

CABINET

Date of Meeting	Tuesday 18 th July 2017
Report Subject	Medium Term Financial Strategy 2018/19
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 sets out the financial forecast for 2018/19 as part of the refresh of the Medium Term Financial Strategy (MTFS). The MTFS was last updated in late 2016 and this is the first report to Cabinet which contributes to a review of the MTFS for re-approval and re-publication. This will be followed by further work on forecasting the financial position for future years with the aim to develop an MTFS which forecasts the position of the Council up until 2022 (the term of this Council).

The original forecast for the 2018/19 financial year, the third and final year of the current MTFS, set a likely 'gap' between the total spending requirement, and anticipated income, of £6.2m. When discounting any modelling for a Council Tax increase this forecast gap would stand at £8.5m as a true figure.

This forecast has been revised and updated following the decisions made as part of the 2017/18 budget, receipt of updated information on national, local and workforce pressures, and updated forecasts on inflation.

The revised forecast as detailed in this report shows a projected "gap" of £11.7m prior to any modelling for an increase in Council Tax.

A full budget setting process and timetable will be published by the Cabinet shortly. The re-adoption of the MTFS is an important first step in the annual budget setting process.

RECOMMENDATIONS

1	Cabinet adopts the framework for the revision of the Medium Term Financial Strategy 2018/19 and accepts the forecast as the first stage.
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REPORT DETAILS

1.00	MEDIUM TERM FINANCIAL STRATEGY FORECAST 2018/19														
1.01	<p>The Council has set a cycle of reviewing its Medium Term Financial Strategy (MTFS) on an annual basis.</p> <p>This initial report gives the first detailed overview of the financial forecast for 2018/19 with further work on forecasting up until 2022 to follow. This will give Members the opportunity to consider the financial position and potential solutions at an early opportunity prior to moving into the annual budget process.</p>														
1.02	<p>Refreshing the Financial Forecast</p> <p>The original forecast for the 2018/19 financial year, which was published last Autumn, set a likely ‘gap’ between the total spending requirement, and anticipated income, of £6.2m. Excluding any modelling for an increase in Council Tax this “gap” stands at £8.5m as a true figure. This forecast has been revised to take into account decisions made as part of the 2017/18 budget and updated with the latest information on pressures from service portfolios. The key variable within the forecast will be the eventual local government financial settlement for 2018/19, which at present is assumed at the same level as 2017/18 though this would be reviewed when further information emerges on potential funding scenarios. At present, no modelling has been included for local Council Tax levels.</p>														
1.03	A first iteration of a revised forecast for 2018/19 is shown in Table 1 below.														
1.04	<p>Table 1: Financial Forecast 2018/19</p> <table border="0" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><u>Expenditure</u></th> <th style="text-align: right;">2018/19</th> </tr> <tr> <th></th> <th style="text-align: right;">£m</th> </tr> </thead> <tbody> <tr> <td>National Pressures</td> <td style="text-align: right;">1.0</td> </tr> <tr> <td>Local Pressures</td> <td style="text-align: right;">6.5</td> </tr> <tr> <td>Inflation</td> <td style="text-align: right;">2.9</td> </tr> <tr> <td>Workforce Pressures</td> <td style="text-align: right;"><u>1.3</u></td> </tr> <tr> <td>Projected Gap</td> <td style="text-align: right;">11.7</td> </tr> </tbody> </table> <p>This table groups the pressures into National, Local, Inflation and Workforce pressures and further details are included in the following sections.</p> <p>Pressures are supported by full method statements and this year. Internal Audit will be selecting a sample to review the financial robustness to provide a further level of assurance on the pressures included in this year’s forecast.</p>	<u>Expenditure</u>	2018/19		£m	National Pressures	1.0	Local Pressures	6.5	Inflation	2.9	Workforce Pressures	<u>1.3</u>	Projected Gap	11.7
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1.05	<p>National Pressures</p> <p>These pressures have arisen from national policy set outside of the Council’s control. The largest of these pressures is the Apprenticeship Levy (£0.699m) which was met from reserves in 2017/18 on a one off basis but now needs to be built into the budget on a recurring basis as it will need to be funded each year.</p>														

1.06	<p>Local Pressures</p> <p>This group of pressures are local to Flintshire and the services it provides. The main pressures are detailed in 1.07 and 1.08.</p>
1.07	<p>Social Care Pressures</p> <ol style="list-style-type: none"> 1. Transition to adulthood - £0.700m which is an estimate based on support for known new service users moving through from Children's to Adult services. 2. Independent Sector Fee increase - £2.021m which is based on a potential increase in fees to support the sector which provides both domiciliary and residential support for Flintshire residents. 3. Flint Extra Care - £0.420m for the revenue cost of the new Extra Care facility which is due to open early 2018. 4. Autism Spectrum disorder (ASD) - £0.300m pressure as a result of the change in eligibility due to the Social Services and Wellbeing Act. 5. Supporting People - £0.387m pressure as a result in the change in eligibility criteria of the Supporting People grant which supports direct care to individuals across various services. <p>Social Care Pressures total £3.828m.</p>
1.08	<p>Repayment of Reserves</p> <p>As part of the strategy for balancing the 2017/18 budget one off reserves of £1.646m were used to avoid (1) any further increase in Council Tax over and above the level of 3% and (2) further service changes or reductions over and above those approved as part of Business Planning proposals. As reserves are one off funding only this cost will need to be met on a recurring basis from 2018/19.</p>
1.09	<p>Other Local Pressures</p> <p>Of the remaining local pressures the shortfall in levels of planning fee income, and an increase in the level of amount required to fund the Council's borrowing due to the change in the Minimum Revenue Provision (MRP) policy agreed as part of the 2017/18 budget, are the principal ones.</p>
1.10	<p>Inflation</p> <p>The current forecast includes projections for increases in inflation as follows:</p> <ol style="list-style-type: none"> 1. Pay – includes an increase of 1% on current budgets. Any increase above the 1% which might be negotiated at a national level would have a significant impact on the current “gap”. 2. Price inflation – included on a critical service need only basis with £0.170m currently included for specific pressures. 3. Food – includes an increase of 5% on current budgets due to latest indications from our suppliers. 4. Fuel – includes an increase of 5% on current budgets to reflect recent increases and current forecasts. 5. Energy – includes increases in energy which range from 2% for fuel oil, to 11% for electricity to 16% for street lighting. Gas is forecast to

	<p>increase by 30% which has been confirmed by our supplier and is also referenced within the most recent Bank of England Inflation report.</p> <p>The recent report from the Bank of England (May 2017) noted that it is likely that overall price inflation will increase to 2.8% in quarter 4 but is likely to ease back over the next 2-3 years and remain at 2%.</p> <p>The position on inflation remains unpredictable in the current economic and political climate. The forecast is subject to further review.</p>
1.11	<p>Workforce Pressures</p> <p>This group of pressures include the second year impact of the triennial actuarial review of the pension fund, the remaining pressure of the estimated impact of Auto Enrolment of employees into the Pension Fund, additional workforce pressures from the remaining pay increments to be allocated following the Single Status Agreement, and other workforce pressures which have emerged through grading appeals/maintenance and service reviews. Work is ongoing in this area.</p>
1.12	<p>Further Risks Identified</p> <p>As part of the ongoing review of financial pressures there are some areas which are to be kept under review. These are set out below:</p>
1.13	<p>Homelessness – there are several pressures which might affect the Homelessness service due to the roll out of Universal Credit:-</p> <ol style="list-style-type: none"> 1. Increasing demand and limiting options which may lead to an increase in the number of individuals placed in temporary accommodation; 2. There is a risk that there could be a reduction in the homeless prevention funding from Welsh Government. In 2017/18 we received £130,000 of transitional funding to cover the cost of the new legislation. This could end in 2018/19.
1.14	<p>Social Services and Wellbeing Act – some of the impacts of the Act have already been identified in 1.07 above. Others are difficult to quantify at this stage and are being kept under review.</p>
1.15	<p>Out of County Placements continue to be an area of volatility often due to the decisions of the Courts. Current levels of placements indicate that the potential pressure could range between £0.200m to £0.828m. This is the level of overspend shown in the outturn report for 2016/17.</p>
1.16	<p>Ongoing Intermediate Care Fund (ICF) availability is a risk that will need to be monitored throughout the year. The Council receives £1.261m of ICF funding in 2017/18.</p>
1.17	<p>Potential pressures within Education and Youth which could arise from School Modernisation, Additional Learning Needs (ALN) and continuation of the Early Year family support grant. At this stage we cannot quantify the impact.</p>

1.18	<p>Emerging Issues from the Interim 2017/18 Monitoring Report</p> <p>Monitoring of the 2017/18 revenue budget has just commenced and the first high level report of major variances is also being considered by Cabinet as part of this meeting. This has identified a number of variations both positive and negative which, if nothing else changes, would have to be considered as revisions to the financial forecast. These are detailed in 1.19. These variances will require further review to ensure they receive the same level of scrutiny and challenge as the pressures currently included in the forecast.</p>																																																															
1.19	<p>Table 2 - Potential Impacts on 2018/19 identified in interim 2017/18 revenue monitoring report</p> <table border="0" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; width: 60%;">Positive impacts</th> <th style="text-align: center; width: 20%;">Note</th> <th style="text-align: right; width: 20%;">£m</th> </tr> </thead> <tbody> <tr> <td>CTRS - Reduction in demand</td> <td style="text-align: center;">(1)</td> <td style="text-align: right;">(0.250)</td> </tr> <tr> <td>ICF - Continuation of funding</td> <td style="text-align: center;">(2)</td> <td style="text-align: right;">(0.500)</td> </tr> <tr> <td>Social Care additional funding</td> <td style="text-align: center;">(3)</td> <td style="text-align: right;">(0.865)</td> </tr> <tr> <td>Care Fees</td> <td style="text-align: center;">(4)</td> <td style="text-align: right;">(0.514)</td> </tr> <tr> <td colspan="2">Total Positive Impacts</td> <td style="text-align: right; border-top: 1px solid black;"><u>(2.129)</u></td> </tr> </tbody> </table> <p>1. Current demand on the CTRS is projecting an underspend in 2017/18. This is subject to change if the local economy were to decline.</p> <p>2. Continuation of ICF funding to provide support to the Independent Sector is anticipated, however this is subject to annual review and may change.</p> <p>3. The announcement of additional funding for Social Care was confirmed as an additional grant in 2017/18, however the figure is yet to be confirmed. This allocation will become part of the Revenue Support Grant in 2018/19 and details of the overall impact on the level of funding will need to be kept under review.</p> <p>4. An in-year saving as increases in fees to the Independent Sector were contained within budget provision. There will be a recurring efficiency of £0.514m in 2018/19.</p> <table border="0" style="width: 100%; border-collapse: collapse; margin-top: 20px;"> <thead> <tr> <th style="text-align: left; width: 60%;">Negative Impacts</th> <th style="text-align: center; width: 20%;">Note</th> <th style="text-align: right; width: 20%;">£m</th> </tr> </thead> <tbody> <tr> <td>Markets Income</td> <td></td> <td></td> </tr> <tr> <td>(1)</td> <td></td> <td style="text-align: right;">0.054</td> </tr> <tr> <td>Transport Operator Issue</td> <td></td> <td></td> </tr> <tr> <td>(2)</td> <td></td> <td style="text-align: right;">0.675</td> </tr> <tr> <td>ESD Grant</td> <td></td> <td></td> </tr> <tr> <td>(3)</td> <td></td> <td style="text-align: right;">0.111</td> </tr> <tr> <td>Gas Engine Income</td> <td></td> <td></td> </tr> <tr> <td>(4)</td> <td></td> <td style="text-align: right;">0.200</td> </tr> <tr> <td>Shared Specialist Plant</td> <td></td> <td></td> </tr> <tr> <td>(5)</td> <td></td> <td style="text-align: right;">0.050</td> </tr> <tr> <td>Motor Insurance Premium</td> <td></td> <td></td> </tr> <tr> <td>(6)</td> <td></td> <td style="text-align: right;">0.100</td> </tr> <tr> <td>Street Lighting</td> <td></td> <td></td> </tr> <tr> <td>(7)</td> <td></td> <td style="text-align: right;">0.131</td> </tr> </tbody> </table>	Positive impacts	Note	£m	CTRS - Reduction in demand	(1)	(0.250)	ICF - Continuation of funding	(2)	(0.500)	Social Care additional funding	(3)	(0.865)	Care Fees	(4)	(0.514)	Total Positive Impacts		<u>(2.129)</u>	Negative Impacts	Note	£m	Markets Income			(1)		0.054	Transport Operator Issue			(2)		0.675	ESD Grant			(3)		0.111	Gas Engine Income			(4)		0.200	Shared Specialist Plant			(5)		0.050	Motor Insurance Premium			(6)		0.100	Street Lighting			(7)		0.131
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	<p>Bus Subsidy Efficiency (8) 0.205</p> <p>County Hall Parking (9) 0.080</p> <p>School Transport (10) 0.200</p> <p>Supplier Charging (11) 0.116</p> <p>Human Resources Services (12) 0.162</p> <p>CRB Checks (13) 0.080</p> <p>Total Negative Impact <u><u>2.164</u></u></p> <p>Notes:</p> <ol style="list-style-type: none"> 1. Reduction in Market income has led to a shortfall in 2017/18 which if it continues will lead to a pressure in 2018/19. 2. Additional transport costs due to contractor ceasing trading. 3. In year reduction of grant in 2017/18 with recurring impact in 2018/19. 4. Further reduction in income levels projected in 2017/18 which may be recurring if market not recovered. 5. Lack of engagement from neighbouring authorities to share specialist plant has led to the non-achievement of this efficiency in 2017/18. 6. Above inflation increase in Motor Insurance Premium. 7. In year increase of 16% on street lighting with recurring impact on 2018/19. 8. Unachievable efficiency due to local decision. 9. Lower than anticipated efficiency due on parking permits. 10. Additional transport costs due to relocation of pupils. 11. Efficiency for charging suppliers for use of payment portal now not achievable. 12. Anticipated efficiency lower than projected leading to shortfall. 13. Potential pressure relating to CRB checks.
1.20	<p>Although there are a number of potential variances occurring in 2017/18 that could potentially impact on the 2018/19 budget, they are broadly cost neutral in total and are not included in the forecast at this stage. Further detailed work will be undertaken and only included once confirmed as recurring or where they cannot be mitigated by other means.</p>
1.21	<p>Working with Welsh Government</p> <p>We also continue to work nationally with Welsh Government on the following areas:-</p> <ul style="list-style-type: none"> • medium term financial planning at national level • sufficient and sustainable levels of Revenue Support Grant • reform of specific grants and retention of sufficient current grant funding levels to maintain services • relaxing charging levels for services such as domiciliary care • full funding of welfare schemes such as the Council Tax Reduction Scheme • meeting cost pressures of national legislative and public demand in key services such as social care

1.22	Flintshire, as a low funded council per capita, has made the case that it is particularly exposed to the impacts of the significant annualised reductions in public sector funding to meet current and new cost burdens. The risks to Council performance posed by the financial position will continue to be set out to Government Ministers.
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2.00	Budget Process 2018-19
2.01	As part of the revision of the Medium Term Financial Strategy, the Council should begin to build its budget proposals for 2018/19.
2.02	Based on the initial forecast, the budget 'gap' for 2018/19 will be £11.7m. There are also a number of known and emerging risks that will need to be carefully considered as set out in paragraphs 1.12 - 1.17 of the report.
2.03	At present business plan proposals are in development.
2.04	A full budget setting process and timetable will be published by the Cabinet shortly. The re-adoption of the MTFS and endorsement of the proposals within the portfolio business plans will be an important first step in the annual budget process.
2.05	As part of good practice the Council has adopted a range of key performance indicators (KPIs) to help measure performance in financial management; these will be reported upon throughout the year as appropriate as part of regular monitoring reports. Details are appended.
2.06	Regular updates will be provided to members on the MTFS and Budget 2018/19 and a member workshop has been arranged for later this afternoon to provide an opportunity for members to gain a better understanding of the financial challenges and some of the ways in which the Council will need to address these challenges.

3.00	RESOURCE IMPLICATIONS
3.01	The resource implications 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.

4.00	CONSULTATIONS REQUIRED / CARRIED OUT
4.01	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 previous 2 years annual budget process.

5.00	RISK MANAGEMENT
5.01	All parts of the financial forecast, 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 2018/19. In particular, the position regarding inflation is likely to remain volatile as the country moves through its Brexit negotiations. Progress and the effects of this will be monitored so that future financial analysis reflects the impacts.

6.00	APPENDICES
6.01	Appendix 1 – MTFs KPIs

7.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
7.01	<p>Contact Officers: Colin Everett and Gary Ferguson</p> <p>Telephone: 01352 702101</p> <p>E-mail: gary.ferguson@flintshire.gov.uk</p>

8.00	GLOSSARY OF TERMS
8.01	<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>

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.

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.

Welsh Local Government Association: the representative body for unitary councils, fire and rescue authorities and national parks authorities in Wales.