



CABINET

Date of Meeting	Tuesday, 16 February 2016
Report Subject	Council Fund Revenue Budget 2016/17
Cabinet Member	Leader of the Council and Cabinet Member for Finance
Report Author	Corporate Finance Manager and Chief Executive
Type of Report	Strategic

EXECUTIVE SUMMARY

This report presents budget options for the closing Stage Two of the annual budget process. By deciding on these, and then adding them to the budget proposals adopted at Stage One in January, Cabinet will be in a position to recommend a balanced budget to full Council for 2016/17. The earlier and substantive Stage One budget report is appended to this report for reference.

The budget has been built up in two main stages. Stage One was concluded in January. At the end of Stage One the remaining budget 'gap' to be closed stood at £3.447M. Cabinet has directed officers to develop options for the closing Stage Two from four work-streams: review of the new and emergent pressures; workforce; Council Tax; use of reserves and balances. The Stage Two options presented within this report are drawn from those four work-streams and from these alone.

The report includes a summary risk assessment of the budget and the formal opinions of the Corporate Finance Manager in their statutory role as Section 151 Officer, and of the Chief Executive.

The final and complete budget will be drawn together by Cabinet on the morning of Tuesday 16 February and will then be recommended to full Council on the afternoon of the same day. Council will be recommended to adopt a balanced budget, without any deferral, on that day, to meet its statutory duty in good time. Council will then meet again on 1 March. The purpose of this second Council meeting will be to pass the Council Tax resolution, including the Town and Community Council precepts, based on the budget resolution to be passed on 16 February.

A list of tables within the report is set out below as a guide:-

Table 1: Stage Two Budget Proposals

Table 2: A Complete and Balanced Budget

Table 3: Summary Risk Assessment

RECOMMENDATIONS

1	To consider the remaining options for the closing Stage Two of the annual budget process; and
2	To recommend to Council a final balanced budget based on a combination of the previously adopted Stage One budget proposals and the closing Stage Two options from within this report

REPORT DETAILS

1.00	PRESENTING THE SECOND STAGE OF THE COUNCIL FUND REVENUE BUDGET
	Conclusion of Stage One of the Budget Process
1.01	Cabinet have already agreed the majority of its proposals to achieve a balanced budget during Stage One of the budget process. The Stage One proposals adopted by Cabinet on 19 January were presented to the Corporate Resources Overview and Scrutiny Committee on 29 January (Appendix C). The Committee did not recommend the withdrawal or amendment of any of the proposals presented, or recommend any additional or alternative proposals for further work by officers. Further explanation was requested on the variations made to the Service Business Planning figures since the round of Overview and Scrutiny Committee meetings held in December (attached at Appendix A). At the conclusion of Stage One of the budget process the remaining budget 'gap' stood at £3.447M.
1.02	Cabinet has directed officers to develop proposals for the closing Stage Two from four work-streams: review of the new and emergent pressures; workforce; Council Tax; use of reserves and balances. As per the direction given by Cabinet, and as supported by all six overview and scrutiny committees, no new options have been sought from within service portfolios themselves. The Stage Two options presented within this report are drawn from those four work-streams and, in the opinion of the Chief Executive and Chief Officer Team, there are no other corporate sources from where efficiencies and savings could be identified and relied upon at this late stage of the budget process.

	Additional Service Issues for Consideration		
1.03	A service issue which was raised late in the budget was the provision of a weekly allowance to the clients of the Learning Disability Workplace Schemes. Cabinet, since the publication of the January budget report, has directed that this allowance be continued for 2016/17 and the budget reinstated. This will require a budget provision of £0.070M which has the impact of increasing the remaining gap to £3.517M.		
1.04	Discussions and negotiations are ongoing between the independent care providers and the councils which commission their services in residential, nursing, specialist care, domiciliary care, and direct payments social services over the rate of annual uplift to be made by commissioning councils to contribute to inflationary costs in the sector. Whilst some provision has been set aside by the Council in the corporate provision made for inflation, it is recognised that the inflationary pressures are higher in 2016/17 than in previous years specifically due to the impact of changes to the Minimum Wage and the incremental introduction of the Living Wage. Subject to the outcome of these negotiations the corporate provision may not be sufficient and there is a risk of a further financial pressure to be met in 2016/17 and later to be built into base costs for funding from 2017/18. Whilst the Council could draw further on reserves to meet this additional inflationary impact in 2016/17 this would not be sustainable from 2017/18. The North Wales councils are in discussion with the Betsi Cadwaladr University Health Board over the allocation of a proportion of the additional Intermediate Care Fund monies granted to the region by Welsh Government to subsidise commissioning costs to support the care sector. Any such allocation made would reduce or even mitigate this cost impact. For 2017/18 onwards Welsh Government will need to recognise in its annual budgets these high annualised inflationary pressures in the care sector for the sector to have a sustainable funding base. The risks are acute in Flintshire where the provider market is finely balanced with client demand rates, and a large proportion of residential and nursing homes are of relatively smaller size and therefore less resilient in accommodating inflationary pressures without financial support.		
1.05	The Provisional Settlement advised of an estimated reduction of £0.201M in the Single Environment Grant. Final notification of the allocation (received on 9 February) gave an amount of £2.998M which is £0.055M more than previously notified. This has the effect of reducing the new and emergent pressures total by the same amount.		
	Stage Two Budget Proposals		
1.06	The remaining Stage Two budget options are shown in Table 1 below and reflect how the amount of £3.517M will be met.		
	Table 1: Stage Two Budget Proposal		
	Work-Stream	Proposal with Risk Mitigation	£M
	<i>Review of New and Emergent Pressures</i>	Reduction of provision for the following new and emergent pressures listed in the attached report following reassessment of the likelihood of them impacting and of alternative	0.209

	ways of absorbing the costs (1) Leisure income (£0.070M) (2) Housing Benefit Subsidy (£0.043M) (3) Remittance Advice to Landlords (£0.041M) and (4) Sustainable Recycling Grant (£0.055M) <i>Acceptability Risk: none</i> <i>Workability Risk: low</i>	
<i>Workforce</i>	A managed further round of voluntary redundancies and reductions in other workforce costs notably overtime costs and agency worker costs. (The option of deferring automatic salary increments has been discounted in consultation with the Trade Unions): £0.500M A significant reduction in the number of posts eligible for essential car user allowances as a first phase of a review of travel allowances with fleet vehicles to be provided as an alternative mode of transport where required. The Trade Unions have been notified of this intention and are not in complete agreement at this stage: £0.500M <i>Acceptability Risk: medium</i> <i>Workability Risk: medium</i>	1.000
<i>Council Tax</i>	Setting Council Tax at 4.5% with the objectives of (1) maximising this local taxation income source to balance the budget (2) protecting the committed net increase of £0.869M in the contribution to schools through the schools funding formula, and the continuity of the community assets which are proceeding through the community asset transfer process and (3) closing the gap between Council planned expenditure and the Standard Spending Assessment. The recommended contribution of £0.862m to the budget gap is net of the increase in relation to the Council Tax Reduction Scheme (CTRS) of £0.103M. <i>Acceptability Risk: medium to high</i> <i>Workability Risk: none</i>	0.862
<i>Use of Reserves and Balances</i>	Deployment of reserves and balances, as a balancing figure, to meet both non-recurring and recurring budget pressures specifically for (1) the local costs pressures arising from the nationally imposed charging cap on domiciliary care charging (£0.500M), and for the Council Tax Reduction Scheme (CTRS) (£0.474M) and (2) a proportion of the costs of the new and emergent pressures (£0.455M).	1.429

		<p><i>Acceptability Risk: low</i> <i>Workability Risk: none for 2016/17 noting that any impacts for future years of meeting recurring costs through one-off use of reserves would have to be mitigated in the 2017/18 budget</i></p>	
	Other Adjustments	<p>Adjustment to the levy payable to North Wales Fire and Rescue Authority due to variations in the regional population base on which the per capital contribution per local authority is based: £0.010M</p> <p>Reduction in the annual contribution to GWE (Regional School Improvement Consortium) due to an agreed reduction of 1.6% to its contributory budget: £0.007M</p> <p><i>Acceptability Risk: none</i> <i>Workability Risk: none</i></p>	0.017
	Total		3.517
Council Tax and the Use of Reserves and Balances			
1.07	<p>Having taking into account the reduction in pressures and the additional efficiency options including workforce, the finalisation of the budget comes down to striking a balance between the level of Council Tax to be set and drawing upon reserves and balances.</p> <p>Several factors require careful consideration. These are the extent of the remaining 'gap' to be funded, the comparison of planned Council spend with the Standard Spending Assessment (SSA) as our national spending guideline, and the impact of using too high a level of reserves now on the 2017/18 budget later.</p> <p>The final recommended position has to be a balanced judgement and is a material factor in the formal advice of the Section 151 Officer.</p> <p>Although higher than in previous years the proposed increase in Council Tax of 4.5% is still 0.5% lower than the maximum allowable level of 5%, and the utilisation of £1.429M of reserves and balances is consistent with examples of recent local practice (e.g. utilisation of £1.450M in 2014/15) and is not at a level where sustainability of budget planning is unachievable against the latest Medium Term Financial Planning forecast.</p>		

Achieving a Complete and Balanced Budget																																							
1.08	<p>Through combining the Stage One budget proposals and the Stage Two budget options a balanced budget can be achieved as shown in Table 2 below</p> <p>Table 2: A Complete and Balanced Budget</p> <table border="1"> <thead> <tr> <th>Proposed Budget 2016/17</th> <th>£M</th> </tr> </thead> <tbody> <tr> <td>Funding</td> <td></td> </tr> <tr> <td>Aggregate External Funding (AEF)/RSG NNDR</td> <td>184.743</td> </tr> <tr> <td>Council Tax</td> <td>67.240</td> </tr> <tr> <td>Budget Requirement</td> <td>251.983</td> </tr> <tr> <td>Specific Grants (Estimated)</td> <td>34.159</td> </tr> <tr> <td>Use of Reserves</td> <td>1.429</td> </tr> <tr> <td>Total Funding</td> <td>287.571</td> </tr> <tr> <td>Expenditure</td> <td></td> </tr> <tr> <td>Base Budget Rolled Forward</td> <td>287.605</td> </tr> <tr> <td>Prior Year Budget Decisions Recurring (Appendix 6)</td> <td>8.845</td> </tr> <tr> <td>Prior Year Budget Decisions One off dropping out (Appendix 6)</td> <td>(0.730)</td> </tr> <tr> <td>Inflation (Appendix 7)</td> <td>2.193</td> </tr> <tr> <td>Pressures & Investments Recurring (Appendix 8)</td> <td>1.928</td> </tr> <tr> <td>Efficiencies - Business Planning (Appendix 9)</td> <td>(7.755)</td> </tr> <tr> <td>Efficiencies - Corporate Finance (Appendix 10)</td> <td>(3.527)</td> </tr> <tr> <td>Less Specific Grants 2015/16</td> <td>(35.147)</td> </tr> <tr> <td>Plus Specific Grants 2016/17 (Estimated Appendix 11)</td> <td>34.159</td> </tr> <tr> <td>Total Expenditure</td> <td>287.571</td> </tr> </tbody> </table>	Proposed Budget 2016/17	£M	Funding		Aggregate External Funding (AEF)/RSG NNDR	184.743	Council Tax	67.240	Budget Requirement	251.983	Specific Grants (Estimated)	34.159	Use of Reserves	1.429	Total Funding	287.571	Expenditure		Base Budget Rolled Forward	287.605	Prior Year Budget Decisions Recurring (Appendix 6)	8.845	Prior Year Budget Decisions One off dropping out (Appendix 6)	(0.730)	Inflation (Appendix 7)	2.193	Pressures & Investments Recurring (Appendix 8)	1.928	Efficiencies - Business Planning (Appendix 9)	(7.755)	Efficiencies - Corporate Finance (Appendix 10)	(3.527)	Less Specific Grants 2015/16	(35.147)	Plus Specific Grants 2016/17 (Estimated Appendix 11)	34.159	Total Expenditure	287.571
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1.09	<p>The budget proposals in this report set a budget requirement of £251.983M which is an amount of £1.748M below the calculated Standard Spending Assessment (SSA) of £253.731M. At this level of spend, the increase on the Band D Council Tax Rate (excluding Police and Town/Community Council precepts) is 4.5%. This equates to an increase of £46.14 on 2015/16 and a Band D rate of £1,071.41. The Council Tax</p>																																						

	system in Wales contains nine property bands ranging from Band A to Band I. In order to ensure consistency between councils when reporting Council Tax information it is agreed practice that all related information is expressed in terms of Band D equivalents.
	Schools Budget
1.10	A further Education and Youth Overview and Scrutiny Committee meeting was held on 19 January 2016 and no specific amendments were raised. There was a request to maintain the 1% uplift of the Schools Budget of £0.869M and for this investment to remain unchanged as part of the final balancing proposals. This request has been met in that there are no changes to the School Budget proposals within this report.
1.11	Since the January report confirmation of the Education Improvement Grant has been received which is in line with previous assumptions. It has also been confirmed that this grant will not transfer into the settlement in 2016/17.
	Unearmarked Balance and Earmarked Reserves
	Base Level of Unearmarked Reserves
1.12	The budget proposals do not change the current base level of reserves of £5.769M as set out in the January report which provide an additional safeguard in the current uncertain financial climate.
	Contingency Reserve
1.13	The monthly budget monitoring report has provided updates on the movements on the reserve and the Month 8 monitoring report shows an estimated balance of £4.379M in the Contingency Reserve as at 31 March 2016. It is recommended that this reserve is retained and its use considered within the context of the overall financial plan for 2016/17 and future years. Whilst the base level of reserves is a known sum which is set aside, the level of Contingency Reserve is based on the current estimate and is subject to change at the end of the financial year.
	Council Fund Earmarked Reserves
1.14	As outlined in the Reserves and Balances Protocol the level of Earmarked Reserves is now reported quarterly through the monthly budget monitoring report. Appendix B details the estimated closing balances for 2015/16 and 2016/17 for all reserves and balances. The Section 151 Officer is satisfied that the level of these reserves is appropriate (see also Section 1.19 – 1.25 below).
	Final Settlement Announcement
1.15	The Final Settlement is not due to be announced until the 9 March 2016 which presents challenges for all councils in setting a balanced budget within the statutory timescale, ensuring that there is sufficient time to deal with the practicalities of Council Tax billing in advance of the new financial

year.

Advice provided by Welsh Government is that there is unlikely to be any significant change from the allocation provided at the Provisional Settlement stage. Setting a budget based now, based on the Provisional Settlement, is considered to be low risk.

If there were to be any change in funding at the Final Settlement stage it is recommended that the level of utilisation of reserves is adjusted accordingly on the advice of the Corporate Finance Manager.

Medium Term Outlook

1.16 A full refresh of the Medium Term Financial forecast reflecting latest intelligence and demand expectations is underway. A high level indication of the initial amended forecast budget gap of £9.8M was shared with members at the Corporate Resources Overview and Scrutiny meeting. This will be increased to approximately £11M after taking into account the adjustment for the utilisation of reserves of £1.429M and other factors.

Budget Risk Assessment

1.17 A summary risks assessment is set out in Table 3 below.

Table 3: Summary Risk Assessment

Risk	Mitigation	Status
Impact of reductions in Specific Grant funds	The reductions in specific grants already notified by Welsh Government have been built into the budget through a combination of budget reductions and provision for new and emergent pressures. Few grants remain unconfirmed at this late stage of the budget process.	Amber
Inflationary impacts	A detailed risk assessment has been completed of the likely trends in and impacts of inflation with a medium level of financial provision included within the budget proposals. The Contingency Reserve provides an in-year safeguard for any un-met efficiency targets.	Amber
Failure to achieve income targets in full	Income targets have been set service by service based on careful calculations and trends in service use. The Contingency Reserve provides an in-year safeguard for	Amber

		any un-met efficiency targets.	
	Failure to achieve efficiency targets in full	Provided that there is no delay in decision-making around the specific budget proposals which still require further work/consultation then there is a high probability of efficiencies being achieved in full. The Contingency Reserves provides an in-year safeguard for any un-met efficiency targets. The Council has a track record of making other adjustments in-year to compensate for any unachieved efficiencies from other sources.	Amber
	Insufficient capacity to implement change programmes and projects to time and to financial target	Organisational capacity has been aligned to implement efficiency plans both within services and corporately. The option always remains to bring in additional external capacity and capability, or to adjust the allocation of internal capacity, as required.	Amber
	Impact of new and emergent pressures	Significant provision has been made in the draft budget to meet the new and emergent pressures which are evident at this late stage of the budget process.	Amber
	Over use of reserves and balances	Only partial use of set aside reserves and balances is made in the draft budget.	Green
	Sufficiency of remaining reserves and balances to meet unforeseen pressures	Neither the Contingency Reserve nor earmarked reserves have been drawn upon as part of the budget. The Contingency Reserve at £4M+ has the specific purpose of acting as a safeguard to meet unforeseen cost pressures and variations in-year.	Green
	Opinions of the Statutory Officers		
1.18	The formal opinions of the Corporate Finance Manager in their statutory role as Section 151 Officer, and of the Chief Executive, are set out below.		

	Opinion of the Corporate Finance Manager
1.19	Section 25 of the Local Government Act 2003 includes a specific duty on the Chief Finance Officer (for Flintshire this is the Corporate Finance Manager) to report to the Council when it is considering its budget and Council Tax setting on the robustness of the estimates and the adequacy of reserves. The Act requires the Council to have regard to this report in making its decisions in relation to the budget.
1.20	The 2016/17 budget has been set within the context of the Medium Term Financial Strategy and continues to recognise a significant reduction in the funding available to the Council from Welsh Government, being a 1.5% cash reduction in 2016/17 which follows a 3.4% reduction in 2015/16. The Council's budget strategy for dealing with this significant financial challenge has been clearly set out in detail for all stakeholders in previous budget reports and complemented by a range of member workshops and scrutiny sessions together with seven Community Engagement events.
1.21	For the estimates contained within the budget, all figures are supported by a clear and robust methodology with the efficiency proposals considered achievable and the pressures supported by evidenced method statements.
1.22	In September 2015 County Council approved a new Reserves and Balances Protocol which sets out how the Council will determine, manage and review the level of its Council Fund Balance and Earmarked Reserves taking into account relevant legislation and professional guidance. An outcome of this protocol was to report quarterly the level of Earmarked Reserves held to both Cabinet and Corporate Resources Overview and Scrutiny Committee which improves both the transparency and understanding of all reserves held by the Council.
1.23	The Council's overall level of reserves and balances is reviewed annually as part of the budget process and the adequacy and purpose of reserves held challenged, with any reserves no longer required at the same level made available for corporate use.
1.24	Supported by the above, I can confirm the reasonableness of the estimates contained in the proposed budget, having regard to the Council's spending needs in 2016/17 and the financial context within which the budget is being set. Inevitably in managing a budget of this scale across a large and diverse organisation variances will occur, but I believe that the budget assumptions represent a measured and acceptable level of risk. A robust programme for the delivery of the £11.282M of efficiencies within the budget and to the timescales set together with effective and disciplined in-year financial management will ensure that budgets are managed effectively with prompt action taken to mitigate any impacts should variances occur.
1.25	Within the context described above, I recommend that the Council should maintain the level of general balances of £5.769M which will safeguard its position and also enable it to plan ahead to meet future financial challenges as set out in the Medium Term Financial Strategy. The

	Contingency Reserve (currently estimated to be £4.379M) also provides further assurance around the Council's ability to manage any in-year variances should they not be able to mitigate from other areas which the Council has successfully been able to do in recent years.
	Opinion of the Chief Executive
1.26	My professional advice complements that of the Corporate Finance Manager as set out above.
1.27	The draft budget follows the Medium Term Financial Strategy adopted by the Council and is a balanced approach to achieving an annual budget, as required by law and the principles of good governance, whilst protecting the improvement objectives and public service duties and obligations of the Council.
1.28	As each year passes during a period of central government fiscal policy, a policy which necessitates annualised reductions in net public expenditure, then the challenge of setting an annual budget in this way becomes ever harder. As shown in the summary risk assessment in Table 3 the Council has to have a greater 'appetite' for risk. This is indeed the case for all public bodies. Provided that the risks are understood, the likelihood of their occurring and the impact they will make if they do so occur is assessed, and there are sufficient plans to mitigate those impacts in that eventuality, then the approach to risk can be supported. An underlying organisational risk is that there is less financial flexibility to adjust to new cost pressures in year as (1) budgets are more precisely based on forecast need with smaller margins for flexibility and error and (2) the total quantum of funding available to the Council as a corporate body is smaller than in past years.

2.00	RESOURCE IMPLICATIONS
2.01	As within the substantive Stage One budget report which is attached.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	As within the substantive Stage One budget report which is attached.

4.00	RISK MANAGEMENT
4.01	As within the substantive Stage One budget report which is attached.

5.00	APPENDICES AND ATTACHMENTS
	Appendix A: List of variations to the Service Business Planning figures from the version reported in December

	<p>Appendix B: Reserves and Balances</p> <p>Appendix C: Cabinet report of the Chief Executive and Corporate Finance Manager from January 2016 - Council Fund Revenue Budget for 2016/17</p>
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6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>As listed within the substantive Stage One budget report which is attached at Appendix C.</p> <p>The Budget Factsheets which are available on request and available in the Members' Services area for inspection.</p> <p>Contact Officer: Gary Ferguson Telephone: 01352 702101 E-mail: gary.ferguson@flintshire.gov.uk</p>

7.00	GLOSSARY OF TERMS
7.01	As set out within the substantive Stage One report which is attached.

Corporate Resources Overview & Scrutiny Committee 29th January 2016**Business Planning Efficiency Proposals – Changes since December O&S Committees****Streetscene & Transportation**

Proposal	Members Papers December 2015	Members Papers January 2016	Movement in Figures	Reasons
Rationalise HRC Sites	£425k	£250k	–£175k	Efficiency overstated by £175k in December papers. It had been increased incorrectly by the projected under achieved efficiency in 2015/16.
Removing the waste containers delivery service	£50k	Nil	–£50k	2015/16 proposal only. Included in 2016/17 in error.
Second Garden Waste bin charge	£25k	Nil	–£25k	2015/16 proposal only. Included in 2016/17 in error.
Review Subsidised Bus Routes	£100k	£75k	–£25k	Efficiency overstated by £25k in December papers. It had been increased incorrectly by the projected under achieved efficiency in 2015/16.
Externalise grass cutting service	£75k	£25k	–£50k	Efficiency overstated by £50k in December papers. It had been increased incorrectly by the projected under achieved efficiency in 2015/16.
Reduce Cleansing Standard in towns	£50k	Nil	–£50k	2015/16 proposal only. Included in 2016/17 in error.
Remove second grass cut for highways verges	Nil	£20k	+£20k	Omitted from December papers in error.
Reduced Street Lighting resource	Nil	£13k	+£13k	Omitted from December papers in error.
Total	£725k	£383k	–£342k	
Total – All S&T Proposals	£2,500k	£2,158k	–£342k	

All of the above proposals were incorrectly presented in the December papers given to Member Workshops and Environment O&S Committee. Therefore, the figures presented to the January meeting were always the intended efficiency proposals and no change has been made to the intended implementation of each proposal.

Corporate Resources Overview & Scrutiny Committee 29th January 2016**Business Planning Efficiency Proposals – Changes since December O&S Committees****Social Services**

Proposal	Members Papers December 2015	Members Papers January 2016	Movement in Figures	Reasons
Consult on the potential to commission provision currently provided by in-house Supported Living houses	£125k	£65k	-£60k	The full year efficiency level was expected to be £0.125m based on the comparative costs of current externally provided supported living. However, the likely implementation date is now expected to be in second half of 2016/17, therefore the level of efficiency has been reduced accordingly.
Develop alternative approaches to in-house day services and work opportunity schemes	£238k	£200k	-£38k	The latest ADM proposal is to undertake a commissioning process for day opportunities services. The commissioning process will seek to secure a partnership with an external service provider, or several providers, to design and deliver a modern, progressive and sustainable service delivery model. The budgets for the work opportunities service have been critically reviewed and savings have been identified primarily from staffing reductions within the work opportunities team and the removal of bonus incentive payments. The commissioning process implementation timetable has resulted in the £38k reduction in the efficiency.
Total	£363k	£265k	-£98k	
Total – All Social Services Proposals	£936k	£838k	-£98k	

Summary of Council Fund Earmarked Reserves

	Estimated Balance 01/04/16 £m	Estimated Balance 31/03/17 £m
<u>Service Balances</u>		
Environment	0.688	0.191
Education & Youth	0.432	0.216
Community & Enterprise	0.261	0.261
Organisational Change	0.298	0.298
Corporate Services	0.018	0.000
Total	1.697	0.966
<u>Corporate Balances</u>		
Equal Pay / Single Status	7.326	5.574
General Reserve - Review of Reserves	3.871	2.371
General Reserve - Investment in Organisational Change	0.722	0.000
Total	11.919	7.945
<u>Specific Reserves</u>		
Insurance	0.778	0.761
Benefits Equalisation	0.105	0.105
Supporting People	0.832	0.353
Building Control	0.058	0.058
Waste Disposal	0.217	0.017
Flintshire Business Services	0.097	0.097
Winter Maintenance	0.250	0.250
Design Fees	0.120	0.120
County Elections	0.154	0.154
Minor Reserves under £0.050m	0.061	0.061
Total	2.672	1.976
Total Earmarked Reserves	16.288	10.887



CABINET

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Report Subject	Council Fund Revenue Budget 2016/17
Cabinet Member	Leader and Cabinet Member for Finance
Report Authors	Chief Executive and Corporate Finance Manager
Type of Report	Strategic

EXECUTIVE SUMMARY

This report presents the Council Fund Revenue Budget for the 2016/17 financial year for adoption by Cabinet and recommendation to Council.

Work on the budget is not yet complete. This is due to a combination of (1) the scale of the savings and efficiencies to be found given the challenge this unprecedented savings target poses and (2) the uncertainty over the national budget position and its impacts on the Council. Therefore, the budget is being presented to Cabinet in two stages over January and February prior to presentation, in a full and final form, to Council on 16 February 2016.

This first stage report presents the majority of the budget. The first phase the proposals contained within the first stage report (see Part B) have been examined and reviewed by the Overview and Scrutiny Committees throughout December 2015. The proposals are listed in the appendices, and individual fact sheets on each proposal will also be made available within January for reference. The second phase of proposals in this report are newly presented (see Part B).

The Provisional Local Government Settlement was announced by the Welsh Government on 9 December 2015. Whilst there is some uncertainty over a number of specific grants which fund individual services the announcement has sufficient detail for the scale of the funding 'gap' to be recalculated and for our budget proposals to be sized accordingly.

The on-going work to move to closing the budget, to be presented in final form in February, is summarised within this report. These further proposals will be examined by the respective Overview and Scrutiny Committees later in January 2016 prior to being formally presented to Cabinet for adoption.

The report at the end of part C presents a remaining budget gap of £1.598M having taken into account all budget proposals, both those pre-reported in December 2015, and those newly presented within this report. This gap rises to around £3.447M when taking into account new and emergent pressures which are listed and are under ongoing review. Should Cabinet approve the recommendations set out below then the ongoing work on the budget will be restricted to the activity described in Parts C and D of the report.

The report is set out in the following parts for the reader to navigate through the chronology of the budget and a complex set of budget proposals and considerations:-

Part A: Initial Forecasting of the Budget 'Gap' for 2015/16-2017/18 (1.01-1.03)

Part B: The Local Government Settlement, A Revised Forecast and the Budget Strategy for 2016/17 (1.04-1.20)

Part C: Plans for Closing the Budget (1.21-1.25)

Part D: Further Work to be Completed to Close the Budget (1.26-1.31)

Part E: Calculation of the Total Revenue Budget And Budget Requirement (1.32-1.36)

A list of tables within the report is set out below as a guide:-

Table 1: Service Business Plan Efficiency Proposal Targets 2016/17

Table 2: Corporate Financial Stewardship Proposal Targets 2016/17

Table 3: Impacts of the Settlement (as announced on 9 December)

Table 4: First Stage – Second Phase Proposals to Balance the Budget

Table 5: Summary of Proposals to Close the Budget Gap

Table 6: New and Emergent Pressures

RECOMMENDATIONS

1. To adopt the first stage – first phase of budget proposals for the Council Fund Revenue Budget 2016/17 for recommendation to Council.
2. To adopt the first stage – second phase proposals for the Council Fund Revenue budget 2016/17 for referral to the respective Overview and Scrutiny Committees, and secondly to Cabinet and then final consideration by Cabinet in February
3. To endorse the strategy for the ongoing work to seek to close the remaining budget 'gap' and recommend a balanced annual budget to Cabinet in February.

REPORT DETAILS

1.00	Presenting the First Stage of the Council Fund Revenue Budget
	Part A: Initial Forecasting of the Budget 'gap' for 2015/16-2017/18
1.01	In mid to late 2015 the Council published the new version of its Medium Term Financial Strategy (MTFS) in two parts: Part 1: <i>Forecasting the Challenge</i> and Part 2: <i>Meeting the Financial Challenge</i> . (attached as Appendices 1 and 2)
1.02	As set out in <i>Forecasting the Challenge</i> , a cumulative real reduction in resources available to the Council of £52.8M was forecast for the three year period 2015/16 to 2017/18. As explained within the MTFS this gap is a consequence of the combined impacts of:- <ul style="list-style-type: none"> • reductions in the Revenue Support Grant from Welsh Government; • reductions in specific grants from Welsh Government; • no provision within the Local Government Settlement for pay and price inflation; • limited or no provision within the Local Government Settlement for nationally recognised demand-led or policy-led cost pressures in services; and • local service and corporate financing cost pressures.
1.03	At the time of publishing the MTFS the predicted funding gap for Flintshire for 2016/17 was £20.8M. The biggest determinant of the actual size of this gap is the level of reduction in the Revenue Support Grant to be allocated to Flintshire by Welsh Government as part of the Local Government Settlement.
	Part B: The Local Government Settlement, a Revised Forecast and the Budget Strategy for 2016/17
1.04	The Provisional Local Government Settlement for 2016/17 was announced by Welsh Government on 9 December 2015. As reported to both Cabinet and the Corporate Resources Overview and Scrutiny Committee in December the impacts of the Settlement, which was an improved Settlement on the forecast position, would reduce the predicted gap for 2016/17 by £3.770M to £17.030M.
1.05	The initial proposals for the first stage of the draft budget reported to Cabinet in December 2015, and examined by the Overview and Scrutiny Committees throughout the month, presented corporate efficiencies of £5.0M, and service portfolio efficiencies of £7.755M, (Revised figure) together totalling £12.755M. Prior to the announcement of the Provisional Settlement the remaining gap stood at £8.045M. The remaining gap had been reduced by £3.770M, to £4.275M, as a result of the Settlement.
1.06	A separate report is included within the agenda for this Cabinet meeting which proposes a response to the Settlement. A presentational summary of the Settlement and its impacts on Flintshire is included at Appendix 3.

	Budget Strategy: Stage One – First Phase														
1.07	The Council's Budget Strategy, as set out in <i>Meeting the Financial Challenge</i> , builds on the work done within 2015/16 to achieve sizeable organisational change to reduce costs with the aim of protecting local public services. Following the implementation of a new corporate operating model in 2014, and the introduction of new style business plans for the services within each of the new Chief Officer portfolios, the organisation has been reformed at some pace with all service portfolios working to a target of 30% reductions in net costs over three years (with the exception of schools and social services).														
1.08	This three year strategy has been underpinned by the principles of:- <ul style="list-style-type: none"> • planning for the long-term as a whole organisation; • making decisions for local public services which are sustainable; • being ambitious and positive about change to better the organisation; • having a clear philosophy underpinned by social value; and • managing the transition from the current to the future with care. 														
1.09	The twin objectives of this major and sustained programme of change and cost reduction continue to be (1) maximising the financial efficiency of the organisation and better aligning our resources to priorities and (2) modernising the organisation to be lean, productive, efficient, resilient and high performing.														
1.10	For the 2016/17 budget the strategy set out in <i>Meeting the Financial Challenge</i> proposed a three part set of solutions under the headings of:- <ol style="list-style-type: none"> 1. Service Reform 2. Corporate Finance Stewardship 3. Working with Welsh Government 														
1.11	A set of service reform net cost budget reductions drawn from the portfolio business plans with a set of corporate financing cost reductions were drawn together in mid-2015 and then developed throughout the second half of the calendar year as the first contribution to the annual budget for 2016/17. These combined proposals were shared with service management teams, Group Leaders and Chairs and Vice-Chairs then all members of the Council informally, prior to formal presentation to the Overview and Scrutiny Committees, for examination and review, throughout December 2015.														
1.12	These proposals are summarised in Tables 1 and 2 below. <p>Table 1: Service Business Plan Efficiency Proposal Targets 2016/17</p> <table border="1"> <thead> <tr> <th>Portfolio</th> <th>£M</th> </tr> </thead> <tbody> <tr> <td><i>Planning and Environment</i></td> <td>0.413</td> </tr> <tr> <td><i>Streetscene and Transportation</i></td> <td>2.158</td> </tr> <tr> <td><i>Social Care</i></td> <td>0.838</td> </tr> <tr> <td><i>Education and Youth</i></td> <td>0.710</td> </tr> <tr> <td><i>Community and Enterprise</i></td> <td>1.509</td> </tr> <tr> <td><i>People and Resources</i></td> <td>0.250</td> </tr> </tbody> </table>	Portfolio	£M	<i>Planning and Environment</i>	0.413	<i>Streetscene and Transportation</i>	2.158	<i>Social Care</i>	0.838	<i>Education and Youth</i>	0.710	<i>Community and Enterprise</i>	1.509	<i>People and Resources</i>	0.250
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<i>Governance</i>	0.535
<i>Organisational Change</i>	1.272
<i>Chief Executive's</i>	0.070
Total	7.755

Footnote 1: the detail of individual proposals is set out in Appendix 9

Footnote 2: the above figures are based on the finalised costed proposals. The total figure of £7.755M is a reduction of £0.471M on the figures reported previously.

Table 2: Corporate Financial Stewardship Proposal Targets 2016/17

Subject and Proposal	£M
<i>Inflation Management: part absorption of inflation risk</i>	1.0
<i>Corporate Overheads: selective reduction in provisions</i>	1.0
<i>Schools Funding Formula: controlled schools investment</i>	2.5
<i>Local Income: new and increased charging</i>	0.5

Footnote: the above figures are based on the finalised costed proposals

1.13 The outcomes of the Overview and Scrutiny examination round of meetings are summarised in the presentation slides given to the Corporate Resources Overview and Scrutiny Committee at the close of this series of meetings (see Appendix 4). All members were invited to this final meeting. Few of the budget proposals were highlighted by the Committees for either clarification or further consideration. Those proposals which were highlighted were re-explained to the satisfaction of the Corporate Resources Overview and Scrutiny Committee at this closing meeting. Therefore, all proposals remain for recommendation and adoption noting that some carry risks of either complexity or time delay in their deliverability.

National Campaigning

1.14 For the third part of the strategy Flintshire has engaged in intensive activity in making the case for local government prior to the announcement of the Provisional Local Government Settlement by Welsh Government. This was done through collective campaigning through the Welsh Local Government Association (WLGA), and separately as an individual council exposed to the risks of major reductions in its national funding. The campaigning was based on the coherent arguments made in *Meeting the Financial Challenge*. This campaigning work has proven to be effective with the Welsh Government announcing a better than expected financial settlement for local government. However, several principal issues on which local government and Flintshire campaigned remain unresolved (see the accompanying report on the Provisional Local Government Settlement).

Community Engagement

1.15 For the 2015/16 budget the Council ran a public engagement exercise called *The Big Budget Conversation*. This exercise was largely internet and media based. For 2016/17 the Council built on the learning from this exercise and ran a new community engagement exercise under the heading of *This is Your Moment*. Whilst drawing on internet resources, and making use of the media, the exercise was broadened with seven public meetings being held across the County as the main method of explanation and engagement. A

	summary report of the community engagement exercise is attached at Appendix 5.												
1.16	The Council also drew in local stakeholders in its national campaigning work. A number of local stakeholders from the public, business and voluntary sectors, and from the schools community and Trade Union community, took an active part in making the case for local government and for Flintshire.												
	Budget Strategy: Stage Two – Second Phase												
1.17	As summarised in 1.03 the initial forecast budget ‘gap’ was £20.8M. If the first phase combined corporate budget proposals and service business plans budget proposals were approved, this gap, prior to taking into account the impacts of the Provisional Local Government Settlement, would be reduced to £8.045M based on the figures reported previously.												
1.18	To achieve a balanced budget for recommendation to Council two actions remain. Firstly, to take into full account the impacts of the Provisional Settlement on the assumption that although in draft form and open to consultation, the Final Settlement, to be announced in March 2016, will not worsen the position for Flintshire. Secondly, to identify and examine further options to close the remaining gap.												
1.19	As Table 3 illustrates the Provisional Settlement has had a positive effect in restoring income of £3.770M. Table 3: Impacts of the Settlement (as announced on 9 December 2015)												
	<table border="1"> <thead> <tr> <th>Subject</th> <th>Calculation and Risk Mitigation</th> <th>£M</th> </tr> </thead> <tbody> <tr> <td><i>Revenue Support Grant</i></td> <td>Reinstate Revenue Support Grant as the difference between a forecast 3.5% loss and the actual 1.5% loss in the Provisional Local Government Settlement. <i>Acceptability Risk: none</i> <i>Workability Risk: none</i></td> <td>3.370</td> </tr> <tr> <td><i>Council Tax Base</i></td> <td>Increase base provision due to the 2015 forecast of qualifying property numbers in the County and due to the outcome of the on-going Single Person Discount Review. <i>Acceptability Risk: none</i> <i>Workability Risk: low as based on accurate projections.</i></td> <td>0.400</td> </tr> <tr> <td colspan="3" style="text-align: right;">Sub-Total: £3.770M</td> </tr> </tbody> </table>	Subject	Calculation and Risk Mitigation	£M	<i>Revenue Support Grant</i>	Reinstate Revenue Support Grant as the difference between a forecast 3.5% loss and the actual 1.5% loss in the Provisional Local Government Settlement. <i>Acceptability Risk: none</i> <i>Workability Risk: none</i>	3.370	<i>Council Tax Base</i>	Increase base provision due to the 2015 forecast of qualifying property numbers in the County and due to the outcome of the on-going Single Person Discount Review. <i>Acceptability Risk: none</i> <i>Workability Risk: low as based on accurate projections.</i>	0.400	Sub-Total: £3.770M		
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1.20	The remaining gap (£8.045M) has been reduced by £3.770M, to £4.275M, as a result of the Settlement, before taking into account new and emergent pressures and any revisions to the detailed calculations for the budget proposals reported in December. The original forecast for pressures dates back to mid-2015. The reassessment of pressures, detailed at 1.24 below, will need to be taken into account in resizing the budget gap and in reaching												

	a balanced budget. Additional pressures of a value of £1.849M have been identified and are listed in table 6. Their cost, and the likelihood of the pressures materialising in year, are under review.	
	Part C: Plans for Closing the Budget	
1.21	A commitment has been made by Cabinet, the Chief Executive and the Chief Officers to aim to close the remaining gap through corporate financing solutions, as far as possible, and to avoid introducing new and late service cost reduction options which would be of concern to elected members and the public.	
1.22	Table 4 sets out the second phase of proposals to close the remaining gap.	
	Table 4: First Stage – Second Phase Proposals to Balance the Budget	
	A: Further Impacts of the Provisional Local Government Settlement	
	Subject	Calculation and Risk Mitigation
	<i>Welsh Independent Living Grant (formerly Independent Living Fund)</i>	Late confirmation that the Grant has not been included in the core Settlement and will continue to be funded for a further year as a specific grant. The value of the potential loss of grant to Flintshire is £0.450M and was identified as a national pressure in the MTFS. The net value of this positive confirmation, following deduction of administration costs, is £0.412M. <i>Acceptability Risk: none</i> <i>Workability Risk: none for 2016/17 noting that the grant is not guaranteed for future years</i>
		£M
		0.412
	Sub-Total: £0.412M	
	B: Adjustment of Local Pressures	
	Subject	Calculation and Risk Mitigation
	<i>Recalculation of Schools Based Cost Pressures (Education and Youth)</i>	Recalculation of schools based cost pressures following a detailed reassessment of pressures including pay and pensions based on current employment figures. <i>Acceptability Risk: none</i> <i>Workability Risk: low as based on latest figures and funding is pass-ported to schools through a modernised and transparent schools funding formula.</i>
		£M
		0.350
	<i>Reassessment of cost pressure for care support for transition from childhood to adulthood (Social Care)</i>	The cost pressure for meeting the costs of complex care packages for individuals in the care of the Authority and transitioning from childhood to adulthood, has been reassessed based on (1) the latest information on the individual assessments of need and (2) success in negotiations with Betsi Cadwaladar University Health Board
		0.451

	<p>over their funding contributions as a care partner (a £0.300M gain). The calculated case cost pressures are identified as a local pressure in the MTFS. The total value of the pressure was forecast to be £0.923M for 2016/17. The pressure can now be reduced to £0.472M.</p> <p><i>Acceptability Risk:</i> none <i>Workability Risk:</i> low as based on latest case by case projections and funding agreements between the Council and Betsi Cadwaladar University Health Board.</p>	
<i>Employer Pension Contributions</i>	<p>The obligations upon the Council as an employer to fund the Clwyd Pension Fund are under continuous review. No more so than in a period of organisational change where (1) the workforce is being reduced in number through a combination of organisational re-design and employees choosing to leave through voluntary redundancy or retirement and (2) the impacts of change such as the Single Status Agreement are being worked through. Employer pension contributions are identified as a workforce pressure in the MTFS. The total value of the combined pensions pressures was forecast to be £5.655M for 2016/17. The pressure can now be reduced by £0.460M based on the latest review.</p> <p><i>Acceptability Risk:</i> none <i>Workability Risk:</i> low as based on latest workforce number projections.</p>	0.460
Sub-Total: £1.261M		
C: Corporate Financing Risk Management		
Subject	Calculation and Risk Mitigation	£M
<i>Inflation Provision for 2015/16</i>	<p>The centrally held provision for meeting inflation costs has not been called upon in full, within 2015/16, as the Council has been able to either mitigate or absorb the costs within its base budgets allocated to services. There is also an underspend remaining for Non Standard Inflation (NSI) provided as part of a carry-forward from 2014/15. This is no longer required in the base. The provision can therefore be revised by £0.350 for a recalculation for 2016/17.</p> <p><i>Acceptability Risk:</i> none <i>Workability Risk:</i> low as based on actual trends in inflation in costs as opposed to forecasts.</p>	0.350
<i>Price and Non Standard</i>	The Council holds a central provision for Non Standard Inflation (NSI) to cover	0.654

	<p><i>Inflation (NSI) Provision for 2016/17</i></p>	<p>fluctuations in energy, fuel and food (mainly schools catering) market prices. Full provision was made in the inflation forecasted figure within the MTFS to meet NSI cost pressures. Market intelligence suggests zero inflation or deflation in the fuel market, and reasonable levels of predictability for energy and food prices which may have peaked. Based on current inflation trends, and the organisational ‘appetite’ for absorbing inflation pressures in part, the provision can be removed.</p> <p>The Council has in the past met the forecast costs of specific service inflationary pressures in full. These costed pressures are also included in the forecast for Inflation Pressures included in the MTFS. Based on a similar assessment to that summarised above for NSI, the provision can be reduced by 50%.</p> <p>The combined value of these reductions in provision for inflation is £0.654M.</p> <p><i>Acceptability Risk:</i> low as based on a calculated risk assessment between the Chief Officer Team and the Finance Team <i>Workability Risk:</i> medium as full provision for predicted inflation is no longer provided.</p>																												
		Sub-Total: £1.004M																												
		Total: £2.677M																												
1.23	<p>The combined total of the initial proposals to close the remaining budget gap, as set out in Table 4 above, is £2.677M. Therefore, the remaining gap, before taking into account new and emergent pressures, is £1.598M, as shown in Table 5.</p> <p>Table 5: Summary of Proposals to Close the Budget Gap</p> <table border="1" data-bbox="320 1630 1385 2047"> <thead> <tr> <th>Source</th> <th>Calculation</th> <th>£M</th> </tr> </thead> <tbody> <tr> <td>MTFS</td> <td>Original Forecast Gap</td> <td>- 20.800</td> </tr> <tr> <td>Table 1</td> <td>Service Business Plans Proposals</td> <td>+7.755</td> </tr> <tr> <td>Table 2</td> <td>Corporate Financial Stewardship Proposals</td> <td>+5.000</td> </tr> <tr> <td>Table 3</td> <td>Impacts of the Settlement</td> <td>+3.770</td> </tr> <tr> <td>Table 4A</td> <td>Further Impacts of the Provisional Local Government Settlement</td> <td>+0.412</td> </tr> <tr> <td>Table 4B</td> <td>Adjustment of Local Pressures</td> <td>+1.261</td> </tr> <tr> <td>Table 4C</td> <td>Corporate Financing Risk Management</td> <td>+1.004</td> </tr> <tr> <td colspan="2" style="text-align: center;">Remaining Gap Based on the Original Forecast:</td> <td>-£1.598M</td> </tr> </tbody> </table>			Source	Calculation	£M	MTFS	Original Forecast Gap	- 20.800	Table 1	Service Business Plans Proposals	+7.755	Table 2	Corporate Financial Stewardship Proposals	+5.000	Table 3	Impacts of the Settlement	+3.770	Table 4A	Further Impacts of the Provisional Local Government Settlement	+0.412	Table 4B	Adjustment of Local Pressures	+1.261	Table 4C	Corporate Financing Risk Management	+1.004	Remaining Gap Based on the Original Forecast:		-£1.598M
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1.24	<p>The new and emergent pressures which have been identified over the winter months since the MTFS forecast, and which are currently under examination, are set out below. The cost calculation for each pressure, and the likelihood of each pressure materialising in-year and if so their impacts, are being assessed in detail. A full report will be made to Cabinet in February 2016 on the outcome of this work and the need for budget provision to be set aside to protect the Council from in-year pressures.</p> <p>Table 6: New and Emergent Pressures</p> <table border="1"> <thead> <tr> <th>Income Pressures</th> <th>Detail</th> <th>£M</th> </tr> </thead> <tbody> <tr> <td><i>Recycling Income</i></td> <td>Fall in income from the sale of recyclates (plastic, metals etc) due to an oversupply in the global recycling market.</td> <td>0.419</td> </tr> <tr> <td><i>Sustainable Recycling Grant</i></td> <td>Reduction in the level of grant funding allocated to local authorities by Welsh Government for 2016/17 within the new Single Environment Grant in 2016/17.</td> <td>0.276</td> </tr> <tr> <td><i>Animal Health & DEFRA Grant</i></td> <td>Shortfall due to ending of a partnership with Wrexham County Borough Council.</td> <td>0.044</td> </tr> <tr> <td><i>Leisure Income</i></td> <td>Lower than projected income levels achieved for the customer use of Deeside Ice Rink, Deeside Leisure Centre.</td> <td>0.070</td> </tr> <tr> <td><i>Housing Benefit Subsidy</i></td> <td>Loss of subsidy claimable from Government for Housing Benefit paid out to claimants (this claim is still under review and the position may improve).</td> <td>0.193</td> </tr> <tr> <td>Unachieved Efficiencies Carried Forward from 2015/16</td> <td></td> <td></td> </tr> <tr> <td><i>Workforce Efficiency Proposal</i></td> <td>Unable to achieve proposed annual leave 'buy back' and extended use of pool car schemes due to the workability of the schemes (the reduction of car use costs may be re-included in the 2016/17 draft budget).</td> <td>0.200</td> </tr> <tr> <td><i>Review Model/Costs contract for Catering</i></td> <td>Efficiency deferred due to ongoing work to move to an Alternative Delivery Model (ADM) for the catering</td> <td>0.050</td> </tr> </tbody> </table>		Income Pressures	Detail	£M	<i>Recycling Income</i>	Fall in income from the sale of recyclates (plastic, metals etc) due to an oversupply in the global recycling market.	0.419	<i>Sustainable Recycling Grant</i>	Reduction in the level of grant funding allocated to local authorities by Welsh Government for 2016/17 within the new Single Environment Grant in 2016/17.	0.276	<i>Animal Health & DEFRA Grant</i>	Shortfall due to ending of a partnership with Wrexham County Borough Council.	0.044	<i>Leisure Income</i>	Lower than projected income levels achieved for the customer use of Deeside Ice Rink, Deeside Leisure Centre.	0.070	<i>Housing Benefit Subsidy</i>	Loss of subsidy claimable from Government for Housing Benefit paid out to claimants (this claim is still under review and the position may improve).	0.193	Unachieved Efficiencies Carried Forward from 2015/16			<i>Workforce Efficiency Proposal</i>	Unable to achieve proposed annual leave 'buy back' and extended use of pool car schemes due to the workability of the schemes (the reduction of car use costs may be re-included in the 2016/17 draft budget).	0.200	<i>Review Model/Costs contract for Catering</i>	Efficiency deferred due to ongoing work to move to an Alternative Delivery Model (ADM) for the catering	0.050
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		service (final business case to be presented in February 2016).	
	<i>Regional Approach to Advocacy</i>	The regional tendering exercise did not deliver the level of projected financial savings in full.	0.048
	<i>Funding to Voluntary Sector (Social Care)</i>	Adjustment to the forecast efficiency following review of the portfolio of funded provider organisations.	0.138
	<i>Remittance Advice to Landlords</i>	Adjustment to original efficiency based on the workability of the scheme,	0.041
	New Pressures		
	<i>Procurement</i>	Increased cost of the Joint Procurement Service with Denbighshire County Council based on service needs to achieve procurement income targets and apportionment of costs with the partner council.	0.028
	<i>Matrix (Sub-regional contract for procuring agency workers)</i>	Reduction in costs savings per agency worker employed achieved through a more competitive procurement framework due to the lower levels of agency workers being taken on by the Council as an employer.	0.050
	<i>Animal Feed Control</i>	Pressure due to the funding transferring out of the Provisional Settlement for 2015/16.	0.022
	Sub total		1.579
	Transitional Funding Adjustment 2015/16 Budget		
	Funding from Reserves	As part of the 2015/16 budget strategy a temporary amount of £0.270m was utilised to balance the budget. This technical adjustment reverses the impact on the base budget for 2016/17.	0.270
	Total		1.849
1.25	Taking into account the new and emergent pressures the remaining budget gap therefore increases to £3.447M. However, the pressures included at this stage will be subject to review and challenge as part of the finalisation of the budget and any changes included in the final report in February 2016.		

	D: Further Work to be Completed to Close the Budget
1.26	Work is ongoing to identify further budget reduction options in the areas of workforce costs, and the use of reserves and balances. The new and emergent pressures are also being reviewed in detail. The outcomes of this work will similarly be reported to Cabinet in February 2016.
	Council Tax Income
1.27	The MTFFS forecast was based on a working assumption that Council Tax would be increased in 2016/17 by 3%. As set out in the MTFFS, explained in presentations in meetings within the Council, and tested with the public in the community engagement meetings, the Council can set an annual taxation rise up to a 5% maximum. The final taxation figure will need to be considered by Cabinet and then Council in February 2016.
1.28	Given the remaining budget gap, as set out in Table 5, and the outstanding work on the examination of new and emergent pressures, the level at which Council Tax will need to be set will require serious consideration. For planning purposes a rise of 5% will need to be built in to assumptions. The difference in value between a 3% Council Tax rise, and a 5% Council Tax rise, having deducted a provision to meet the additional benefits contributions to those eligible under the Council Tax Reduction Scheme (CTRS), would be £1.131M. A number of Welsh Councils are under a similar budget pressure and are considering a maximum annual Council Tax rise at 5%.
1.29	In setting its budget on 16 February the Council will need to decide the level of Council Tax increase it is going to make for 2016/17. The Council will meet again on 1 March to pass the formal resolution for levying the Council Tax once it has received the notification of the precepts from the town and community councils. Intelligence on the Final Local Government Settlement should become available in between the two meetings. Keeping the option open to set an annual rise of 5% will be important should the Council's financial position be worsened by any change to the Final Settlement which would have the effect of creating an additional financial pressure to be reconciled in setting the budget.
1.30	A full risk assessment of the final budget proposals will be presented to Cabinet and Council in February 2016. Risks that will require detailed consideration include:- <ul style="list-style-type: none"> • the impacts of specific grant reductions; • mitigating inflationary impacts; • achieving income targets; • achievement of efficiencies on time and to financial target; • the capacity of the organisation to manage large scale and complex change programmes; • new and emergent pressures; • use and reliance on reserves and balances; and • the availability of limited remaining reserves to meet unforeseen pressures in-year.

1.31	The Chief Finance Officer and Chief Executive will advise Cabinet and Council in February 2016 with their risk assessments in their formal statutory advisory roles.																																				
	Part E: Calculation of the Total Revenue Budget And Budget Requirement																																				
	Proposed Budget																																				
1.32	<p>At this point in the budget planning there is a remaining budget gap on the recurring base budget of 3.447MM as detailed in the table below:</p> <p>Sections 1.33- 1.46 below set out further details and assumptions made:-</p> <table border="0" data-bbox="331 645 1394 1928"> <thead> <tr> <th data-bbox="331 645 1262 689"><u>Funding</u></th> <th data-bbox="1262 645 1394 689">£M</th> </tr> </thead> <tbody> <tr> <td data-bbox="331 719 1262 757">Aggregate External Funding (AEF)/RSG NNDR</td> <td data-bbox="1262 719 1394 757">184.743</td> </tr> <tr> <td data-bbox="331 763 1262 801">Council Tax</td> <td data-bbox="1262 763 1394 801">66.275</td> </tr> <tr> <td data-bbox="331 808 1262 846">SSA/Budget Requirement</td> <td data-bbox="1262 808 1394 846">251.018</td> </tr> <tr> <td data-bbox="331 891 1262 929">Specific Grants (Estimated)</td> <td data-bbox="1262 891 1394 929">34.159</td> </tr> <tr> <td data-bbox="331 974 1262 1012">Total Funding</td> <td data-bbox="1262 974 1394 1012">285.177</td> </tr> <tr> <td colspan="2" data-bbox="331 1057 1394 1095"><u>Expenditure</u></td> </tr> <tr> <td data-bbox="331 1140 1262 1178">Base Budget Rolled Forward</td> <td data-bbox="1262 1140 1394 1178">287.605</td> </tr> <tr> <td data-bbox="331 1223 1262 1261">Prior Yr Budget Decisions Recurring (Appendix 6)</td> <td data-bbox="1262 1223 1394 1261">8.845</td> </tr> <tr> <td data-bbox="331 1305 1262 1344">Prior Yr Budget Decisions One off dropping out (Appendix 6)</td> <td data-bbox="1262 1305 1394 1344">(0.730)</td> </tr> <tr> <td data-bbox="331 1388 1262 1426">Inflation (Appendix 7)</td> <td data-bbox="1262 1388 1394 1426">2.193</td> </tr> <tr> <td data-bbox="331 1471 1262 1509">Pressures & Investments Recurring (Appendix 8)</td> <td data-bbox="1262 1471 1394 1509">1.964</td> </tr> <tr> <td data-bbox="331 1554 1262 1592">Efficiencies - Business Planning (Appendix 9)</td> <td data-bbox="1262 1554 1394 1592">(7.755)</td> </tr> <tr> <td data-bbox="331 1599 1262 1637">Efficiencies - Corporate Finance (Appendix 10)</td> <td data-bbox="1262 1599 1394 1637">(2.510)</td> </tr> <tr> <td data-bbox="331 1682 1262 1720">Less Specific Grants 2015/16</td> <td data-bbox="1262 1682 1394 1720">(35.147)</td> </tr> <tr> <td data-bbox="331 1727 1262 1765">Plus Specific Grants 2016/17 (Estimated Appendix 11)</td> <td data-bbox="1262 1727 1394 1765">34.159</td> </tr> <tr> <td data-bbox="331 1809 1262 1848">Total Expenditure</td> <td data-bbox="1262 1809 1394 1848">288.624</td> </tr> <tr> <td data-bbox="331 1892 1262 1930">Shortfall</td> <td data-bbox="1262 1892 1394 1930">3.447</td> </tr> </tbody> </table>	<u>Funding</u>	£M	Aggregate External Funding (AEF)/RSG NNDR	184.743	Council Tax	66.275	SSA/Budget Requirement	251.018	Specific Grants (Estimated)	34.159	Total Funding	285.177	<u>Expenditure</u>		Base Budget Rolled Forward	287.605	Prior Yr Budget Decisions Recurring (Appendix 6)	8.845	Prior Yr Budget Decisions One off dropping out (Appendix 6)	(0.730)	Inflation (Appendix 7)	2.193	Pressures & Investments Recurring (Appendix 8)	1.964	Efficiencies - Business Planning (Appendix 9)	(7.755)	Efficiencies - Corporate Finance (Appendix 10)	(2.510)	Less Specific Grants 2015/16	(35.147)	Plus Specific Grants 2016/17 (Estimated Appendix 11)	34.159	Total Expenditure	288.624	Shortfall	3.447
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	Resources
1.33	Total resources of £285.177M include funding from Revenue Support Grant (RSG), National Non Domestic Rates (NNDR), Council Tax and Specific Grants. The provisional settlement confirmed that the former unhypothecated Outcome Agreement Grant would cease in 2016/17, although there is no financial impact on the overall budget as it has transferred into the Settlement at the same value (£1.479m).
1.34	Currently, the amount to be raised from Council Tax is assumed as an increase in the Band D Council Rate of 3.0% (excluding Police and Town/Community Council precepts) and a 99% collection rate. This equates to an increase of £30.76 on 2015/16 and a Band D rate of £1,056.03. At 3%, this assumption is at the lower end based on the Council's local taxation policy set out in the Medium Term Financial Strategy and, as such, will need to be one of the factors to be reviewed in closing the remaining budget gap (see part D)
1.35	A 3.0% increase in the Band D Rate results in a Budget Requirement of £251.018m.
1.36	As the Council's proposed increase in the Band D rate differs from that assumed by Welsh Government when calculating Flintshire's Standard Spending Assessment (SSA), the budget requirement is £2.713M below its calculated SSA of £253.731m as notified in the Provisional Settlement. The specific grants figure of £34.159M is provisional, with the Welsh Government yet to advise of the 2016/17 level for a number of grants. However, in line with the Council's MTFs, expenditure levels need to be managed within the final figures announced by the Welsh Government. Appendix 11 details the information received from Welsh Government to date.
	Expenditure
1.37	<i>Previous Year Growth / Items Dropping Out</i> Each year indicative amounts for previous year's pressures and investments and efficiencies are included in the budget for the following two years. In the current budget the net effects of the changes agreed in 2014/15 and 2015/16 equate to a net increase of £8.845m for recurring items and a reduction of £0.730m in relation to one-off items of expenditure as detailed in Appendix 6. These amounts have been reviewed as part of the 2016/17 budget and where appropriate an adjustment made to reflect the current position.
1.38	<i>Pay and Price Inflation</i> Inflation of £2.193m is shown in detail in Appendix 7
1.39	The proposals at this stage assume a 1% increase on pay from April 2016, although the outcome of national negotiations has yet to be agreed.
1.40	Price inflation of £0.573m has been included in the draft proposals for some targeted service areas following a detailed assessment.

1.41	Based on market intelligence and recent spend history there is no above standard inflation allocation required for 2016/17.
1.42	Income inflation amounting to £0.185M has been assumed on the yield from existing fees and charges.
1.43	The inflation figures referred to above exclude inflation on specific grant income and related expenditure as the specific grant figures are indicative only at this stage. Adjustments will be applied when the figures are confirmed by the Welsh Government but this will be cost neutral to the Council.
1.44	There were no transfers in to the Settlement in relation to former Specific Grants.
1.45	Appendix 8 sets out the recurring pressures and investment of £1.964M included in the 2016/17 budget over and above the impact of previous year decisions and includes the new and emergent pressures that will be subject to further review.
1.46	Information on the efficiency proposals are detailed in Appendix 9 with an amount of £7.755M arising from the portfolio Business Plans and £2.510M arising from the Corporate Financing options.
	Schools Budget
1.47	Under the School Funding (Wales) Regulations 2010, local authorities are required to notify Welsh Government of the proposed budget for schools for the forthcoming year by 14th February each year. The First Minister has indicated his commitment to protect schools funding in 2015/16 by 1% above the change in the overall Welsh Government budget. For 2016/17 this equates to 1.85%. It should be noted that the protection expectation is relative to Welsh Government's funding from the UK Treasury and not the level of Individual Council settlements from Welsh Government.
1.48	The current budget proposals meet the First Minister's expectation of protecting schools, although the Council will continue to review investment in schools, particularly for inflationary pressures. The Council is also committed to increasing the amount of the school budget delegated to schools progressively. This is within the strategic framework which embraces the school modernisation programme, numbers of children in school (demographic change) and investment through the 21st Century Schools Programme.
1.49	The Welsh Government has indicated that in line with ongoing plans to streamline the education grants regime the Education Improvement Grant (EIG) will transfer into RSG in 2016/17, the formula basis of distribution of this grant through RSG has yet to be announced. Welsh Government have indicated that it is likely that the funding for EIG will be reduced but the amount of this reduction is not known at this time.
1.50	Based on recent intelligence on Post 16 funding levels we are anticipating a flat line budget in 2016/17. However, it should be noted that as post 16 provision in certain schools will cease in September 2016 when the new

	post 16 hub opens at Coleg Cambria the total funding Flintshire receives will be reduced.
1.51	Welsh Government have announced an increase of £100 per pupil eligible for Pupil Deprivation Grant (PDG). Based on the number of pupils eligible for Free School Meals this equates to an increase in funding of £0.275M in 2016/17. The total increase in funding for schools in Flintshire for PDG in 2016/17 arising from the per pupil increase and due to the overall increase in pupils eligible for Free School Meals is £0.477M (18%).
	Equality Impact Assessment
1.52	The Council has an obligation to assess the potential equalities impact of its budget proposals to ensure that there is no discrimination or disadvantage to either service users or employees. The Council has included consideration of any equalities impacts within its risk assessment process for the budget proposals. Reference to the risk assessments is made in the factsheets which provide detail behind each budget proposal.
	EARMARKED AND UNEARMARKED RESERVES
	Base Level of Unearmarked Reserves
1.53	The Council's Medium Term Financial Strategy confirms the Council's commitment to maintaining a base level of reserves of 2% of turnover. The current base level of reserves is £5.769m as reported in the monthly budget monitoring reports. Despite the fact that funding has reduced in 2016/17 over 2015/16 it is proposed that un-earmarked reserves are maintained at the same level for 2016/17 which will provide an additional safeguard in the current uncertain financial climate.
	Contingency Reserve
1.54	When the 2015/16 budget was set the Contingency Reserve was estimated to be £3.955M at 31 March 2015. As a result of the net underspend reported in the final outturn for 2014/15 the actual amount in the Contingency Reserve at the year-end was £4.746mm.
1.55	The 2015/16 Month 7 Budget Monitoring report which is also on this agenda, shows an estimated balance of £4.923mm in the contingency reserve as at 31 March 2016, although there are two specific recommendations in the report which if approved will reduce the amount to £4.023M.
1.56	Whilst the base level of reserves is a known sum which is set aside, the level of contingency reserve is based on the current estimate and is subject to change at the end of the financial year.

2.00	RESOURCE IMPLICATIONS
2.01	The resource implications of the budget position are significant. These are explained within this report, previous reports, and the MTFS.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	Consultations have been undertaken internally with elected members, senior officers and their service teams, and Trade Unions. Consultations have been undertaken externally via the publication and distribution of the MTFS, and with the public as set out in the report and in the appendices.

4.00	RISK MANAGEMENT
4.01	The national reductions in funding for local government pose the greatest risk to the governance, performance and sustainability of the Council since the previous reorganisation in the mid-1990s. This risk is being mitigated through a twofold approach. Firstly, the Council continuing to streamline and innovate. Secondly, by working with Welsh Government to seek some support and relief from budget reductions based on a reasoned case. This twofold approach is set out in the Part 2 of the MTFS <i>Meeting the Challenge</i> .
4.02	The risks posed to the plans to change and innovate within specific services are managed through assessing the risks and impacts of change as part of framing options and making decisions. Effective programme management arrangements are in place to oversee the implementation of the Chief Officer portfolio business plans and to manage these risks in close detail, with reports being made to Cabinet and Overview and Scrutiny at key stages of decision-taking and, later, performance reporting and evaluation.

5.00	APPENDICES
5.01	<p>Set One: General Background</p> <p>Appendix 1: Draft Medium Term Financial Strategy 2015-2018 Part 2: <i>Meeting the Challenge</i></p> <p>Appendix 2: Published Medium Term Financial Strategy 2015-2018 Part 1: <i>Forecasting the Challenge</i></p> <p>Appendix 3: Summary of the Provisional Local Government Settlement 2016/17 as presented to Cabinet in December 2015</p> <p>Appendix 4: The presentation materials for the Corporate Resources Overview and Scrutiny Committee which met at the close of the examination round of the first stage budget proposals in late December</p> <p>Appendix 5: Report of the Community Engagement Activity November-December 2015</p>
5.02	<p>Set Two: Detailed Budget Financial Appendices</p> <p>Appendix 6: Prior Year Budget Decisions</p> <p>Appendix 7: Inflation</p> <p>Appendix 8: Pressures and Investments</p> <p>Appendix 9: Business Plan Efficiency Proposal Spreadsheets (in support of Table 1 of the report)</p> <p>Appendix 10: Efficiencies Corporate Financing</p> <p>Appendix 11: Specific Grants</p>

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<ol style="list-style-type: none"> 1. The agendas, minutes and presentation materials from previous Cabinet and Overview and Scrutiny Committee meetings from mid-2015 onwards (all available on www.flintshire.gov.uk) 2. The separate report on the Provisional Local Government Settlement also on the Cabinet agenda for 19.01.16 (available on www.flintshire.gov.uk) 3. The Provisional Local Government Settlement 2016/17 http://gov.wales/about/cabinet/cabinetstatements/2015/lqsettlement1617/?lang=en

7.00	GLOSSARY OF TERMS
	<p>Medium Term Financial Strategy (MTFS): a written strategy which gives a forecast of the financial resources which will be available to a Council for a given period, and sets out plans for how best to deploy those resources to meet its priorities, duties and obligations.</p> <p>Council Fund: the majority of the Council’s revenue expenditure covering all services except Council Housing for which there is a stand-alone and ring-fenced account called the Housing Revenue Account (HRA).</p> <p>Annual Settlement: the amount of its funds the Welsh Government will allocate annually to local government as a whole, as part of its total budget, and to individual councils one by one. The amount of Revenue Support Grant (see below) each council will receive is based on a complex distribution formula for awarding Aggregate External Finance (AEF). The formula is underpinned by assessments of local need based, for example, of population size and demographics and levels of social deprivation.</p> <p>Aggregate External Finance (AEF): the total amount of support the Welsh Government provides to councils each year. The total is made up of Revenue Support Grant (see below), a share of the national ‘pool’ of National Non-Domestic Rates (see below) and a number specific grant where funds are provided for councils to spend on specified services to achieve pre-set outcomes for example in education or waste collection.</p> <p>Local Government Funding Formula: the system through which the annual funding needs of each council is assessed at a national level, and from which each council’s annual AEF (see above) is derived. The formula is very complex. In summary, using information such as statistics on local population change and deprivation, the formula sets a guide for each council’s funding needs called the Standard Spending Assessment (SSA).</p> <p>Revenue Support Grant: the annual amount of money the Council receives from Welsh Government to fund what it does alongside the Council Tax and</p>

other income the Council raises locally. Councils can decide how to use this grant across services although their freedom to allocate according to local choice can be limited by guidelines set by Government.

National Non-Domestic Rates: the business equivalent of the Council Tax where companies pay a property based tax for local services. Each council as the local collection authority collects the tax from companies, pays it into a national 'pool', and then receives a share back as part of its Annual Settlement (see above).