

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CABINET**

DATE: **TUESDAY, 18 DECEMBER 2012**

REPORT BY: **HEAD OF FINANCE, CHIEF EXECUTIVE**

SUBJECT: **COUNCIL FUND REVENUE BUDGET 2013/14**

1.00 **PURPOSE OF REPORT**

1.01 To present the first draft of the revenue budget for the Council Fund for 2013/14 for initial approval for 1) further work and 2) presentation to Overview and Scrutiny Committees throughout January.

2.00 **BACKGROUND**

2.01 The Council is required to set an annual Council Fund revenue budget which is balanced. The budget should support the Improvement Priorities of the Council, meet its statutory obligations, be considered against the policy aspirations and directives of Welsh Government, and be on a sustainable footing as part of a Medium Term Financial Strategy and Plan.

2.02 Previous reports were presented to Cabinet with an overview of the internal approach to budget planning and setting with projections of the income available to the Council and the financial challenges it faces (October 2012) and on the Provisional Welsh Local Government Settlement 2013/14 announced by Welsh Government (November 2012). The Final Local Government Settlement 2013/14 will have been announced, following consultation, on 11 December. An update will be provided to the meeting. A copy of the Council's response to the Provisional Settlement consultation is attached at Appendix 1.

2.03 The process for scrutiny and approval of the annual budget is initial approval at this meeting with or without amendment; scrutiny by Overview and Scrutiny Committees throughout January; reconsideration by Cabinet with the benefit of the views and proposals of Overview and Scrutiny Committees on 19 February; recommendation of budget by Cabinet to Council on 1 March.

3.00 **CONSIDERATIONS**

National Context

3.01 The Cabinet and the Council are acutely aware that given the national fiscal position and the economic policy decisions of the UK Government in response, funding for the public sector has been and will be contracting in real terms for a

number of financial years. For Wales, Welsh Government budget and policy statements, reports of the Wales Audit Office and other national commentators, and the recently published report of the Institute of Fiscal Studies (IFS) commissioned by the Welsh Local Government Association, reinforce this position and the reality. The Autumn Statement of the Chancellor of the Exchequer suggests that this period of fiscal control and austerity will continue for the duration of the decade.

- 3.02 2013/14 will be the final year of the three year period for current Welsh Government national budget projections. Given severe pressures on the Welsh Government to protect and maintain a range of public services, notably in health, it cannot be assumed that local government will be granted a proportion of the devolved budget from 2014/15 comparable to now. The scale of the financial challenge could, therefore, be even greater from 2014/15.

Local Context

- 3.03 The Council has in recent years been setting annual budgets with a growing awareness of the medium and longer term financial challenges of this national context. The Council has succeeded in setting balanced budgets whilst investing in key priorities, meeting growths in service demands and absorbing the cost impacts of inflation. The Council has achieved this through developing internal programmes of change and reform to make efficiencies, through collaboration and cost-sharing work with partners, and through service reviews and changes. The Council has followed the 'social business model' set within the current version of its Medium Term Financial Strategy to give structure and impetus to this approach. As each year passes and the scope for efficiencies reduces, so the corporate challenge becomes greater.

Annual Budget Strategy

- 3.04 The first draft of the budget for 2013/14 aims to:-
- protect 'front-line' public services despite the scale of the fiscal challenge
 - protect school budgets (estimated increase of £2.1m) and social care budgets (estimated increase of £1.9m). At these levels the increases are over and above national expectations
 - protect core services and Council spending where national grant is being reduced e.g. play schemes and bus travel subsidies
 - help prepare communities for the impacts of Welfare Reform
 - invest in change to achieve future efficiencies
 - build in base budget provision for the implementation of an agreed Single Status Agreement in-year
 - absorb all economic and price inflationary costs without reducing service standards
 - set Council Tax and other service charges at affordable rates which are comparable to other like councils

- 3.05 Given that this is a new Council, led by a new Administration, this draft budget should be treated as an interim or 'stepping stone' budget between the previous and the new Councils. Despite the interim nature of this budget there is strong budget alignment (new investment or budget protection/ continuity) with the 10 Improvement Priorities re-adopted by the Council within its Improvement Plan.

The Medium and Longer Term

- 3.06 The new Administration will need to assert its service and policy priorities for the medium-term given reducing resources, and set even more challenging programmes of organisational change and re-design to reduce overhead costs and make the organisation more efficient. The next phase of organisational change, building on the current Flintshire Futures Programme, will need to be more radical and directive.
- 3.07 Equally, longer-term planning and decisions on the base budgets to be allocated to service functions, allocations which can be sustainable within a reviewed Medium Term Financial Plan, will be an early priority for 2013. The Plan should set out a clear strategy for prioritising projected resources against political and improvement objectives whilst reducing spend/maximising efficiencies and income to match this spending profile.
- 3.08 Major forward commitments within the Plan will include an increase in total base pay as a consequence of the implementation of a Single Status Agreement, the repayment costs of prudential or unsupported borrowing for capital, and on-going commitments to protect investment in key priorities such as education and schools following completion of the Schools Funding Formula Review.

4.00 TOTAL REVENUE BUDGET AND BUDGET REQUIREMENT

Proposed Budget

- 4.01 For members' information the following shows how the budget gap has been managed and reduced from a potential peak of £11m in July:
- Budget report in March identified a gap of £2.336m for 2013/14 rising to £5.306m in 2014/15.
 - In June the budget gap was revised to £8m/£9m to take account of anticipated growth and investment.
 - In July the budget gap was revised to £11m to take account of receipt of all potential budget items.
- 4.02 At this point in the budget planning there is a remaining budget gap of £1.480m, made up of £1.063m recurring base budget and £0.417m for one-off and time limited items. The projection for the budget gap over the five year period to 2017/18 is £30.213m. This is before the inclusion of any costs to the revenue budget arising from the Single Status agreement which is currently being negotiated. It is also before the inclusion of the outcome of the final local government settlement.

- 4.03 Work will continue on eliminating the budget gap over the coming weeks. This will be through the identification of further service efficiencies and the implementation of cost control measures. Particular focus will be on reviewing the Flintshire Futures efficiency targets, particularly around procurement, assessing any movement in the in-year position and where possible funding the one-off shortfall from one-off funding.
- 4.04 Details of the current budget proposals are summarised below. Appendices 2 to 9 provide detail behind the figures. Sections 4.05 – 4.21 below set out further details and assumptions made.

<u>Funding</u>		£m
Revenue Support Grant (RSG)		154.085
National Non Domestic Rates (NDR)		45.566
Council Tax		57.866
Budget Requirement		<u>257.517</u>
 <u>Unhypothecated Grants</u>		
Outcome Agreement Grant		1.467
Specific Grants (Estimated)		33.143
Total Funding		<u>292.127</u>
 <u>Expenditure</u>		
Total Budget 2012/13		280.991
Previous Year's Growth / Items Dropping Out	Appendix 2	1.336
Pay & Price Inflation	Appendix 3	2.900
New Responsibilities and Transfers into the Settlement	Appendix 4	13.210
Pressures and Investments - Ongoing	Appendix 5	3.725
Pressures and Investments - One-off and Time Limited	Appendix 6	0.417
Efficiencies	Appendix 7	(4.774)
Less Specific Grants 2012/13	Appendix 8	(37.341)
Plus Specific Grants 2013/14 (Estimated)	Appendix 8	33.143
Total Expenditure		<u>293.607</u>
Shortfall		<u>1.480</u>

Details of The Budget Build Up

Resources

- 4.05 Total resources of £292.127m include funding from Revenue Support Grant (RSG), National Non Domestic Rates (NNDR), Council Tax, Unhypothecated and Specific Grants.
- 4.06 The amount to be raised from Council Tax assumes an increase in the Band D Council Rate of 3.0% (excluding Police and Town/Community Councils' precepts) and a 97.5% collection rate. This equates to an increase of £27.97 on 2012/13 and a Band D Rate of £960.36. A 3.0% increase is based on the Council's recent local taxation policy which is subject to review.

- 4.07 A 3.0% increase in the Band D Rate results in a Budget Requirement of £257.517m.
- 4.08 As the Council's proposed increase in the Band D rate differs from that assumed by the WG when calculating Flintshire's SSA, the budget requirement is £1.738m below SSA.
- 4.09 The amount of Outcome Agreement Grant of £1.467m has been advised by the WG as part of the provisional settlement. As always this will be subject to assessment against agreed performance criteria. For budget purposes it has been assumed that all of the grant will be received.
- 4.10 The specific grants figure of £33.143m is provisional, with the WG yet to advise of the 2013/14 level for a number of grants. Expenditure levels will be managed within the final figures announced by the WG. Appendix 8 details the information received from the WG to date.

Expenditure

Previous Year Growth/Items Dropping Out

- 4.11 Each year indicative amounts for previous years growth and efficiencies are included in the budget for the following two years. In the current budget the net effects of the changes agreed in the 2011/12 and 2012/13 budget total £1.336m and are detailed in Appendix 2. These amounts have been reviewed as part of the 2013/14 budget and where appropriate an adjustment made with the pressure and investment and efficiency appendices (Appendix 5 and 7).

Pay and Price Inflation

- 4.12 Inflation of £2.900m is shown in detail in Appendix 3. The proposals at this stage assume a 1% increase for non-teaching staff for the full year and a 1% increase for teaching staff with effect from 1st September 2013. The outcome of national negotiations is not likely to be known until in the new year.
- 4.13 Price inflation of £0.988m has only been included for some service areas (at a rate of between 1% and 2%). A great deal of detailed work has been undertaken to assess the need for an inflationary increase and wherever possible inflationary increases have been omitted with agreement of the relevant Head of Service.
- 4.14 In addition to the standard level of inflation outlined above, non-standard inflation of £0.766m has been included as detailed in Appendix 3 to reflect those items for which inflation is anticipated to be at higher levels based on national intelligence. This sum will be held centrally until it is demonstrated that there is a requirement for the funding to be released.
- 4.15 Inflation of 3% amounting to £0.133m has been assumed on the yield from existing fees and charges except where a case has been made to increase by a higher amount. This excludes areas whereby the charge applicable for

2013/14 has already been approved e.g. Increases for leisure are being introduced from January 2013.

- 4.16 The above figures exclude inflation on specific grant income and related expenditure as the specific grant figures are indicative only at this stage. Adjustments will be applied when the figures are confirmed by the WG but this will be cost neutral to the Council.
- 4.17 The provisional settlement included 8 transfers into the settlement and following an assessment of the level of need for Flintshire the amount of funding 'passported' to the service concerned is detailed in appendix 4. The Council Tax Support scheme is the only New Responsibility included in the provisional settlement. Further details regarding this significant new responsibility is expected in the Final Settlement.
- 4.18 Appendix 5 sets out the recurring pressures and investment included in the budget as a result of the considerations to date, subject to further consultation. The pressures and investment, which total £3.725m, have been categorised as follows:
- a) Economic Impact
 - b) Welsh Government Policy/Legislative
 - c) Other Pressures and Investment
 - d) Council Priority/Invest to Save
- 4.19 In addition, the budget process has identified a number of time limited items, totalling £0.417m, which are detailed in Appendix 6. At this stage these items are shown as being funded from the base budget. As work progresses to finalise the budget, all opportunities to identify one off resources to meet these costs will be included in order to release funding from within the base budget.
- 4.20 It is important to note that some of the pressures included in the budget relate to the protection of services and further investment in services. For example Appendix 5d details an additional £1m for investment to support organisational change and amounts in relation to supported borrowing in respect of the capital programme.
- 4.21 Appendix 7 sets out the efficiencies totalling £4.774m, proposed for inclusion in the budget which have been driven through the Flintshire Futures Programme.

5.00 EARMARKED AND UNEARMARKED RESERVES

Base Level of Unearmarked Reserves

- 5.01 The Council's Medium Term Financial Strategy confirms the Councils' commitment to maintaining a base level of reserves of 2% of turnover. The current base level of reserves is £5.564m, and it would require an increase of £0.065m to bring unearmarked reserves up to this level. It is proposed that unearmarked reserves are increased by £0.065m which would bring the base level of reserves to £5.629m.

Contingency Reserve

- 5.02 When the 2012/13 budget was set the Contingency Reserve was estimated to be £0.414m at 31 March 2012. As a result of the net underspend reported in the final outturn for 2011/12 the actual amount in the Contingency Reserve at the year end was £0.992m after taking into account commitments in 2012/13 :
- Use of £0.973m to meet one-off / time limited costs
 - Ringfencing of £1.500m to support Organisational Change costs
- 5.03 The 2012/13 Month 6 Budget Monitoring report which is also on this agenda, shows an estimated balance of (£0.083m) (overdrawn) in the contingency reserve as at 31 March 2013. As stated in paragraph 4.18, the current estimated level of one-off resources held in the contingency reserve is insufficient to fund the estimated one-off/time-limited costs for 2013/14 and will therefore require the use at this stage of base budget in 2013/14 to fund them.
- 5.04 Whilst the base level of reserves is a known sum which is set aside, the level of Contingency reserve is based on the current estimate and is subject to change at the end of the financial year.

Council Fund Earmarked Reserves

- 5.05 Council Fund Earmarked Reserves include service balances, corporate balances and schools' balances. Detailed information in respect of all of these areas will appear in the final budget report to Executive on 19 February 2013.

6.00 CONSULTATION

- 6.01 Meetings of the Overview and Scrutiny Committees have been scheduled between 22 and 31 January 2013 to consider the budget proposals.
- 6.02 Consultation with business ratepayers, as required under the Local Government Finance Act 1992, is being carried out between 19 December 2012 and 18 January 2013, and any comments will be reported to Executive on 19 February 2013.
- 6.03 Updates on the developing budget strategy have been given to the School Budget Forum and the Flintshire Joint Trade Union throughout the budget process and this will continue into the new year up to the budget being set.
- 6.04 Consultation with the Local Service Board, Town and Community Councils and other Statutory Partners will be undertaken where a shared risk or responsibility is identified within the budget proposals.

7.00 RECOMMENDATIONS

- 7.01 Members are asked to endorse the council fund revenue budget proposals which are in progress, and will be subject to consideration by Overview and Scrutiny in January.

8.00 FINANCIAL IMPLICATIONS

8.01 As set out in the report.

9.00 ANTI POVERTY IMPACT

9.01 Individual growth and efficiency items may have specific anti poverty implications.

10.00 ENVIRONMENTAL IMPACT

10.01 Individual growth and efficiency items may have specific environmental implications.

11.00 EQUALITIES IMPACT

11.01 Individual growth and efficiency items may have specific equality implications. These will be identified through an Equality Impact Assessment.

12.00 PERSONNEL IMPLICATIONS

12.01 Individual growth and efficiency items may have specific personnel implications.

13.00 CONSULTATION REQUIRED

13.01 As set out in the report.

14.00 CONSULTATION UNDERTAKEN

14.01 As set out in the report.

15.00 APPENDICES

15.01 As set out in the report.

**LOCAL GOVERNMENT (ACCESS TO INFORMATION ACT) 1985
BACKGROUND DOCUMENTS**

Contact Officer: Gary Ferguson
Telephone: 01352 702271
Email: gary_ferguson@flintshire.gov.uk