Opportunities*</td>
<td>1.0</td>
</tr>
<tr>
<td>Total</td>
<td>17.3</td>
</tr>
<tr>
<td>Positive Cashflow/(Negative Cashflow)</td>
<td>1.0</td>
</tr>
</tbody>
</table>

* Excludes Implementation Costs

Over the period of the MTFP, positive cashflow of £7.3m will be achieved, excluding implementation costs.

Funding the Implementation Costs

The guideline implementation costs are shown in the table below.

<table>
<thead>
<tr>
<th>Guideline Implementation Costs</th>
<th>16-17 £m</th>
<th>17-18 £m</th>
<th>18-19 £m</th>
<th>19-20 £m</th>
<th>Total £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Assumed 30% of Following Year Saving)</td>
<td>3.3</td>
<td>1.4</td>
<td>4.8</td>
<td>-</td>
<td>9.5</td>
</tr>
</tbody>
</table>

(Assumed 30% of Following Year Saving)
The positive cashflow of £7.3m combined with the “Invest to Save” reserve of £4.0m and the “Service Reconfiguration” reserve of £1.9m will provide total funding of £13.2m for the implementation costs. Based on the £9.5m guideline implementation costs highlighted in the table above, this funding should be sufficient for this purpose. There is an assumption that savings from the opportunities in the initial years will be reinvested as funding for the opportunities in the later years.

**Addressing the Financial Challenge**

Should the financial challenge over the four year period of the MTFP 2016-17 to 2019-20 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 2013-14, 2014-15 and 2015-16, however, the scale of the £52.5m funding gap for the four year period of the MTFP 2016-17 to 2019-20 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 needed to bridge the funding gap. Time is not on our side and the transformational work must commence immediately if the Council is to have the best opportunity of achieving the cost reduction/efficiency targets required.

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 allocation of AEF and will work 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 parties 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.