

## CABINET

<b>Date of Meeting</b>	Tuesday, 16 <sup>th</sup> April 2019
<b>Report Subject</b>	Medium Term Financial Strategy – Forecast 2020/21 – 2022/23
<b>Cabinet Member</b>	Leader of the Council and Cabinet Member for Education and Interim Cabinet Member for Finance
<b>Report Author</b>	Corporate Finance Manager Chief Executive
<b>Type of Report</b>	Strategic

## EXECUTIVE SUMMARY

The Council has set a cycle of reviewing its Medium Term Financial Strategy (MTFS) on an annual basis.

This initial report gives the first detailed overview of the financial forecast for 2020/21, together with a high level forecast for the following two years up to 2022/23. This will provide members with the opportunity to consider the financial position and potential solutions at an early stage.

At the Council budget meeting on 19 February a high level overview of the range of potential pressures was presented. At that time the forecast for 2020/21 was £9.5m with the overall “gap” for the three year period forecast to be £26m. The 2020/21 “gap” increased to £9.8m due to the additional use of reserves in balancing the budget for 2019/20 at the final stage.

Further detailed work has been undertaken to refine the forecasts to reflect more updated information based on current intelligence. The high level projection, based on known issues and excluding national funding scenarios, shows that the potential budget gap has risen to of £13.3m for 2020/21. A summary of the forecast and the changes to the position previously reported is set out in this report.

Resources from Aggregate External Finance and Council Tax are shown at the same level as 2019/20 at this stage for illustrative purposes.

## RECOMMENDATIONS

1	Members are asked to examine the updated forecast and adopt it as the basis for initial planning.
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## REPORT DETAILS

<b>1.00</b>	<b>EXPLAINING THE MEDIUM TERM FINANCIAL STRATEGY – FORECAST 2020/21 – 2022/23</b>
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 2020/21, together with a high level forecast for the following two years up to 2022/23. This will provide members with the opportunity to consider the financial position and potential solutions at an early stage.</p>
1.02	At the Council budget meeting on 19 February a high level overview of a range of potential pressures and investments was presented. At that time the forecast for 2020/21 was £9.5m with the overall “gap” for the three year period forecast to be £26m. The 2020/21 “gap” increased to £9.8m due to the additional use of reserves in balancing the budget for 2019/20 at the final stage.
	<b>Welsh Government Funding</b>
1.03	The Council’s core funding comes from Aggregate External Finance (AEF) comprising of Revenue Support Grant and the Council’s share of the National Rates Pool. The final settlement announcement in December for 2019/20 advised of a reduction in AEF of 0.3% although there was no further information provided of indicative funding allocations from 2020/21 onwards. Therefore, the forecast currently shows that the Council will receive £188.980m which is the same amount of funding as 2019/20 i.e. ‘cash flat’ at this early stage.
	<b>Council Tax</b>
1.04	The Council approved an 8.75% increase in Council Tax for 2019/20 and at this early stage for illustrative purposes the forecast does not include any specific increase for 2020/21. The available resources are therefore at a minimum of £82.369m.
	<b>Overall Resources</b>
1.05	The overall resources available to the Council before any changes in AEF and Council Tax is £271.350m. The updated forecast is shown in Table 1 below with further detail provided in paragraphs 1.06 – 1.31:

<b>Table 1:</b>																											
	<table> <tr> <td></td><td>£m</td></tr> <tr> <td>Available Resources (AEF / Council Tax)</td><td>271.350</td></tr> <tr> <td></td><td></td></tr> <tr> <td>Use of Reserves 'dropping out'</td><td>2.221</td></tr> <tr> <td>Workforce Costs</td><td>4.877</td></tr> <tr> <td>Social Care Demands</td><td>3.947</td></tr> <tr> <td>Education Pressures (Non Pay)</td><td>0.708</td></tr> <tr> <td>Corporate / Inflation</td><td>1.059</td></tr> <tr> <td>Other Portfolio Areas</td><td>0.508</td></tr> <tr> <td></td><td></td></tr> <tr> <td>Spending Requirement</td><td>284.670</td></tr> <tr> <td></td><td></td></tr> <tr> <td>Projected Budget Gap</td><td>13.320</td></tr> </table>		£m	Available Resources (AEF / Council Tax)	271.350			Use of Reserves 'dropping out'	2.221	Workforce Costs	4.877	Social Care Demands	3.947	Education Pressures (Non Pay)	0.708	Corporate / Inflation	1.059	Other Portfolio Areas	0.508			Spending Requirement	284.670			Projected Budget Gap	13.320
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	<b>Workforce Costs</b>																										
1.06	<p><u>NJC Pay</u>  The Council has agreed a new pay model to be implemented with effect from April 2019 and provision was made in the 2019/20 budget to meet the cost of this. Initial projections for the following three years were calculated assuming an annual increase of 2%. Further work has now been completed on the incremental impact of the model over the next three years and this additional cost has been included in the revised forecast. Further modelling has also been completed on the potential costs for schools (non-teaching) staff. The effect of the incremental increase for NJC staff including schools is £0.814m which increases the overall cost to £2.864m.</p>																										
1.07	<p><u>Teacher Pay</u>  The impact of the Teacher Pay award in 2019/20 was included in the budget on a cost shared basis between schools and the council. The forecast for 2020/21 has been updated to reflect a further 2% increase from September 2019 (full year effect) and September 2020 (part year effect) which has increased the forecast for teachers pay by £0.737m to £2.013m. The funding of this award will need to be subject to further discussion with Welsh Government.</p>																										
1.08	<p><u>Actuarial Review</u>  The triennial valuation of the Local Government Pension Scheme is due to be completed in 2019/20 although at this stage it is not anticipated that this will result in an additional pressure. This will be reviewed upon conclusion of this work and an update will be included later in the year.</p>																										
	<b>Social Services Demands</b>																										
1.09	<p>The increasing demands within the social care sector continue to provide challenges to the Council and a number of estimated pressures were included as part of the initial forecast presented to Council in February 2019. Further work has been undertaken on each of these and an update is provided below:</p>																										

1.10	<b>Social Care Commissioning:</b> inflationary uplifts are agreed each year with the Council's care providers. A pressure of £1.643m is included in the forecast to reflect the latest information on sector pressures and current clients.
1.11	<b>Transition to Adulthood:</b> the cost of care packages for clients moving into adulthood is an ongoing cost pressure. An initial pressure of £0.700m was included in the original forecast which has now been refined to £0.656m based on the latest information on predicted numbers of school leavers and past expenditure patterns.
1.12	<b>Residential Care (new placements):</b> within the initial forecast it was anticipated that a further increase in the capital limit introduced by Welsh Government for clients entering residential care could result in a further cost pressure of £0.500m. However, at the current time no further increases in the capital limit are anticipated for 2020/21 and therefore the pressure has been removed.
1.13	<b>Marleyfield Residential Home and Holywell Extra Care:</b> demand and concerns about the sustainability of the market have led to changes in the models of delivery for Social Care which will provide more in-house support to provide resilience in an increasingly challenging external market. The development of Marleyfield Residential Home together with a new Extra Care Facility in Holywell is forecast to require additional revenue funding to support the additional clients coming into the service. Initial estimates are included at £0.492m.
1.14	<b>Out of County Placements:</b> The number of children in Out of County Placements for Social Services and Education have increased over the last couple of years with an additional £1.6m included in the 2019/20 budget to meet the current demand. An initial estimate of a further £1m pressure was included in the original forecast in February which has been subject to further work. This has now been revised to £1.156m to reflect the latest information based on current cohort and intelligence.
	<b>Schools and Education</b>
1.15	Since the initial forecast, a number of pressures relating to Schools and Education have emerged relating to three main areas, Additional Learning Needs (ALN), Demography and Youth Justice.
1.16	<b>Additional Learning Needs (ALN):</b> The Additional Learning Needs and Education Tribunal Act (ALNET) 2018 introduces a new Code of practice for schools and local authorities and this will have capacity issues for both schools and the Council. Further work is required to assess the resource/capacity impacts of the introduction of the Code but the initial estimate has identified that the pressure be in the region of £0.131m which has been included in the forecast.
1.17	<b>Additional Learning Needs – Exclusions:</b> There has been a significant increase in the number of exclusions from schools which is a risk for the Council, schools and young people involved. It is placing pressure on capacity within the Inclusion Service and there is a need to strengthen the

	team with a senior learning advisor to ensure that appropriate action is taken to address exclusions and to secure alternative arrangements for the young people who are excluded (£0.066m).
1.18	<b>Additional Learning Needs – 1:1 Support:</b> - Demand for 1:1 support for children with statements has been increasing and putting significant pressure on school budgets. Again further analysis is required to assess the ongoing impact on school budgets however the latest information reflects a pressure of £0.200m which has been included in the forecast.
1.19	<b>Demography:</b> Further work has been completed on assessing the impact of demographic pressures on schools and the latest projections indicate that for 2020/21 this will result in an additional pressure of £0.240m.
1.20	<b>Youth Justice Service:</b> The Youth Justice Service (YJS) has identified the need for an additional resource to develop effective school-focused youth work with young people. There is a new Inspection Framework for Youth Justice involving inspection at least once every two to four years (compared to pre 2018/19 of once every five years). A pressure of £0.071m has been included to address this.
1.21	<b>Teachers Pensions Contributions:</b> At present there is no confirmation that the increase in teacher's pension's contributions, which is due to take effect in September 2019 will be funded on a recurring basis. Whilst confirmation of the funding has been received for 2019/20, the ongoing consequences of this will be determined as part of the UK Governments Comprehensive Spending review which is due to take place later in the year.
	<b>Inflation</b>
1.22	<p>Each year the Council is subject to various inflationary impacts for areas such as energy, national non-domestic rates, and software licenses. At this stage, the level of inflation within the financial forecast has been kept at the same level as set in the budget for 2019/20.</p> <p>There are a number of risks relating to financial markets due to the on-going national economic uncertainties. The position will be kept under review taking into account latest intelligence including updates from institutes such as the Bank of England.</p>
	<b>Corporate</b>
1.23	<p><b>Minimum Revenue Provision (MRP):</b> The original forecast included the impact of the annual increase required to fund the cost of the change of the MRP policy made in March 2018. The impact of this on 2020/21 and subsequent years remains at £0.300m per annum.</p> <p>The impact on the forecast of any further borrowing costs for future capital schemes will need to be subject to further modelling and consideration.</p>

	<b>Previous Year Time Limited Efficiencies</b>
1.24	The 2019/20 budget included a number of efficiencies, some of which were time-limited and cannot be continued in the 2020/21 budget. These amount to £0.030m.
	<b>Other Portfolio Areas – One off Pressures dropping out</b>
1.25	The budget for 2019/20 included a number of one off pressures that will drop out in 2020/21. These total £0.660m and relate to the North Wales Development Partnership, Local Development Plan and a reduction in a pressure for the Work Opportunities Service.
	<b>Other Portfolio Areas – New Service Pressures</b>
1.26	<b>School Transport:</b> an increase in mainstream secondary education pupil transport together with an increase in Special Educational Needs (SEN) pupil transport, both in County and Out of County Placements has led to a pressure on the transport service which has an estimated range of between £0.700m and £1.1m. The pressure is due to an increase in the number of school escorts to accompany SEN pupils as well as an increase in number of single occupancy routes.
1.27	<b>Parking and Enforcement:</b> lower than anticipated income from car park charges over recent months indicates that there will be a pressure of £0.178m in 2020/21. The lower income levels can partly be attributed to the high availability of off street parking particularly in the retail park area of Flint and the late introduction of charges.
1.28	<b>Empty Properties:</b> high levels of empty properties are recognised as having a serious impact on the viability of communities. Consequently, it has been identified that dealing with empty properties can have social, regenerative, financial and strategic benefits. The cost of an officer to undertake this role has previously been funded from capital however this will not be continuing and the cost of £0.070m will need to be funded from revenue.
1.29	<b>Rent Shortfall Pressure:</b> A budget pressure of £0.140m has arisen due to the shortfall in rental income from a number of properties due to their disposal.
1.30	<b>ICT – Schools Connectivity/Local Fibre Network Pressure:</b> An additional budget pressure of £0.050m has arisen due to an increase in costs relating to schools connectivity and the support for the Local Fibre Network connection.
1.31	<b>Flintshire Sustainable Drainage System (SuDS) Approving Body</b>  Schedule 3 Flood and Water Management Act January 2019 requires Local Authorities to operate a SuDS Approving Body (SAB) to deal with surface water drainage matters relating to new developments and ensure compliance with new WG mandatory national standards. The role and purpose will be to receive, consider, approve and subsequently adopt SuDS

	<p>schemes submitted by developers prior to, or in parallel with, planning applications for development.</p> <p>The implications for the costs of this are currently being worked through and further details will be shared in a later report although it is likely that this will result in an additional costs for the Council for 2020/21.</p>																																								
1.32	<p>At the Council budget meeting on 19 February it was highlighted that there were a high number of variables that would necessitate the initial forecast to be subject to further revision specifically around service demands.</p> <p>The Changes from the original forecast from February to April are summarised in Table 2:</p> <p><b>Table 2:</b></p> <table><tr><th>Cost Pressure Group</th><th>£m</th></tr><tr><td>NJC Pay Award – Incremental Impact</td><td>0.814</td></tr><tr><td>Teacher Pay Award – Sept 19/20 full year impact</td><td>0.737</td></tr><tr><td>Social Care Pressure Changes</td><td>0.147</td></tr><tr><td>Education Pressures</td><td>0.708</td></tr><tr><td>School Transport</td><td>0.700</td></tr><tr><td>Other Pressures</td><td>0.438</td></tr><tr><td></td><td></td></tr><tr><td><b>Total</b></td><td><b>3.544</b></td></tr></table>	Cost Pressure Group	£m	NJC Pay Award – Incremental Impact	0.814	Teacher Pay Award – Sept 19/20 full year impact	0.737	Social Care Pressure Changes	0.147	Education Pressures	0.708	School Transport	0.700	Other Pressures	0.438			<b>Total</b>	<b>3.544</b>																						
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	<b>Revised MTFS Summary</b>																																								
1.33	<p>The revised summary over the three year period is shown below in Table 3.</p> <p><b>Table 3:</b></p> <table><tr><th>Cost Pressure Group</th><th>20/21</th><th>21/22</th><th>21/23</th></tr><tr><td></td><th>£m</th><th>£m</th><th>£m</th></tr><tr><td>Pay Inflation</td><td>4.877</td><td>3.941</td><td>3.719</td></tr><tr><td>Non Pay Inflation</td><td>0.759</td><td>0.759</td><td>0.759</td></tr><tr><td>Social Care Pressures</td><td>3.947</td><td>2.657</td><td>2.433</td></tr><tr><td>Education Pressures (non-pay)</td><td>0.708</td><td>0.101</td><td>0.009</td></tr><tr><td>Other Service Pressures</td><td>0.808</td><td>0.314</td><td>0.370</td></tr><tr><td>Repayment of Reserve from 2019/20</td><td>2.221</td><td>0</td><td>0</td></tr><tr><td></td><td></td><td></td><td></td></tr><tr><td><b>Total</b></td><td><b>13.320</b></td><td><b>7.772</b></td><td><b>7.290</b></td></tr></table>	Cost Pressure Group	20/21	21/22	21/23		£m	£m	£m	Pay Inflation	4.877	3.941	3.719	Non Pay Inflation	0.759	0.759	0.759	Social Care Pressures	3.947	2.657	2.433	Education Pressures (non-pay)	0.708	0.101	0.009	Other Service Pressures	0.808	0.314	0.370	Repayment of Reserve from 2019/20	2.221	0	0					<b>Total</b>	<b>13.320</b>	<b>7.772</b>	<b>7.290</b>
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	<b>Addressing the Shortfall</b>																																								
1.34	<p>The Council has limited controllable options to address the potential budget gap and the developing high level the strategy will need to include:</p> <ul style="list-style-type: none"><li>- Settlements from Welsh Government – Funding of pay awards, social care commissioning and indexation of settlements for inflation together with sustainable base funding for schools</li></ul>																																								

	<ul style="list-style-type: none"> <li>- Council Tax and Local Income Strategy – Annual increases in council tax, next phase of income policy and commercialisation of schemes such as green energy</li> <li>- Corporate Change – next phase</li> <li>- Portfolio Business Plans – optimal efficiencies</li> </ul>
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<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	As set out in the report.

<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	Consultation with Group Leaders, Overview and Scrutiny Committees, external partners, external advisors and representative bodies, and eventually the communities of Flintshire will follow as part of the annual budget process.

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	All parts of the financial forecast will be risk assessed stage by stage.

<b>5.00</b>	<b>APPENDICES</b>
5.01	None.

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<p><b>Contact Officer:</b> Gary Ferguson, Corporate Finance Manager  <b>Telephone:</b> 01352 702271  <b>E-mail:</b> <a href="mailto:gary.ferguson@flintshire.gov.uk">gary.ferguson@flintshire.gov.uk</a></p>

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p><b>Medium Term Financial Strategy (MTFS):</b> 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><b>Revenue:</b> a term used to describe the day to day costs of running Council services and income deriving from those services. It also includes charges for the repayment of debt, including interest, and may include direct financing of capital expenditure.</p> <p><b>Budget:</b> a statement expressing the Council's policies and service levels in</p>



financial terms for a particular financial year. In its broadest sense it includes both the revenue budget and capital programme and any authorised amendments to them.

**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.

**Specific Grants:** An award of funding from a grant provider (e.g. Welsh Government) which must be used for a pre-defined purpose.

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

**Financial Year:** the period of 12 months commencing on 1 April