

**FLINTSHIRE COUNTY COUNCIL**

**REPORT TO:**           **CABINET**

**DATE:**                 **TUESDAY, 16 OCTOBER 2012**

**REPORT BY:**         **HEAD OF FINANCE**

**SUBJECT:**           **MEDIUM TERM FINANCIAL PLAN 2013/14-2017/18  
AND BUDGET 2013/14**

**1.00   PURPOSE OF REPORT**

- 1.01   To provide an overview of the Council's approach to strategic financial planning, a reminder of the financial challenges which provide the backdrop to the financial planning environment and to set out the approach being taken to ensure Value for Money for the Council.
- 1.02   To provide an update on the development of the Medium Term Financial Plan 2013/14 to 2017/18.
- 1.03   To provide an update on planning for the 2013/14 revenue budget and the 10 year Capital Strategy.

**2.00   BACKGROUND**

- 2.01   The Council adopted its Medium Term Financial Strategy 2011-2015 in June 2011.
- 2.02   Plans for the development of the Medium Term Financial Strategy (MTFS) and the Medium Term Financial Plan (MTFP) for the five year period 2013/14 to 2017/18 were set out in a briefing note for all members of the outgoing Council in April. This was subsequently referred to in a report to Cabinet on 12<sup>th</sup> June and was circulated to and discussed with members of the Corporate Resources Overview and Scrutiny Committee on 5<sup>th</sup> July 2012.
- 2.03   The drivers for the development of the MTFP are:
  - 1.     Strategic financial planning is critical to matching financial resources to council priorities and improvement objectives, and to ensuring the sustainability of service delivery.
  - 2.     The MTFS is one of the major resource strategies which contribute to the council achieving its objective to be a modern, efficient and cost effective public organisation whilst ensuring local taxes and fees and charges are fair and affordable.

3. Responding to the formal recommendation of the Wales Audit Office's Annual Improvement Report 2011 which set out that "The Council needs to complete its work in quantifying the financial benefits of its programme for efficiencies and organisational change by mid 2012-13 to determine the remaining funding gap (shortfall or surplus) and then establish clear plans to identify further savings or re-direct resources to priorities".
- 2.04 In common with other Councils, Flintshire's finances have been significantly affected in recent years and particularly since 2011. This is forecast to continue for the foreseeable future, with considerable pressure being experienced across both revenue and capital budgets.
- 2.05 The "Flintshire Futures" programme adopted in 2010, sets out an ambitious and challenging programme to modernise and reshape service delivery and respond to the challenging financial scenario facing local government.
- 2.06 The Council's Improvement Priorities are set out in a report entitled 'Improvement Plan 2012 – 2017' which is also on this agenda.
- 2.07 The Cabinet paper on the MTFP of 12<sup>th</sup> June 2012 set out an overview of the financial challenges facing the Council and a strategic overview of the medium term financial planning framework and timetable.
- 2.08 A report produced by the Institute of Fiscal Studies 'Local Government Expenditure in Wales: Recent Trends and Future Pressures' funded by the Welsh Local Government Association was announced on 5<sup>th</sup> October which sets out the financial outlook in Wales over the next few years. Work is underway to assess this report and in particular the implications for Flintshire. However, it is not envisaged that the report will change the Council's financial planning assumptions for 2013/14 and 2014/15 which will allow the authority to take a strategic approach to meeting the changes that lie ahead.

### **3.00 STRATEGIC FINANCIAL PLANNING**

- 3.01 Strategic financial planning is critical to matching financial resources to Council priorities and improvement objectives, and to ensuring the sustainability of service delivery.

#### **Financial Planning Framework**

- 3.02 **The Medium Term Financial Strategy** provides a framework for the financial principles through which revenue and capital resources will be forecast, organised and managed to deliver the Council's vision and strategic objectives.

3.03 **The Medium Term Financial Plan** forecasts funding levels and resource requirements over the medium term, identifies the gap between the two, and enables specific actions to be identified to balance the budget and manage resources.

**Financial Challenges**

3.04 As previously reported in some detail in June, the financial challenges facing the Council come from a number of inter-related issues, which can be summarised as follows:-

- Pressure on the revenue and capital funding available to Councils as funding is reduced and/or falls behind the cost of delivering services.
- Increased revenue costs arising from inflation, demographic growth and service demands in a period of economic downturn which is bringing increasing client demand.
- The increased call on revenue resources to fund capital investment through borrowing arising from the restriction on capital support, grants and other funding streams.
- The identification of resources needed to protect services and to fund Council priorities for improvement and service growth including resources needed for 'Invest to Save' to re-shape services and drive through efficiencies.

3.05 In relation to funding, the forward projections provided to date by Welsh Government (WG) show increases in funding (known as AEF) of 1.1% and 0.4% in 2013/14 and 2014/15 respectively. The level of funding over the preceding years has been reduced by 1.7% and 0.2% in 2011/12 and 2012/13 respectively. The impact is that by 2014/15, the actual level of WG funding will be 0.4% lower than it was four years earlier.

As 80% of the funding for the revenue budget comes from Welsh Government (WG), the impact of funding not keeping pace with the increasing costs has potentially significant consequences.

In addition, there is continued ongoing pressure on specific grant funding which is reducing steadily and also on funding to support capital investment.

**4.00 VALUE FOR MONEY (VFM)**

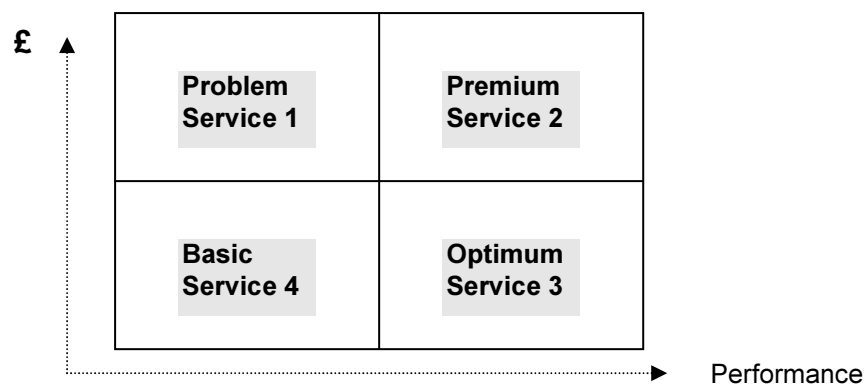
4.01 Central to the Council's objectives of modernising and re-shaping service delivery and responding to the challenging financial environment, is ensuring that we are achieving and demonstrating value for money.

4.02 Our aim is to put consideration of value for money at the heart of everything we do. In summary, this involves being clear on:-

- The nature of our costs.
- What the money is spent on and why?
- What is the outcome/product of the expenditure?
- What is our level of performance?
- How does this compare to others?
- Are we achieving our strategic and service objectives?
- How can costs be reduced to deliver the agreed level of service?

4.03 The VFM model shown in our MTF5 document is reproduced below. Value for money does not always mean providing the cheapest service. VFM is about achieving the optimum combination of costs and benefits to the organisation.

The Value for Money Model below categorises four types of service in VFM terms:-



1. **Problem Service** – High Cost and Low Performance.
2. **Premium Service** – High Cost and High Performance (Rolls Royce Service).
3. **Optimum Service** – High Performance and Low Cost.
4. **Basic Service** – Low cost but Low Performance.

4.05 The three components addressed in evaluating VFM are:-

**Economy:** How much do we spend?  
Measures the price paid for what goes into providing a service.

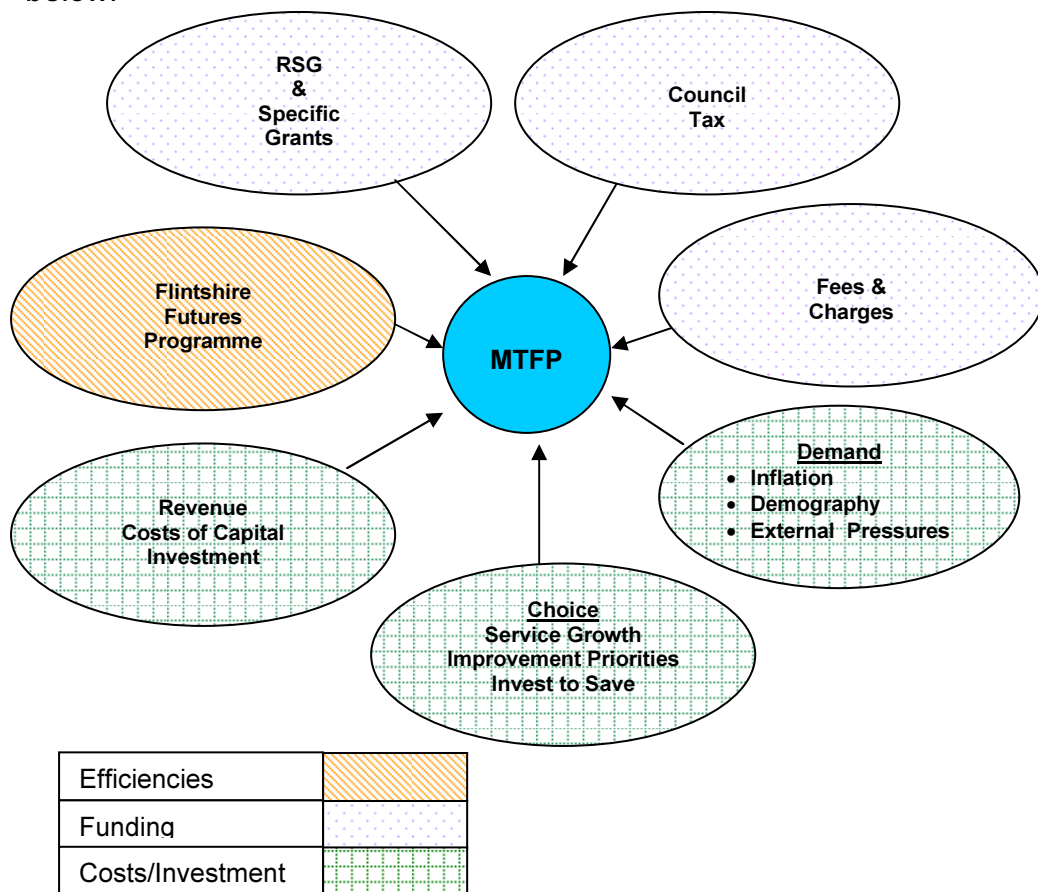
**Efficiency:** What do we get for our money?  
Measures productivity and performance in relation to the resources which are put in.

**Effectiveness:** What is the outcome for clients?  
Measures the impact achieved from using the resources. This can be quantitative or qualitative.

4.06 In order to assist the development and use of our VFM model and to promote a culture where VFM is at the heart of everything we do, there is a piece of work within the Finance Workstream of the Flintshire Futures Programme to produce a VFM strategy and process which can be used across the organisation and to roll this out in 2013/14.

**5.00 MEDIUM TERM FINANCIAL PLAN (MTFP) 2013/14 to 2017/18**

5.01 The Medium Term Financial Plan brings together into one place estimated funding, costs and efficiencies as shown in the diagram below.



5.02 The MTFP is being developed in accordance with the key financial objectives of the Medium Term Financial Strategy:-

- Ensuring that revenue and capital resources are targeted to achieve the Council’s priorities and strategic objectives.
- Fully integrating revenue and capital expenditure plans.
- Maintaining Council Tax increases to affordable levels.
- Optimising opportunities for income generation from fees, charges and grants.

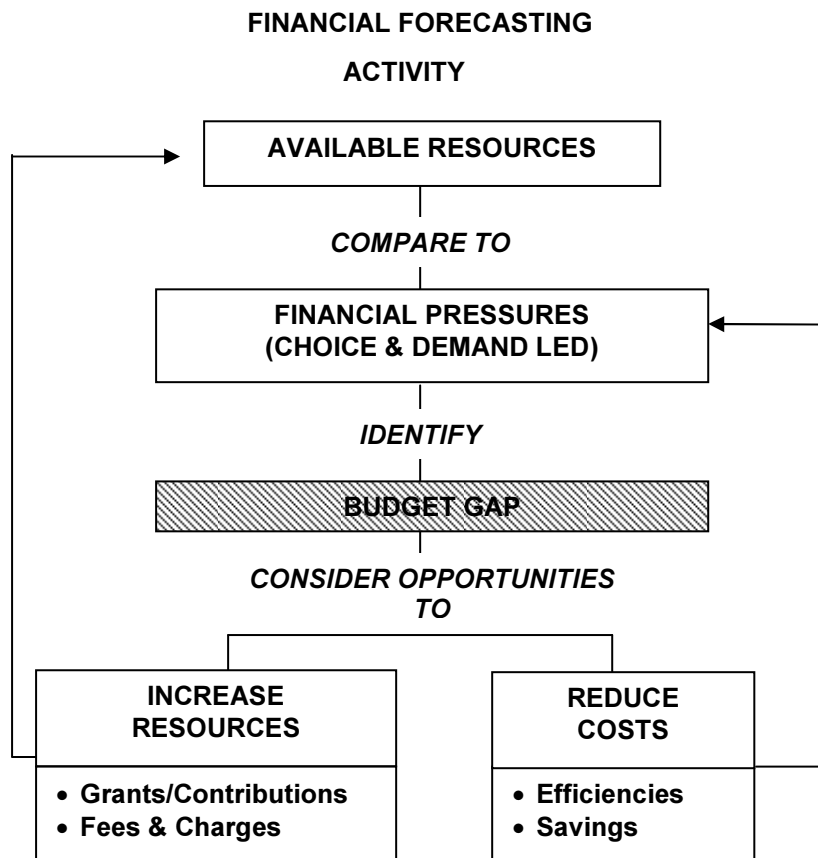
- Maintaining an appropriate level of reserves and provisions.
- Providing strong financial services, systems and processes to deliver and support the strategy and balanced financial budgets.

5.03 The work is progressing well and the commentary below sets out briefly the current position relating to the three broad strands of:

- Funding
- Costs / Investment
- Efficiencies

5.04 In developing the MTFP, the approach being taken utilises the forecasting model set out in the Medium Term Financial Strategy. This model applies equally to the detailed work of forecasting for the coming financial year and reaching a balanced budget position as it does to forecasting in broader terms for the later years within the five year plan. Whilst used mainly in relation to the revenue budget, its principles apply also to balancing costs against available funding for the capital programme.

Forecasting Model



## **Funding**

- 5.05 The estimate of WG funding (RSG) is based on the forward indications provided previously by WG. This and the estimate of specific grants, which is currently included at the 2012/13 level, will be updated following the announcement of the Provisional Local Government finance settlement which is due on 16<sup>th</sup> October and again following the final settlement on 6<sup>th</sup> December 2012.
- 5.06 Council Tax is included in line with the Council's policy of an annual rise of 3% to 3.5% and using the latest projections of the Council Tax base. The base for 2013/14, will be set as at 31<sup>st</sup> October which is the required date each year for tax setting purposes.
- 5.07 Income from Fees and Charges is based on those fees and charges currently charged with an assumed 3% increase for those charges where the Council has the power to set the charges. The introduction of any new fees and charges or to increase charges which are below market rates will be considered under efficiencies as described in 5.17 below.

## **Costs**

- 5.08 At this stage, estimates have been included for indicative forward planning purposes for inflation, demand led pressures, (including demography and economic impacts) and service investment costs to meet priorities and improvements. These are subject to ongoing refinement, challenge and review and will be part of the detailed budget considerations for 2013/14 and ongoing consideration by members of the MTFP for the following four years as the Plan is developed further.

At this stage, inflation is included as follows:

- Pay inflation – 1% per annum.
  - Price inflation – as needed in 2013/14. 2% in future years plus non standard inflation for specific items, e.g. energy
- 5.09 The national Welfare Reform Programme is bringing significant additional funding demands for 2013/14. These relate to reduced external funding for the new Council Tax support scheme than has previously been available to fund Council Tax Benefit, reduced administration grant for benefits administration and the anticipated increased demand on services as a result of the cumulative impact of the ongoing economic situation, the reduced benefit available towards Council Tax and the phased introduction of universal credit.
- 5.10 Whilst planning assumptions have been included about pay inflation over the period, no estimates have been included on the future paybill following the agreement of a Single Status agreement (beyond the

provision which has been included since 2007/08 for an increase in a new pay and grading model and the assumed reduction in allowances already included in the base budget). The outcome of detailed pay modelling and negotiation over the Autumn/Winter of 2012 will come forward to members for consideration and agreement. Any increase in workforce costs or borrowing costs to finance the settlement of equal pay liability, will be included in the MTFP on agreement being reached by the Council.

5.11 Work on the development of the 10 year capital strategy is progressing. The two major strands which are of strategic importance and likely to require revenue funding to meet prudential borrowing costs are:

1. The Schools Modernisation Programme.
2. Asset rationalisation of County Buildings (part of the Flintshire Futures Programme).

These are in addition to the capital projects which arise from ongoing operational needs and which form the core of the rolling capital programme.

5.12 Work is being undertaken during October to review all capital estimates including those previously proposed for inclusion in the 10 year plan, school modernisation in line with the proposals agreed in July and which will go out to consultation in early November and from the assets rationalisation workstream. Following completion of the work, the revenue implications will be integrated into the MTFP to update the financial projections

### **Efficiencies**

5.13 The Flintshire Futures Programme brings together efficiencies from four main areas:

- Corporate change
- Service Reviews
- Regional collaboration
- Local collaboration

5.14 The main workstreams of the Corporate Change block are:

- Assets
- Customer
- Finance
- Procurement
- Workforce



Each of these workstreams has a detailed programme of work. Programme leads and support officers are in place and the whole portfolio or work is overseen by the Flintshire Futures Board which has a supporting governance structure to ensure progress is made and that projects within each workstream are delivered to achieve the stated goals / outcomes.

- 5.15 Remaining efficiencies flowing through from the Service Review block are associated with reviews which were included at the inception of the Flintshire Futures programme and which are now concluding or are in second phases e.g the Administration Review. Future reviews are likely to be undertaken within the Workforce and / or Service Change blocks of Corporate Change to maintain consistency of approach and to avoid overlap.
- 5.16 Efficiencies from collaboration at a Wales, Regional (North Wales), or Local (Sub Regional) level will emanate from projects contained within the Compact between Welsh Government and Welsh Local Government e.g. Regional School Improvement Service and / or from other opportunities which are being pursued with other public sector bodies.
- 5.17 Work to quantify the efficiencies from the Flintshire Futures Programme is progressing well with the focus being on the corporate change projects covering Procurement, Workforce, Service Change and Fees & Charges. Once proposals have been agreed with Members over the next month or so they will be included in the Medium Term Financial Plan and will be subject to detailed consideration as part of the 2013/14 budget.
- 5.18 The completion of the ongoing work in relation to funding, costs/investment and efficiencies will enable the Council to determine the remaining funding gap and then be in a position to establish clear plans to identify further savings and / or redirect resources to priorities.

## **6.00 BUDGET PLANNING FOR 2013/14**

### **Revenue Budget**

- 6.01 Detailed budget planning for 2013/14 is being carried out in accordance with the financial planning and operating principles set out in the Medium Term Financial Strategy and utilises the forecasting model (described in 5.04 above) to forecast and review funding, costs / investment needs and efficiency options. Particular emphasis is being placed on:
- Understanding the implications for service delivery and customers
  - Examining value for money and alternative options
  - Challenge of existing and potential new costs

- Minimising new pressures
- Maximising all opportunities for efficiency
- Accuracy of forecasting
- A risk based approach

- 6.02 The projection for 2013/14 and 2014/15 included in the 2012/13 budget report in March 2012 set out a preliminary position which showed a budget gap for 2013/14 of £2.336m rising by a further £2.970m for 2014/15 to a gap of £5.306m. This was on the basis of the projected funding from Welsh Government, the roll forward of the 2012/13 budget and any full year effects for future years budgets and provision for pay and price inflation. The latest announcement on 5<sup>th</sup> October (see para 2.08) has not changed these assumptions.
- 6.03 In June it is was reported that for planning purposes on the basis of the level of new pressures required in previous years budgets, it was reasonable to assume that the budget gap in 2013/14, against which efficiencies would need to be found to produce a balanced budget, would be in the order of £8m to £9m with a similar situation being the case in 2014/15. This was reported as £17m over two years.
- 6.04 In early July, on receipt of all potential budget items for funding in 2013/14, the budget gap rose to £11m. The work which has been carried out over the summer period, described in 6.06 below has reduced this back to a budget gap of £8.4m against which efficiencies need to be identified to balance the budget. Of this £8.1m is ongoing cost and £0.300m is one-off expenditure. For consistency with previous reports, this would be £15m over two years using similar planning assumptions and £35m over five years given the extended time horizon of the MTFP to 2017/18. This is before the inclusion of any costs to the revenue budget arising from the Single Status agreement and before the inclusion of borrowing costs to support the capital programme as set out in sections 5.10 to 5.11.
- 6.05 The target efficiencies from the Flintshire Futures Programme if achieved would generate £6.7m in the first year rising to £8.6m by year five. These are the subject of detailed plans which are being drawn up by Directorates principally in relation to procurement, workforce, fees and charges and service change.
- 6.06 In addition to the work to identify efficiencies, work is continuing to seek to reduce the budget shortfall through the following:
- Compressing pressures. Each directorate has undertaken a critical review of budget pressures, with follow up work in progress.
  - Assumptions included in the budget projection which relate to previous years have been reviewed. This work is complete.

- Inflation is being critically assessed and included only where there is a clear business case for inflation to be added and at the applicable rate for the specific item.
- Reviewing the final outturn for 2011/12 and in-year 2012/13 position to date to identify potential efficiencies which can contribute to the budget on an ongoing basis. This work is also identifying pressures in 2011/12 and the current year which have the potential to continue into 2013/14 and ensuring that they are part of the budget considerations.
- Reviewing reserves and balances to identify any amounts which can be released to fund one-off expenditure.
- Reviewing grant income streams.

### **Capital Programme**

6.07 Detailed work on the capital programme is taking place during October, as detailed in 5.11 and 5.12. A workshop is being planned for November to enable all members to participate in the development of the capital strategy.

### **7.00 NEXT STEPS**

7.01 The work on the MTFP and the Budget for 2013/14 is ongoing and will continue over the Autumn / Winter period. Alongside this work a review of the Medium Term Financial Strategy (including the updated MTFP) will commence for completion in March alongside the budget for 2014/15.

7.02 The budget timetable for 2013/14 is attached at Appendix 1. This indicates the points at which budget considerations will come forward to Cabinet, Scrutiny and Council and the points at which discussion will take place with School Budget Forum and FJTUC. The following paragraphs set out some of the key stages in the budget timetable.

7.03 The provisional local government settlement is due to be announced on 16<sup>th</sup> October. A note of the main points of the settlement will be made available to members. A detailed report on the provisional settlement along with a budget update will be made to the Cabinet in November. The final local government settlement is due to be announced on 6<sup>th</sup> December.

7.04 Initial revenue budget and capital programme proposals for 2013/14 are scheduled for consideration by Cabinet in December, prior to the annual round of scrutiny meetings taking place in January.

7.05 The scheduled date for the setting of the 2013/14 budget and the Council Tax is 1<sup>st</sup> March 2013 which will consider final proposals from the Cabinet in February.

**8.00 RECOMMENDATIONS**

8.01 Members are asked to note the contents of the report.

**9.00 FINANCIAL IMPLICATIONS**

9.01 The overall implications for the Council's financial position are set out in the report. However, there are no implications directly as a result of this report.

**10.00 ANTI POVERTY IMPACT**

10.01 None directly as a result of this report.

**11.00 ENVIRONMENTAL IMPACT**

11.01 None directly as a result of this report.

**12.00 EQUALITIES IMPACT**

12.01 None directly as a result of this report. The 2013/14 budget will be the subject of an Equalities Impact Assessment.

**13.00 PERSONNEL IMPLICATIONS**

13.01 None directly as a result of this report.

**14.00 CONSULTATION REQUIRED**

14.01 None at this stage.

**15.00 CONSULTATION UNDERTAKEN**

15.01 None at this stage.

**16.00 APPENDICES**

16.01 Appendix 1 – 2013/14 Budget Timetable.

**LOCAL GOVERNMENT (ACCESS TO INFORMATION ACT) 1985  
BACKGROUND DOCUMENTS**

Contact Officer: Kerry Feather  
Telephone: 01352 702200  
Email: [kerry.feather@flintshire.gov.uk](mailto:kerry.feather@flintshire.gov.uk)