

CORPORATE RESOURCES OVERVIEW AND SCRUTINY COMMITTEE

Date of Meeting	Thursday, 16 June 2016
Report Subject	Council Fund Revenue Budget 2017/18
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

The Committee has the dual role of scrutinising and commenting on the annual budget of the Council as a whole, and the budget proposals for the corporate services which are within its remit. The Committee has been presented with an outline of the revised Medium Term Financial Strategy (MTFS) for the three year period 2016/17-2018/19 previously.

This report updates the financial forecast for the 2017/18 financial year and presents:-

- the budget pressures and main areas of income and expenditure under review for corporate financial stewardship; and
- the budget pressures and proposed efficiencies for the corporate services for 2017/18 as the third and final year of the current portfolio business planning cycle.

The original forecast for the 2017/18 financial year, the third and final year of the current MTFS, set a likely 'gap' between the total spending requirement and anticipated income of £13.7M. The 'gap' is in effect the total which has to be found in efficiencies, service cost reductions, and income growth as part of annual budget planning. This forecast has been revised at regular intervals based on more recent budget developments at a national and a local level. The latest forecast presents, at this stage, a working 'gap' of £8.1M between the forecast 'gap' and the combined total of working corporate and service portfolio efficiency proposals of £6.3M. Cabinet has endorsed the developing portfolio business plans and corporate financial stewardship plans for early consultation with the Overview and Scrutiny Committees.

The Council has re-adopted a three part strategy of addressing the financial 'gap' each year:-

- Service Reform;
- Corporate Financial Stewardship; and
- Working with Welsh Government.

A presentation will be made to Council on 14 June on the developing plans for the third part of the strategy *Working with Welsh Government*.

All Overview and Scrutiny Committees are being consulted on the development of the Council Fund Budget for 2017/18 throughout the June and July Committee cycles. The Community and Enterprise Overview and Scrutiny Committee is also being consulted on the Housing Revenue Account.

The following tables and appendices are included within the report:-

Table 1: Revised Financial Forecast for 2017/18-2018/19

Table 2: Summary of Corporate Cost Pressures

Table 3: Service Portfolio Business Plan Projections 2017/18

Tables 4a and 4b: Summary of Corporate Services Portfolio Cost Pressures and Proposed Efficiencies

Appendix 1: Detailed Corporate Services Portfolio Business Plan Proposed Efficiencies

RECOMMENDATIONS

1	Committee comments on the corporate cost pressures and main areas of income and expenditure under review for 2017/18, and indicates its level of support for the proposals;
2	Committee comments on the Corporate Services Portfolio Business Plan cost pressures and proposed efficiencies for 2017/18, and indicates its level of support for the proposals; and
3	Committee provides advice on the developing strategy for the 2017/18 budget, and the process and timelines for setting the annual budget, in its wider role of corporate financial governance.

REPORT DETAILS

1.00	Medium Term Financial Strategy 2016/17-2018/19
1.01	The Council has set a cycle of reviewing its Medium Term Financial Strategy (MTFS) on an annual basis. Within this cycle the annually updated MTFS is to be set for a three year period which combines the financial year in-hand with

the two financial years to follow. The first new style MTFS published in mid and late 2015, in two parts, was accordingly for the period 2015/16-2017/18. The revised version of the MTFS for the period 2016/17-2018/19 is being developed in stages. The Committee has previously received a first report on the developing MTFS.

The Revised Financial Forecast

1.02 The original forecast for the 2017/18 financial year, the third and final year of the current published MTFS, set a likely 'gap' between the total spending requirement and anticipated income of £13.7M. This forecast has been revised based on more recent budget developments at a national and a local level. Key variables within this initial forecast are the eventual local government financial settlement for 2017/18, local Council Tax levels, standard and non-standard inflation patterns, and emergent national and local cost pressures. The revised forecast as set out in Table 1 below shows a starting 'gap' between anticipated income and predicted cost pressures of £14.4m. A longer-term forecast has been added for the 2018/19 financial year to complete the three year picture.

1.03 **Table 1: Revised Financial Forecast 2017/18-2018/19**

	2017/18	2018/19
Expenditure	£m	£m
National Pressures	0.7	0.3
Local Pressures	6.2	1.6
Inflation	3.1	3.2
Workforce Pressures	4.1	0.7
Income		
Reduction in Revenue Support Grant	2.8	2.7
Council Tax increase	(2.5)	(2.3)
Projected Gap	14.40	6.20

Footnotes to Table 1:

1. Revenue Support Grant for 2017/18 and 2018/19 is modelled on an illustrative reduction of 1.5%
2. National and local pressures are working estimates based on latest information. The latest revision includes initial estimates of the sizeable increase in care sector costs, and insurance costs
3. Pay inflation is assumed at 1% for 2017/18 and 2018/19
4. Limited provision is made for price inflation
5. Workforce pressures include the ongoing impact of Single Status, Auto-enrolment, the Apprentice Tax Levy and the outcome of the Clwyd Pension Fund Actuarial Review
6. Council Tax is illustrated at a 3% annual increase for 2017/18 and 2018/19
7. The initial 2018/19 forecast does not include the impact of any changes in social care transition costs or the longer term impacts of the Living Wage on Council workforce costs.

1.04 Any forecast can only be predictive based on the most reliable available intelligence, and working assumptions, based on past experience. This latest forecast is subject to change through the decisions of decision-makers such as Governments, the impacts of national fiscal policies, economic trends, and

	<p>changes in supply and demand markets for goods and services in a turbulent global economy. National fiscal policy is subject to change as demonstrated in the most recent budget of the Chancellor of the Exchequer and the authoritative economic forecasts of bodies such as the Office of Budget Responsibility and the Institute of Fiscal Studies; local government in Wales has not yet been given an indicative financial settlement to work with by the incoming Welsh Government; unfunded annual workforce cost pressures compound year on year; significant unfunded cost pressures continue to build in the social care sector. There is a high degree of unpredictability in planning due to external circumstances beyond the control of the Council.</p>
	<p>Meeting the Financial Challenge</p>
1.05	<p>The Council has adopted an MTF5 which took a principled but high risk approach to finding solutions to the unprecedented level of budget savings to be found in 2016/17. Flintshire, as a relatively low funded council under the local government funding formula, and one faced with a funding 'gap' of up to £20M in a single year, had limited options to find solutions without Welsh Government offering some reprieve from the scale of national funding reductions (for Revenue Support Grant and specific grants) first forecast. The Council adopted a three part strategy of:-</p> <ul style="list-style-type: none"> • Service Reform; • Corporate Financial Stewardship; and • Working with Welsh Government.
1.06	<p>Without some reprieve over the level of national funding reductions the Council would have faced a position of having to withdraw key services (such as economic development and business support), closing local facilities some of which were at a mid-point of transition to alternative delivery models (such as leisure centres) and reducing funding support to mandatory services (such as education and social services). Such decisions would not only have been unsupportable by councillors and local communities alike but would have compromised the achievement of the Council's Improvement Priorities. Such funding reductions could possibly have undermined the ability of the Council to meet its mandatory duties in full. The Council was eventually able to set a balanced budget for 2016/17 through following this three part strategy, and with a higher level of risk-taking than in previous years. As is shown in this report support will be needed from Welsh Government for Flintshire in 2017/18 due to the size of the working gap between the forecast financial 'gap' and the combined total of corporate and service portfolio efficiency proposals. Other councils will be in a similar position particularly those with low funding per capita under the current Local Government Funding Formula.</p>
1.07	<p>Cabinet has since readopted this three part strategy. This will involve:-</p> <ul style="list-style-type: none"> • continuing to reduce costs and increase income through service reform as a central theme of the service portfolio business plans; • continuing to control and reduce corporate costs through careful planning and stewardship; and • working with Welsh Government to maintain sufficient levels of national funding for local government and for Flintshire, reforming the local government funding system to give councils greater financial freedom

and flexibility, and properly funding nationally set policies for services and welfare benefits which councils have to administer. A presentation will be made to Council on 14 June on this ongoing work as part of the response to the report and recommendations of the Independent Commission on Local Government Finance in Wales.

2.00 Corporate Financial Stewardship and Planning

2.01 The main areas of income and expenditure that are subject to ongoing review are:-

- Revenue Support Grant retention;
- national specific grants reform and income retention;
- local taxation policy;
- a corporate income policy covering all current and potential fees and charges and the levels at which they are set;
- general price and above standard inflation;
- pay inflation ;
- pensions reform and the implications of the imminent triennial review of the Clwyd Pension Fund by the Fund Actuary, and the employer funding contributions to be made;
- level of investment in school funding formula
- capital financing revenue contributions;
- Treasury Management and investment income;
- the use of reserves and balances;
- invest to save revenue provision;
- assessment of national and local cost pressures; and
- the ongoing management and review of the 2016/17 budget and any future year impacts of its final out-turn.

2.02 The corporate cost pressures in the stewardship and management of the Council finances are set out in Table 2 below.

2.03 Table 2: Summary of Corporate Cost Pressures

	2017/18	2018/19
Corporate Cost Pressures	£m	£m
Commercial Property Pressure	0.386	0
MRP/Prudential Borrowing	0.729	0.100
Repayment of reserve 16/17	1.429	0
Actuarial Pensions Review	1.300	0
Apprentice Tax	0.470	0
Auto Enrolment	0.558	0.559
Single Status	1.726	0.200
Inflation	3.100	3.200
Total Corporate Cost Pressures	9.698	4.059

Footnotes to Table 2:

1. Inflation and single status figures include schools
2. Inflation includes a limited amount of provision for price inflation
3. All cost pressures are subject to ongoing refinement and review
4. Triennial Actuarial Pensions Valuation underway-to be completed for 2017

3.00	Portfolio Business Planning																																			
	Service Portfolio Business Plans																																			
3.01	<p>The service portfolio business plans have been developed with options for the period 2015/16-2017/18. Based on current work there are supportable options with potential for a further round of annualised efficiencies, service cost reductions and income growth in the region of £6.3M as shown in Table 2 below. The total value of these proposals has reduced by £1.6M since the report made to Committee in April. This is a result of a detailed review of a challenge process on the acceptability and the workability of proposals, and their likely efficiency yield, and also through early engagement with Overview and Scrutiny Committees on specific service change options.</p>																																			
3.02	<p>Table 3: Service Portfolio Business Plan Projections 2017/18</p> <table border="1"> <thead> <tr> <th></th> <th>2016/17</th> <th>2017/18</th> </tr> <tr> <th>Portfolio</th> <th>£m</th> <th>£m</th> </tr> </thead> <tbody> <tr> <td>Planning & Environment</td> <td>0.413</td> <td>0.205</td> </tr> <tr> <td>Street-scene & Transportation</td> <td>2.158</td> <td>1.900</td> </tr> <tr> <td>Social Care</td> <td>0.838</td> <td>0.690</td> </tr> <tr> <td>Education & Youth</td> <td>0.710</td> <td>0.873</td> </tr> <tr> <td>Organisational Change</td> <td>1.272</td> <td>0.943</td> </tr> <tr> <td>Community & Enterprise</td> <td>1.509</td> <td>0.807</td> </tr> <tr> <td>Corporate Services</td> <td>0.855</td> <td>0.903</td> </tr> <tr> <td></td> <td></td> <td></td> </tr> <tr> <td>Total</td> <td>7.755</td> <td>6.321</td> </tr> </tbody> </table> <p>Footnotes to Table 3:</p> <ol style="list-style-type: none"> 1. 2016/17, column shows approved budgeted efficiencies 2. 2016/17 efficiencies are budgeted as approved by Council. These are subject to in-year variation which will be reported as part of in year monitoring 3. The projected efficiencies for 2017/18 are subject to ongoing review and refinement 				2016/17	2017/18	Portfolio	£m	£m	Planning & Environment	0.413	0.205	Street-scene & Transportation	2.158	1.900	Social Care	0.838	0.690	Education & Youth	0.710	0.873	Organisational Change	1.272	0.943	Community & Enterprise	1.509	0.807	Corporate Services	0.855	0.903				Total	7.755	6.321
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3.03	<p>The majority of budget reductions continue to be made through organisational change, overhead and workforce cost reduction, and service modernisation and productivity. The ongoing service changes where there are impacts for the public, and consultation and engagement will be needed include:-</p> <ul style="list-style-type: none"> • the programme of school modernisation and reviews of primary and secondary provision; • the school funding formula and levels of annual funding; • changes to social care models; cost recovery through charging and partnership contributions; entitlement and non-statutory service provision; 																																			

	<ul style="list-style-type: none"> • waste policy including household recycling centre provision and side waste enforcement; subsidised transport routes; the review of transport entitlement and operational policies e.g. school transport; • charging and cost recovery for services; and • minimum service provision and the 'core service offer' to local communities which could be supplemented by local community action and local income e.g. through town and community council contributions.
3.04	The business plan proposals are being shared with Overview and Scrutiny Committees for consultation through June and July. The proposals, both those which are internalised and have no direct impact on the public and those which affect service provision and do impact on the public will be shared in full with Committees for consultation. The latter only will be presented for public consultation.
3.05	As in previous years there will be risk to the achievement of proposed budget efficiencies, either because certain proposals prove to be unacceptable to the Council or the public in their recommended form or because of complexities in their practical implementation. The scope to achieve savings through collaboration with neighbouring councils is limited during a period of uncertainty over the probability of a reorganisation of local government. These limitations are both political and practical. Some of the business plans include pragmatic and beneficial service integration proposals for which support cannot be realised with neighbouring councils. This is a limiting factor beyond the control of Flintshire.
3.06	The portfolio business plans will continue to be reviewed and developed for future years including 2018/19 as the third and final year of the current MTFS period. The options for identifying further savings at this level, beyond 2017/18, are very limited. The scope for further savings through organisational change, efficiency, and charging within current legislative and national policy limitations, is reducing year on year.
	Corporate Services Portfolio Business Plan
3.07	The Corporate Services group has three portfolios: Governance; People and Resources; Chief Executive's. The first two have full portfolio business plans with efficiency targets. The portfolio for Chief Executives does not have a formal business plan due to its small scale. In the on-going absence of the Chief Officer (People and Resources) through serious illness the Chief Executive continues to manage the People and Resources Portfolio with support from the two Chief Officers (Organisational Change).
3.08	As with all other service portfolios the portfolios for Governance and People and Resources have set cost reduction/efficiency targets of 30% for the three year period of their business plans. In some service areas within these portfolios, notably Finance and Human Resources and Organisational Development, structural and other service changes had already achieved significant financial savings in years immediately prior to the current business planning cycle.

3.09	The proposals for the Governance and People and Resources Portfolios are set out in Appendix 1. These are summarised in Table 4 below alongside the service cost pressures.																								
3.10	<p>Table 4.1: Summary of Corporate Services Portfolio Cost Pressures</p> <table border="1" data-bbox="316 342 1267 611"> <thead> <tr> <th></th> <th style="text-align: right;">2018/19</th> </tr> <tr> <th>Corporate Services Cost Pressures</th> <th style="text-align: right;">£m</th> </tr> </thead> <tbody> <tr> <td>ICT</td> <td style="text-align: right;">0.115</td> </tr> <tr> <td>Procurement Pressure</td> <td style="text-align: right;">0.002</td> </tr> <tr> <td>Total Corporate Services Cost Pressures</td> <td style="text-align: right;">0.117</td> </tr> </tbody> </table> <p>Footnote to Table 4.1</p> <ol style="list-style-type: none"> 1. ICT pressure is broadband provision for schools 2. Procurement pressure is an increase in cost of joint procurement service with Denbighshire County Council following a team restructure <p>Table 4.2: Summary of Corporate Services Portfolio Efficiencies</p> <table border="1" data-bbox="316 909 1267 1249"> <thead> <tr> <th></th> <th style="text-align: right;">2017/18</th> </tr> <tr> <th>Corporate Services Efficiencies</th> <th style="text-align: right;">£m</th> </tr> </thead> <tbody> <tr> <td>People and Resources - Finance</td> <td style="text-align: right;">0.270</td> </tr> <tr> <td>People and Resources – Human Resources and Organisational Design</td> <td style="text-align: right;">0.228</td> </tr> <tr> <td>Governance - ICT</td> <td style="text-align: right;">0.350</td> </tr> <tr> <td>Chief Executive's</td> <td style="text-align: right;">0.055</td> </tr> <tr> <td>Total Corporate Services Efficiencies</td> <td style="text-align: right;">0.903</td> </tr> </tbody> </table>		2018/19	Corporate Services Cost Pressures	£m	ICT	0.115	Procurement Pressure	0.002	Total Corporate Services Cost Pressures	0.117		2017/18	Corporate Services Efficiencies	£m	People and Resources - Finance	0.270	People and Resources – Human Resources and Organisational Design	0.228	Governance - ICT	0.350	Chief Executive's	0.055	Total Corporate Services Efficiencies	0.903
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3.11	Whilst not having a formal portfolio business plan the Chief Executive's Portfolio has led major cost reductions across the whole Council, and made proportionate savings within its own minor budget over the past 2 years through: the introduction of the new corporate operating model and the significant reduction in chief officer posts; an initial and then an ongoing reduction in the number of personal assistant posts supporting a reduced chief officer complement; the merger of the Policy and Performance Team and the Communications Team with the reduction of one senior manager position; the gradual reduction of the Policy and Performance Team complement by 50% over a longer period with the recent deletion of a managerial post through voluntary redundancy; the 'freezing' of the post of Executive Manager with the departure of the post holder for another position externally; the 'freezing' of the post of Chief Officer (People and Resources) and an internal interim management arrangement during the long-term absence of the post holder through serious illness.																								
3.12	The cost and value of corporate support services in local government and the public sector have come under intense scrutiny with the Welsh Government commissioning a review in its previous term. This review was undertaken by KPMG and CIPFA and members will recall that the credibility of its conclusions was contested when drawn upon by the then Minister for Public																								

	Services to extrapolate the potential costs savings to be had in 'back office' services, as they are often termed, from a structural re-organisation of local government in Wales.
3.13	Given this level of public scrutiny, and the need to be assured that the current portfolio business plans are indeed sufficiently challenging to both modernise and streamline support services and make overhead cost reductions, the Council commissioned an independent review of the corporate services portfolio business plans. The work was undertaken by PA Consulting. The review, which will be summarised in the presentation to be made to the Committee at the meeting largely validated the business plans with some further recommendations for streamlining and improving service structures, systems and activities. The recommendations for further modernisation were more concentrated in Legal Services and Finance. The work concluded overall that the value for money of our corporate services is competitive, that efficiency targets are stretching and generally achievable, with cautionary advice that Human Resources and Organisational Development is already an optimal industry model which, being lean and low cost, would not be resilient if further efficiencies beyond a mid-point cost target were required.
3.14	Given that all portfolios have been expected to fundamentally review their priorities, operations, efficiency and cost within the three year business planning process, the Council has become acutely aware of the risks of change proposals, the public acceptability of major change, and the impacts on maintaining services which are sustainable and resilient. In support of the business plans, and as evidence for our case for the need for national funding support and relief as a 'low funded council', each portfolio is producing an evidential resilience statement and an efficiency statement as twin documents.
3.15	The resilience statements will cover the risks to Council priorities, mandatory duties, service quality and service sustainability should the Council have no option but to go beyond the efficiency targets within its current portfolio business plans. The efficiency statements will demonstrate the actual and comparative cost bases of services and their value for money.
3.16	The resilience and efficiency statements for the Corporate Services will be presented to the Committee at either its July or September meeting.

4.00	RESOURCE IMPLICATIONS
4.01	The resource implications of financial are significant. The Medium Term Financial Strategy will continue to carry many risks. Careful risk assessment in planning and decision-making will continue to be a central feature of review and debate.

5.00	CONSULTATIONS REQUIRED / CARRIED OUT
5.01	Consultation with Group Leaders, Overview and Scrutiny Committees, external partners, external advisors and representative bodies, and eventually the communities of Flintshire will follow. The strategic approach advocated for the MTFs builds on the current approach which had majority member and public support in planning the 2016/17 annual budget.

6.00	RISK MANAGEMENT
6.01	All parts of the financial forecast, and all budget solutions, are risk assessed stage by stage. An overall risk assessment and risk management statement will be produced both for the revised MTFs and the draft annual budget for 2017/18. The appendix which sets out the specific portfolio business plan proposals for the corporate services includes commentary on risk.
7.00	APPENDICES
7.01	Appendix 1: Detailed Corporate Services Portfolio Business Plan Proposed Efficiencies

8.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
8.01	<p>MTFS Parts 1 and 2 http://www.flintshire.gov.uk/en/PDFFiles/Medium-Term-Financial-Strategy/Medium-Term-Financial-Strategy-Part-1.pdf http://www.flintshire.gov.uk/en/PDFFiles/Medium-Term-Financial-Strategy/Medium-Term-Financial-Strategy-Part-2-September-2015.pdf</p> <p>2016/17 Council Fund Budget Report http://cyfarfodyddpwyllgor.siryfflint.gov.uk/documents/g3508/Public%20reports%20pack%2016th-Feb-2016%2014.00%20Flintshire%20County%20Council.pdf?T=10&LLL=undefined</p> <p>MTFS Cabinet Report, April 2016 http://cyfarfodyddpwyllgor.siryfflint.gov.uk/documents/g3574/Public%20reports%20pack%2019th-Apr-2016%2009.30%20Cabinet.pdf?T=10&LLL=undefined</p> <p>Contact Officers: Colin Everett and Gary Ferguson Telephone: 01352 702101 E-mail: gary.ferguson@flintshire.gov.uk</p>

9.00	GLOSSARY OF TERMS
9.01	<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>Revenue Support Grant: the annual amount of money the Council receives from Welsh Government to fund what it does alongside the Council Tax and 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.</p> <p>Specific Grants: An award of funding from a grant provider (e.g. Welsh Government) which must be used for a pre-defined purpose.</p> <p>Office of Budget Responsibility: created in 2010 to provide independent and authoritative analysis of the UK public finances.</p> <p>Institute of Fiscal Studies: formed in 1969 and established as an independent research institute with the principal aim of informing public debate on economics in order to promote the development of effective fiscal policy.</p> <p>Independent Commission on Local Government Finance in Wales: established to examine how local government funding can be made more sustainable with a view to providing specific recommendations for improvement and reform.</p> <p>Welsh Local Government Association: the representative body for unitary councils, fire and rescue authorities and national parks authorities in Wales.</p>