

## ORGANISATIONAL CHANGE OVERVIEW AND SCRUTINY COMMITTEE

<b>Date of Meeting</b>	Monday 9 <sup>th</sup> December 2019
<b>Report Subject</b>	Medium Term Financial Strategy: Council Fund Revenue Budget 2020/21
<b>Cabinet Member</b>	Cabinet Member for Corporate Management & Assets
<b>Report Author</b>	Chief Executive and Corporate Finance Manager
<b>Type of Report</b>	Strategic

### EXECUTIVE SUMMARY

This report sets out the current financial forecast (considered by Cabinet in October) and the projected 'gap' in the Council's budget funding requirement for 2020/21. The full gap ahead of the budget solutions outlined in this report, and ahead of the Welsh Government Budget for 2020/21, stands at £16.2m.

A summary of the forecast and the changes to the forecast position previously reported is set out in this report.

The report provides an update on the national position and the Council's strategy to achieve a safe and balanced budget for 2020/21. Welsh Local Government requires a much-improved funding Settlement, and Flintshire is dependent on a significant uplift in our annual Revenue Support Grant (RSG) contribution if we are to be in a position to set a safe and legal balanced budget.

This report presents all of the proposed budget efficiencies, and the costs pressures to be included in the budget for 2020/21. The report highlights the specific efficiencies and cost pressures for services which were previously structured within Organisational Change for consideration by this Committee as part of its portfolio responsibilities. This is an interim budget closure report pending the completion of ongoing work on corporate finance options and resolution of the Welsh Government budget.

The report includes the following tables:

- Table 1: Updated Financial Forecast 2020/21
- Table 2: Portfolio Business Plan Efficiencies
- Table 3: Specific Portfolio Pressures

## RECOMMENDATIONS

1	That the Committee reviews and endorses the former Organisational Change portfolio cost pressures recommended for inclusion in the budget for 2020/21.
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## REPORT DETAILS

<b>1.00</b>	<b>MEDIUM TERM FINANCIAL STRATEGY FORECAST 2020/21</b>																			
1.01	<p>The Council has set a cycle of reviewing its Medium Term Financial Strategy (MTFS) on an annual basis.</p> <p>In April, the financial forecast for 2020/21 based on known issues at that time, and excluding national funding scenarios showed a potential budget gap of £13.3m for 2020/21.</p>																			
1.02	<p><b>The Financial Forecast</b> Over the summer, the forecast has been revised to take into account (1) changes to the pressures included in the April forecast and (2) new pressures which were not previously known or calculated. The impact of the changes has been to increase the budget gap by £2.854m to £16.174m.</p>																			
1.03	The revised forecast for 2020/21 is shown in Table 1 below.																			
1.04	<p><b>Table 1: Financial Forecast 2020/21</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Cost Pressure Group</th> <th style="text-align: right;">20/21</th> </tr> <tr> <th></th> <th style="text-align: right;">£m</th> </tr> </thead> <tbody> <tr> <td>Pay Inflation</td> <td style="text-align: right;">5.456</td> </tr> <tr> <td>Non-pay Inflation</td> <td style="text-align: right;">0.759</td> </tr> <tr> <td>Social Care Pressures</td> <td style="text-align: right;">5.574</td> </tr> <tr> <td>Education Pressures (non-pay)</td> <td style="text-align: right;">0.788</td> </tr> <tr> <td>Other Service Pressures</td> <td style="text-align: right;">1.376</td> </tr> <tr> <td>Repayment of Reserve from 2019/20</td> <td style="text-align: right;">2.221</td> </tr> <tr> <td><b>Total</b></td> <td style="text-align: right;"><b>16.174</b></td> </tr> </tbody> </table>		Cost Pressure Group	20/21		£m	Pay Inflation	5.456	Non-pay Inflation	0.759	Social Care Pressures	5.574	Education Pressures (non-pay)	0.788	Other Service Pressures	1.376	Repayment of Reserve from 2019/20	2.221	<b>Total</b>	<b>16.174</b>
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1.05	<p>The solutions available for 2020/21 can be divided into four groups:-</p> <ul style="list-style-type: none"> <li>- National Funding</li> <li>- Portfolio Business Plans and Corporate Finance</li> <li>- Local Taxation and Income</li> <li>- Organisational Change</li> </ul>																			
1.06	<p><b>National Funding</b> In early September, the UK Government delivered the outcome of its one-year spending review and set out its spending plans for 2020/21. The announcement advised of an increase of £593m for the Welsh</p>																			

	Government budget above the 2019/20 baseline which represents a 2.3% increase.																								
1.07	Analysis undertaken by the Welsh Local Government Association (WLGA) has identified that the amount of cost pressures facing Councils across Wales in 2020/21 totals £254m - rising to around £739m by 2022/23. It is essential that these cost pressures are met in full by Welsh Government from the additional funding announced through the UK Spending Review for Welsh Local Government to be sustainable.																								
1.08	<p><b>Portfolio Business Plan Efficiencies and Income</b></p> <p>Portfolio Business Plan efficiencies were shared at an internal Member Workshop in July. The total efficiencies for 2020/21 amount to £1.034m (of which £0.270m comes from income) as summarised in below.</p> <p><b>Table 2. Portfolio Business Plan Efficiencies</b></p> <table border="1"> <thead> <tr> <th>Portfolio</th> <th>£m</th> </tr> </thead> <tbody> <tr> <td colspan="2"><b>Previous Decisions</b></td> </tr> <tr> <td>Corporate</td> <td><b>0.000</b></td> </tr> <tr> <td>Social Services</td> <td><b>0.240</b></td> </tr> <tr> <td>Education &amp; Youth</td> <td><b>0.014</b></td> </tr> <tr> <td>Streetscene &amp; Transportation</td> <td><b>0.240</b></td> </tr> <tr> <td>Planning &amp; Environment</td> <td><b>0.091</b></td> </tr> <tr> <td>Housing &amp; Assets</td> <td><b>0.000</b></td> </tr> <tr> <td><b>Sub Total - Existing</b></td> <td><b>0.585</b></td> </tr> <tr> <td colspan="2"><b>New Decision*</b></td> </tr> <tr> <td>Education and Youth</td> <td>0.449</td> </tr> <tr> <td><b>Total Business Plan Efficiencies</b></td> <td><b>1.034</b></td> </tr> </tbody> </table> <p>*The efficiency under “New Decision” refers to income from the review of Post 16 transport which was approved at Cabinet on 18<sup>th</sup> June 2019.</p> <p><b>Portfolio Business Plans and Corporate Finance (1.13) efficiencies – Total £1.784m</b></p>	Portfolio	£m	<b>Previous Decisions</b>		Corporate	<b>0.000</b>	Social Services	<b>0.240</b>	Education & Youth	<b>0.014</b>	Streetscene & Transportation	<b>0.240</b>	Planning & Environment	<b>0.091</b>	Housing & Assets	<b>0.000</b>	<b>Sub Total - Existing</b>	<b>0.585</b>	<b>New Decision*</b>		Education and Youth	0.449	<b>Total Business Plan Efficiencies</b>	<b>1.034</b>
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1.09	<p><b>Local Taxation and Income</b></p> <p>The level of Council Tax increase will be modelled on a range of different scenarios as part of ongoing strategy with consideration of Welsh Government assumptions once known. If Council Tax were to increase in line with current assumptions of 6.5%, that would yield an additional £5.4m net of the impact on the Council Tax reduction scheme.</p> <p>The Council aims is to keep any increase in Council Tax to a maximum of 5% - a level which would yield an additional £4.3m (having made a</p>																								

	<p>deduction for an increase in the Council Tax Reduction Scheme - Council Tax Benefits). However, containing Council Tax at the level would require a much improved Settlement from Welsh Government.</p> <p>The Council is continuing to review its current fees and charges with the aim to reach full cost recovery for as many services as possible. A number of opportunities for new income generating activities are being considered which may provide additional income in the future. These will be reported and included once approved.</p>						
1.10	<p><b>Organisational Change</b></p> <p>Further options to be considered include the second phase of Alternative Delivery Models (ADM) and Digital Strategy as two main programmes of work for the medium term. No immediate yield can be relied upon for the 2020/21 financial year.</p>						
1.11	<p><b>Specific Portfolio Pressures</b></p> <p><b>Table 3.</b></p> <table border="1" data-bbox="336 857 1252 987"> <thead> <tr> <th data-bbox="336 857 1123 902">Pressure</th> <th data-bbox="1123 857 1252 902">£m</th> </tr> </thead> <tbody> <tr> <td data-bbox="336 902 1123 947"></td> <td data-bbox="1123 902 1252 947"></td> </tr> <tr> <td data-bbox="336 947 1123 987">1) Aura / Newydd additional pay inflation</td> <td data-bbox="1123 947 1252 987">0.091</td> </tr> </tbody> </table> <p>1. Contributory amount towards Aura and Newydds pay award.</p>	Pressure	£m			1) Aura / Newydd additional pay inflation	0.091
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1.12	<p><b>Inflation</b></p> <p>The current forecast includes projections for increases in inflation:</p> <ul style="list-style-type: none"> <li>• Pay - includes an increase of 2% on current budgets together with the incremental impact of the new pay model;</li> <li>• Price inflation - included on a critical service need only basis with £0.025m set aside for specific pressures relating to increases in software licences;</li> <li>• Fuel - includes an increase of 3% on current budgets to reflect recent increases and current forecasts;</li> <li>• Energy - includes increases in energy which range with 9% for gas and 8% for electricity; and</li> <li>• Water and NNDR include increases at 4.5% and 3% respectively.</li> </ul>						
1.13	<p><b>Corporate Finance Efficiencies</b></p> <p><b>Employer Pension Contributions – efficiency of £0.500m</b></p> <p>The final outturn 2018/19 showed a £1m underspend in this area of which £0.600m was released to help balance the 2019/20 budget. This is a variable budget that will continue to be carefully monitored throughout the year but based on last year and early indications this year there is a further efficiency of £0.500m.</p>						

1.14	<p><b>Inflation Review – Reduction of £0.250m</b></p> <p>A review has been undertaken on the level of inflation required in 2020/21. The initial MTFs assumed the same level of provision as 2019/20 (£0.759m including schools) which includes electricity, gas, fuel, water, street lighting, NNDR and price inflation for software licenses. The review has concluded that there is an efficiency of £0.250m available based on current intelligence.</p>
1.15	<p><b>Other Areas under review</b></p> <p><b>Actuarial Review - Clwyd Pension Fund</b></p> <p>The triennial actuarial review is nearing completion and detailed analysis is being undertaken on various scenarios. Once complete the financial implications will be reported to members and considered as part of the overall budget process. A 'dividend' is expected due to the high performance of the Clwyd Pension Fund over the past three years. As an employer we should be in a position to reduce our planned Fund deficit contributions due to the marked improvement in the funded-ness of the Fund.</p> <p><b>Single Person Discount</b></p> <p>A review of Council Tax payers in Flintshire who claim single occupancy discount will be undertaken later in the year. This is projected to bring in additional income during 2020/21.</p>
1.16	<p><b>Portfolio Efficiencies</b></p> <p><b>Organisational Change Efficiencies</b></p> <p>There are no efficiencies relating to services formerly within the Organisational Change portfolios.</p>
1.17	<p><b>Budget Summary, Process and Timeline</b></p>
1.18	<p>In summary a combination of corporate and portfolio efficiencies and income, the income derived from an acceptable level of Council Tax increase, and the 'dividend' from the actuarial review of the Clwyd Pensions Fund could generate a significant contribution to the forecast budget gap of £8.0-8.5M. The only remaining options to add to this contribution, dependent on the outcome of the Welsh Government budget would be (1) further review of the Clwyd Pension Fund employer contributions in liaison with the Fund Actuary (2) sharing of schools cost pressures with schools themselves and (3) a higher level of Council Tax than the working assumption.</p>
1.19	<p>Service portfolio pressures and efficiencies are being presented to the set of Overview and Scrutiny Committees throughout November and December for review prior to Council receiving stage one of the annual budget on 10 December.</p>
1.20	<p>The Provisional Settlement for Local Government in Wales was originally scheduled for the 26<sup>th</sup> November. However, Welsh Government have recently confirmed that they will publish the draft Welsh Budget on 16<sup>th</sup></p>

	December with the Provisional Settlement being published on the same day. The Final Settlement is expected later than in previous years on 25th February 2020.
1.21	Completion of our budget setting process will be a role for Council at its meetings in January-March.

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	<p><b>Revenue:</b> The Revenue implications for the 2020/21 budget are set out in the report</p> <p><b>Capital:</b> there are no implications for the approved capital programme for either the current financial year or for future financial years - the capital programme for 2020/21 onwards will be subject to a separate report</p> <p><b>Human Resources:</b> The implications for additional capacity or for any changes to current workforce structures or roles are set out in the report</p>

<b>3.00</b>	<b>IMPACT ASSESSMENT AND RISK MANAGEMENT</b>										
3.01	In the absence of adequate funding being provided by Welsh Government there is a significant risk that the Council will not be able to meet its statutory obligation to set a balanced budget for 2020/21.										
3.02	<p><b>Ways of Working (Sustainable Development) Principles Impact</b></p> <table border="1"> <tr> <td>Long-term</td> <td>Negative – the absence of longer-term funding settlements from Welsh Government means that sustainable support for service delivery is challenging for the longer term. Sustainable funding from Welsh Government that provides additional funding for Indexation, Service demands and new legislation will provide a positive and sustainable position for the Council in the longer term</td> </tr> <tr> <td>Prevention</td> <td>As above</td> </tr> <tr> <td>Integration</td> <td>Neutral</td> </tr> <tr> <td>Collaboration</td> <td>Services continue to explore opportunities for collaboration with other services and external partners to support positive impacts</td> </tr> <tr> <td>Involvement</td> <td>Communication with Members, residents and other stakeholders throughout the budget process</td> </tr> </table>	Long-term	Negative – the absence of longer-term funding settlements from Welsh Government means that sustainable support for service delivery is challenging for the longer term. Sustainable funding from Welsh Government that provides additional funding for Indexation, Service demands and new legislation will provide a positive and sustainable position for the Council in the longer term	Prevention	As above	Integration	Neutral	Collaboration	Services continue to explore opportunities for collaboration with other services and external partners to support positive impacts	Involvement	Communication with Members, residents and other stakeholders throughout the budget process
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<b>Well-being Goals Impact</b>	
Prosperous Wales	Longer term funding settlements from Welsh Government that provide additional funding for Indexation, service demands and new legislation will aid sustainability and support a strong economy that encourage business investment in the region
Resilient Wales	Continuation of services to support communities and encourage social cohesion will have a positive impact
Healthier Wales	An appropriate level of funding will ensure that communities are supported and will have a positive impact
More equal Wales	A positive impact with greater parity of funding from Welsh Government for all Welsh Local Authorities
Cohesive Wales	Appropriate level of funding will support services working alongside partners
Vibrant Wales	As Healthier and Cohesive Wales above
Globally responsible Wales	Neutral

<b>4.00</b>	<b>CONSULTATIONS REQUIRED/CARRIED OUT</b>
4.01	Consultation with Group Leaders, Overview and Scrutiny Committees, external partners, external advisors and representative bodies, local schools, the workforce and trade unions is continuous.

<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 – Summary of Pressures Appendix 2 – Summary of Efficiencies

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	Medium Term Financial Strategy – Forecast 2020/21 – 2022/23 April 2019 Cabinet - <a href="http://committeemeetings.flintshire.gov.uk/ieListDocuments.aspx?CIId=391&amp;MIId=4252&amp;Ver=4&amp;LLL=0">http://committeemeetings.flintshire.gov.uk/ieListDocuments.aspx?CIId=391&amp;MIId=4252&amp;Ver=4&amp;LLL=0</a>

<b>7.00</b>	<b>CONTACT OFFICER DETAILS</b>
7.01	<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>8.00</b>	<b>GLOSSARY OF TERMS</b>
8.01	<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 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.</p> <p><b>Revenue Support Grant:</b> 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><b>Specific Grants:</b> An award of funding from a grant provider (e.g. Welsh Government) which must be used for a pre-defined purpose.</p> <p><b>Welsh Local Government Association:</b> the representative body for unitary councils, fire and rescue authorities and national parks authorities in Wales.</p> <p><b>Financial Year:</b> the period of 12 months commencing on 1 April</p>