



# Council Fund Budget 2019/20 – Third and Closing Stage

19 February 2019



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# Setting a Legal and Balanced Budget

- » The duty to set a legal balanced budget is upon the whole Council as a collective (a reserved matter)
- » Legal: all budget proposals are within our powers
- » Balanced: income and planned cost reductions combined match planned and expected expenditure
- » Risk Balance: not overloading the budget with risks e.g. speculative or imprecise/un-costed budget proposals
- » Implementation: proposals having realistic timescales
- » Provisions: sufficient financial set-aside for main risks
- » Advice and Opinion: statutory roles of the S151 Officer and the Chief Executive in advising Council

# Setting a Legal and Balanced Budget

- » The duty to set a legal balanced budget cannot be deferred
- » A Council Tax resolution is required by the beginning of March to issue the Council Tax demands in good time
- » Constitution Committee recommendations for the requirements for the budget process were adopted by Council at the AGM
- » Requirement 3: *Members should first seek professional analysis and information on complex issues before making their own analysis and arriving at a judgement*

# Setting a Legal and Balanced Budget

- » Requirement 4: *the Council's statutory officers have a pivotal role within the Budget Process: the Corporate Finance Manager/Section 151 Officer must give a professional opinion on the safety of the process and the proposals, and Members have a duty to consider the advice before making any final decision*
- » Requirement 16: *there must be a cut-off date and time after which it is not practical for officers to be able to respond to Member questions/requests for information (the cut-off date was set as mid January other than for the corporate finance issues which were subject of the Council resolution on 29 January)*



# Summary Budget Position for 2019/20



# Summary of Revised Forecast

	£m
Revised Gap at Provisional Stage	15.262
Less: Stage 1 Budget Proposals Approved	(7.937)
Stage 2 Budget Proposals Approved	(0.630)
<b>Revised Gap</b>	<b>6.695</b>
Less: Final Settlement Revised Reduction in Grant	(1.163)
Less: Impact of Grant Announcements	(2.600)
Add: Further Changes emerging Dec/Jan	0.170
<b>Revised Working Budget Gap at Stage Three</b>	<b>3.102</b>

# Remaining Options for 2019/20

- » No scope for further reductions in Service Portfolios for 2019/20 of any scale (*closed*)
- » Specific Requests to Welsh Government **#backtheask** campaign met in part and ongoing (*no change of position*)
- » Beyond a financial intervention by Welsh Government the only remaining options are Council Tax income and the Corporate Finance issues which were subject to the Council resolution on 29 January: Minimum Revenue Provision Policy and use of capital receipts; reserves – earmarked and un-earmarked; debt scheduling; cash flow management



# Medium Term Forecast

<b>Cost Pressure Group</b>	<b>20/21</b>	<b>21/22</b>	<b>22/23</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Pay Inflation	3.326	3.393	3.460
Non Pay Inflation	0.759	0.759	0.759
Social Care/CLIA Pressures*	3.470	4.044	4.100
Repayment of Reserve from 2019/20	1.900	0	0
<b>Total * Excludes any impact of Actuarial Review and future borrowing costs</b>	<b>9.455</b>	<b>8.196</b>	<b>8.319</b>



# Professional (Technical) Advice



# Minimum Revenue Provision (MRP) – Use of Capital Receipts



# Capital Receipts & Possible MRP Impact – Illustrative Example

	Existing £	Conventional Application £	Alternative Application £
Opening CFR	200,000,000	200,000,000	200,000,000
Cap Receipt	-	(3,000,000)	0
CFR	200,000,000	197,000,000	200,000,000
MRP	(4,000,000)	(3,940,000)	(1,000,000)
Cap receipt	-	-	(3,000,000)
Closing CFR	196,000,000	193,060,000	196,000,000
MRP next yr	(4,000,000)	(3,940,000)	(4,000,000)
Revenue Savings	-	60,000 (Recurring)	3,000,000 (One off)

# Technical Advice – Changing the MRP policy

- » External Auditors, Wales Audit Office
  - » *‘We have reviewed the regulations and the Welsh Assembly Guidance on MRP and conclude there is nothing explicit that states that such proposed treatment of capital receipts is permissible. Therefore, we recommend that the Authority seeks formal legal and technical advice to satisfy itself that the proposed treatment is acceptable.’*
  - » *‘Future capital planning has identified that capital receipts generation will be diminishing, which indicates that this is not a sustainable MRP policy in the longer term.’*
  - » *‘The MRP policy has changed twice over the last two years, changing it again this year does suggest to us that the changes are being made more to balance the budget rather than making a prudent provision. There is a risk that the approach could be open to challenge.’*

# Section 151 Officer – Professional Opinion

- » Do not recommend that Capital Receipts be used to repay debt and do not recommend further changes to the MRP policy:
  - » Use of Capital Receipts is ‘one-off’ and not recurring – Policy is unsustainable and there not prudent.
  - » Wider detrimental impact on the Capital Programme, associated revenue costs and reputational impact.
  - » Technical advice received from WAO and Arlingclose
  - » Legality of the Policy is questionable and would be high risk

# Prudent Level of Reserves





# Prudent Level of Reserves for 2019/20

Detail	£m
Contingency Reserve Available (as per budget monitoring 2018/19 at month 8)	7.689
Less: Approved use of budget 2019/20 (Stage One)	(1.900)
Revised Amount remaining	<u>5.789</u>
Less: Increased Annual Budget Management tolerance level 2019/20 Due to imminent national market uncertainties e.g. financial markets and inflation levels	(2.600)
Less: Contingency against further variations in 2019/20 e.g. Out of County Placements	(1.000)
Less: Investment in change to achieve future efficiencies to support MTFS	(1.000)
Less: Known Corporate Risks: Pay Modelling costs, costs of redundancy, exposure to teacher pension employer contributions increase	<u>(1.000)</u>
Amount remaining	0.189





# Un-earmarked Reserves – Maintaining a Prudent Level (1)

- » Annual Budget Management Tolerance
  - » Covers 2 financial years (remainder of 2018/19 and 2019/20)
  - » A small 1% negative variance on the Council's budget equates to around £2.6m
  - » Any underachievement of planned efficiencies needs to be funded (5% shortfall is £0.230m)
  - » Safeguarding against key areas of volatility (e.g. Out of County Placements, school transport financial markets and inflation)



# Un-earmarked Reserves – Maintaining a Prudent Level (2)

- » Investment in Change to deliver future efficiencies (£1m)
- » Needs to cover 3 years (£333k pa)
- » Council has predominantly exhausted portfolio business planning efficiencies so scale and complexity of future transformation can only increase
- » Examples of potential calls on the funding:
  - » Digital Strategy
  - » New Finance System
  - » Social Care System
  - » Software Licences



# Un-earmarked Reserves – Maintaining a Prudent Level (3)

- » Known Corporate Risks (£1m)
  - » Social and Health Regional Grant – conditions and criteria not yet known so an open risk (£0.705m included in the budget)
  - » Review of Pay Model (tolerance level of £0.150m)
  - » Costs of Redundancy – Previous reserve will be fully committed after 2019/20
  - » Teacher Employer Pension Contributions (still unresolved as to how funded – significant potential pressure not included in the budget)



# Earmarked Reserves



# Review of Earmarked Reserves

- » Set aside for specific purposes to address temporary demand peaks and to mitigate risks
- » Members challenged the need to maintain levels that were projected to remain unchanged in 2019/20
- » Regularly reviewed and reported as part of budget monitoring process
- » Detailed risk assessment undertaken
- » Majority need to be retained for known future commitments and / or to mitigate 'real' risks
- » An amount of £0.132m has been identified for release for general purposes



# Professional Opinion on Reserves

- » Reserves can only be used once even though service demands continue year on year
- » Using Reserves to support recurring spend increases the pressure on the following years' budget (already forecast to be £9.4m in 2020/21 - £26m over 3 years)
- » The 2020/21 shortfall will already require reductions in services and / or a significant increase in council tax (without any additional WG funding)
- » There is no indication of significant improvement in the annual financial settlement
- » Using the highest level of reserves in North Wales
- » CIPFA guidance states that revenue budget deficits apply to future years as well as current
- » Utilising an additional £0.321m (£0.189m Un-earmarked and £0.132m Earmarked) is a reasonable adjustment



# Debt Rescheduling and Cash Flow Management





## Debt Rescheduling and Cash Flow Management

- » Treasury Management Member training and Budget Briefing – worked through a detailed debt rescheduling example
- » Current economic climate results in high premia and means there are no opportunities for debt rescheduling that result in revenue savings
- » On any given day the Council either has surplus cash to invest, a shortage of cash requiring borrowing, or a combination of both
- » Position changes on daily basis - varies significantly due to timings of cash received and payments made



# Remaining Gap and Council Tax 2019/20

Detail	£m
<b>Remaining Gap</b>	<b>3.102</b>
Utilisation of un-earmarked reserves	(0.189)
Utilisation of released earmarked reserves	(0.132)
<b>Gap after further use of reserves</b>	<b>2.781</b>
<b>Council Tax</b>	
Council Services	8.17%
North Wales Fire and Rescue Authority	0.58%
<b>Total Council Tax Flintshire County Council</b>	<b>8.75%</b>

# Analysis of Band D Charges

Band D Charge	2019/20 £	2018/19 £	Difference £	Difference %
Flintshire County Council	1,280.68	1,177.60	103.08	8.75
Town & Community Councils	45.55	44.60	0.95	2.13
North Wales Police & Crime Commissioner	278.10	258.12	19.98	7.74
Total Band D Charge	1,604.33	1,480.32	124.01	8.38

# Band D Charges – Annual, Monthly, Weekly

Band D Charge	Council Tax 2019/20 £	Annual Difference £	Monthly Difference £	Weekly Difference £
Flintshire County Council	1,280.68	103.08	8.59	1.98
Town & Community Councils	45.55	0.95	0.08	0.02
North Wales Police & Crime Commissioner	278.10	19.98	1.67	0.38
Total Band D Charge	1,604.33	124.01	10.33	2.38



# Professional Opinions



# Professional Opinions – Remain Unchanged

- » **Section 151 Officer/Corporate Finance Manager:** confirms the reasonableness of the budget estimates; significant risks around social care demand and the stability of financial markets; essential to protect a sizeable Contingency Reserve to safeguard against these risks; a robust programme for the delivery of the efficiencies with effective and disciplined in-year financial management is essential
- » **Chief Executive:** budget developed according to budget model recommended by Constitution committee; cannot recommend any further reductions to service portfolio budgets or further reductions in workforce capacity without significant risks as set out in the report

# Professional Opinions – The Future

- » The sustainability of Council budgets is under serious threat with few local service choice options remaining
- » Concern over a reliance on diminishing reserves in annual budget-setting over a series of years
- » Proliferation of unfunded national commitments an ongoing cause of major concern
- » Difficult to see how the Council will be able to successfully balance the budget for 2020/21 onwards without some reversal of national fiscal policy
- » Inevitable pressure on local taxation and local income sources to sustain future budgets
- » Early planning for 2020/21 - 2022/23 critical with an updated forecast for the medium-term

# Professional Opinions – Wales Audit Office

- » *‘Future capital planning has identified that capital receipts generation will be diminishing, which indicates that this is not a sustainable MRP policy in the longer term.’*
- » *‘The MRP policy has changed twice over the last two years, changing it again this year does suggest to us that the changes are being made more to balance the budget rather than making a prudent provision. There is a risk that the approach could be open to challenge.’*
- » *‘We are also aware from your budget paper that there is an option to utilise reserves. We would support your view, as the Section 151 Officer, in raising the risk of doing this. We would also point to our previous annual letters where we have identified that the continued utilisation of reserves to support a balanced budget is financially unsustainable’*

# Budget Scenarios

**Scenario 1: the Council sets a budget within its known resources and without any national support**

Scenario 2: local government receives an improved Settlement and the Council can set a budget with more resources (*closed*)

Scenario 3: Flintshire receives an improved Settlement with supplementary funding and the Council can set a budget with more resources (*closed*)

Scenario 4: the Council cannot set a legal and balanced budget and has to default to the statutory procedures (Section 114 notice which would require a budget recovery plan within 21 days and suspend all non-mandatory and contracted expenditure) (*default scenario*)



# Next Steps and Timelines

- » Council invited to set a legal and balanced budget at today's meeting
- » Council Tax formal resolution-setting at Council meeting on 28 February
- » Review and updating of the Medium Terms Financial Strategy – from March
- » Follow-up with Welsh Government on future funding