

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CABINET**

DATE: **TUESDAY, 21 JANUARY 2014**

REPORT BY: **HEAD OF FINANCE**

SUBJECT: **COUNCIL FUND REVENUE BUDGET 2014/15**

1.00 PURPOSE OF REPORT

- 1.01 To present the draft revenue budget proposals for the Council Fund.
- 1.02 To advise of the ongoing work to close the currently remaining budget gap in 2014/15.
- 1.03 To propose that the draft revenue budget proposals be referred to Overview and Scrutiny for feedback to Cabinet in February.

2.00 BACKGROUND

- 2.01 The potential budget position for 2014/15 has been reported to members on an ongoing basis since the 2013/14 budget was agreed in March 2013. Successive reports have identified the increasing budget gap to be met from efficiencies, as the prospects for the level of funding from Welsh Government (WG) have worsened.
- 2.02 The Medium Term Financial Plan (MTFP) has been updated and reported twice during 2013. The revision as at the end of May was reported to Cabinet in June and Corporate Resources Overview and Scrutiny Committee in July and was fully supported by members. The revision as at the end of September also contained an outline of the developing Organisational Redesign and Change Programme to meet the challenge presented by the level of reduction in WG funding. Again, the MTFP and the Organisational Redesign and Change Programme were fully supported.
- 2.03 The provisional local government financial settlement for 2014/15 was advised to Councils on 16th October 2013. Details of the provisional financial settlement were set out in a report to Cabinet on 19th November 2013, along with information on the implications for the 2014/15 budget. A copy of the Council's response to the provisional settlement based on the discussion at Cabinet is attached at Appendix 1.

- 2.04 In recognition of the scale of the challenge presented by the settlement, which doubled the budget gap from that previously forecast, members agreed to a revision to the process and timetable for consideration of the budget proposals. Original plans for budget proposals to be presented in November and scrutinised in December were changed. Member Workshops, open to all members, were held on 16th and 18th December 2013. These workshops were recognised by those members who attended to have achieved their purpose, which was to:
- Reach a shared understanding of the financial challenge
 - Build support and ownership for the strategy as set out in the MTFP which balances more typical efficiencies (value for money) with newer and large scale structural change and workforce review
 - Agree how best to run the budget setting process from December to February
 - Look ahead to managing the financial challenge in future years
 - Involve all members and to share views and solutions
- 2.05 The final local government settlement was received on 11th December 2013. This had a further minor negative impact, with the Council's funding being further reduced by £0.132m.
- 2.06 Following consideration by Cabinet at this meeting, the budget proposals will be subject to a series of Overview and Scrutiny meetings which take place between 28th January and 3rd February, preceded by a further member workshop of the budget overview on 27th January. Feedback from overview and scrutiny will be provided to Cabinet. Final budget proposals will be proposed at Cabinet on 18th February for adoption by Council on the same day.

3.00 NATIONAL AND LOCAL FINANCIAL CONTEXT

National Context and Local Impact

- 3.01 Local authority funding from WG in 2014/15 has been reduced considerably from the levels indicated for 2014/15 in late 2012. This is significant as WG funding provides 80% of the funding for local authority services met from base budgets, with the remaining 20% being raised from Council Tax.
- 3.02 The indicative settlement showed a small increase in Revenue Support Grant (RSG) for 2014/15, giving a then budget gap of £7.6m.
- 3.03 The actual year on year cut from 2013/14 to 2014/15 is 4% in cash terms, which increased the gap to £16.5m. Whilst the cut is 4% in cash terms, it is fact higher than that (6%+) when inflation and demographic growth are taken into account, with no recognition in the settlement of service pressures, national pay awards or local investment needs to meet shared WG and Council priorities.

- 3.04 The reduction comes from two main sources:
- cuts in funding to WG by UK Treasury announced in the 2012 Autumn Statement and the 2013 Budget.
 - policy decisions by WG to prioritise funding to Health and to support WG policy choices for universal services
- 3.05 Full details of the national context and local impact are contained within the MTFP revisions at 30th May and 30th September 2013 and the report on the provisional local government settlement as set out in Section 2.00 above.

Adapting Locally to the National Context

- 3.06 The scale of the financial challenge and the likelihood of a prolonged period of fiscal constraint means that the Council needs to adapt its approach to service and budget planning. The strategy to develop longer term plans and move away from a more traditional annual approach is made much more prominent.
- 3.07 From 2014/15 onwards, the effort must be on the level of resources estimated to be available at the end of the MTFP period, with plans being put into place to make the financial efficiencies through an ongoing organisational change programme. Annual budgets need to be set within this context and available resources utilised to recognise the lead in times required to achieve change and realise efficiencies.
- 3.08 Sustained levels of reducing funding requires much more challenging forms of prioritising, aligning resources and questioning the achievement of value for money in order to:
- deliver on priorities and make improvements, as set out in the Improvement Plan.
 - meet changing need and demand
 - be able to live within reduced resources
- 3.09 Critical to the success of this approach is taking decisive action locally and not waiting for future collaboration or structural reform to provide answers. They are not solutions for the challenges which face the Council in the here and now or in the medium term.

4.00 ORGANISATIONAL REDESIGN AND CHANGE PROGRAMME

- 4.01 The Council has set out in its second version of the Medium Term Financial Plan, published mid-year, a developing approach to organisational change and redesign. This mid-year change in approach was a direct response to the emerging national decisions on reductions in direct funding support for local government. The change was based on a recognition that the previous successful programmes of annualised organisational and operational efficiencies and service reviews was inadequate to meet the scale of the new financial challenge; that a broader based and more ambitious change programme was required; that the Council would need to return to the

fundamentals of organisational structure and the total costs of employment; that the Council would need to reduce further its civic estate operational costs.

- 4.02 The commission of the Cabinet for this programme set out the following expectations:-
- the protection of local services as a first priority
 - the more challenging reduction of operating costs and overheads
 - the reorganisation of the Council with a marked reduction in management costs
 - the reduction of overall workforce costs
 - the remodelling of some functions
 - building a longer-term financial plan based on optimal efficiency
- 4.03 The Organisational Change and Redesign Programme will continue over a period of years and ambitiously 'front ends' reductions on organisational costs in the first year of 2014/15 with the intent of protecting services as far as possible.
- 4.04 The Programme has four sub-programmes, as set out in the Medium Term Financial Plan:-
1. Corporate Value for Money
 2. Functional Value for Money
 3. Organisational Design: Structure and Operating Model
 4. Operational Design: Workforce

The definitions, working targets and statements of progress for each of the four sub-programmes are set out below.

The Corporate Value for Money and Functional Value for Money Sub-Programmes

- 4.05 The newly adopted Value for Money Model has replaced the previous programmes of targeted service reviews and annualised efficiency approaches previously followed under the Flintshire Futures and general budgeting programmes.
- 4.06 The corporate programme includes cross-organisational areas of spend such as procurement, assets, administration support services and spend on goods and supplies. The functional programme concentrates on individual functional (or service) areas and explores how to contain pressures which drive costs, how to reduce resource needs by operating more efficiently, how to re-prioritise activities and services, and how to remodel the function for example in the way it is structured or through merger with another function.

- 4.07 A combined efficiency target of £10M has been set for the two Value for Money Sub-Programmes for 2014/15. The accumulated efficiencies recommended thus far stand at £8.1M through Procurement (£1.2M) and all other (£6.9M). The detail of these efficiencies is itemised in Appendices 2 and 3. The Procurement work-stream is on-going and will continue to generate further efficiencies throughout the year through procurement practices, the use of national and regional procurement frameworks and the renegotiation of contracts and rates with existing suppliers.

The Organisational Design: Structure and Operating Model Sub-Programme

- 4.08 This sub-programme involves a two phased review of the way the Council is structured and operates with the dual aim of (1) improving the way the Council works and (2) making significant reductions in senior management costs.
- 4.09 The first phase is a review of the structure and organisation of senior management in the first two tiers (director and head of service). This review, which began in November and is supported by expert independent advice, will produce a recommended and streamlined model for consultation throughout February, and adoption by Council by the end of March. The second phase, which will overlap with the first, and be implemented in sequence, is a review of supporting management in the grades M1-M9.
- 4.10 The combined efficiency target for these two phases is set at £2.0M in a full financial year with a proportionate target for 2014/15 of £1.45M based on the timing of the current implementation plan.

The Organisational Design: Workforce Sub-Programme

- 4.11 This sub-programme involves a review of overall workforce numbers beyond the senior management grades referred to above. A planned approach is being designed to assess the scope for a reduction in workforce numbers, function by function, before inviting individual expressions of interest for voluntary redundancy or voluntary early retirement. There is no entitlement for employees to leave the employment of the Council through these routes and the objective is to match as far as possible the requests of individual employees with the capacity of a service to reduce its workforce complement without an unmanageable impact on service continuity and performance. This sub-programme needs to be managed with care and forethought given that the scope for further workforce reduction is limited by the impacts of preceding service reviews which have streamlined structures and workforce complements and taken them nearer to an optimum model of efficiency; a rigorous vacancy management policy has had the effect of requiring some services to run under capacity; a number of posts, both unoccupied and occupied, have already been identified for change or withdrawal in the Value for Money sub-programmes summarised above. An overall efficiency target of £1.5M has been set for this sub-programme for 2014/15.

- 4.12 The costs of employment not covered by the proposals for the Part 3 Terms and Conditions under the Single Status Agreement are also under review to supplement the reduction of the workforce establishment.
- 4.13 The third and fourth sub-programmes on workforce have targets set which must be achieved with both work-streams being well advanced. The precise impacts of the work-streams cannot be gauged at the outset and will be evaluated as they are implemented. There has to be a degree of confidentiality as, in implementation, the Council will be dealing with confidential requests of employees, and sensitivities where employees are placed at the risk of redundancy, for example through structural change, without having expressed an interest to leave the employment of the Council voluntarily.
- 4.14 The Council has set policies for the limits of discretionary payments for redundancy. The investment needs to meet the cumulative costs of payments for the numbers of employees who will be expected to leave our employment have been calculated and are referred to in Section 9.00.

5.00 FINANCIAL STRATEGY

- 5.01 The financial strategy adopted to support the Organisational Redesign and Change Programme is summarised as follows:
- a thorough and challenging review of:
 - assumptions for 2014/15 arising from decisions made in prior years to ensure that the forecasts included reflect the current position
 - price inflation to include provision only where deemed absolutely essential
 - taking a risk based approach to the assessment of all potential items of additional cost as to their likelihood and the level required
 - ensuring that any revenue implications from the capital programme are fully integrated
 - setting clear targets for the achievement of efficiencies to meet the budget gap in 2014/15 through the Organisational Change and Redesign Plan.
 - taking a risk based approach to the broad quantum targets set out in the September MTFP revision and adjusting the balance of individual targets within the overall quantum required, based on progress achieved and up to date assessment of the timing of the delivery of savings
 - undertaking a review of all reserves and balances
 - having in place an affordable Investment Strategy to provide the level of one-off monies needed to:
 - deliver change e.g. the cost of reducing workforce numbers, and investment in technology and temporary capacity

- recognise the timing of implementation of aspects of the organisational change and re-design plan which may not always be possible to achieve from the beginning of a financial year, as the Council moves through an ongoing period of transition and change
- setting the 2014/15 budget within the context of the Medium Term Financial Plan, through identifying the impacts of decisions for 2014/15 and reflecting these in the Medium Term Financial Plan

6.00 TOTAL REVENUE BUDGET AND BUDGET REQUIREMENT

Proposed Budget

- 6.01 At this point in the budget planning there is a remaining budget gap on the recurring base budget of £0.915m.
- 6.02 Work continues on eliminating the budget gap prior to the presentation of the final budget proposals. This will include seeking to identify further corporate and functional efficiencies, particularly procurement through the implementation of cost control measures; ongoing review of pressures and income opportunities; and through the work to review reserves and balances as part of the investment strategy for 2014/15 as described in Section 9.00.
- 6.03 Details of the current budget proposals are summarised below. Sections 6.04 – 6.18 below set out further details and assumptions made.

Funding		£m
Aggregate External Funding (RSG & NDR)		192.942
Council Tax		60.776
Budget Requirement		<u>253.718</u>
 <u>Unhypothecated Grants</u>		
Outcome Agreement Grant		1.458
Use of Reserves - Investment Strategy		6.250
Specific Grants (Estimated)		35.519
Total Funding		<u>296.945</u>
 <u>Expenditure</u>		
Total Budget 2013/14		293.346
Previous Year's Growth / Items Dropping Out	Appendix 4	1.138
Pay & Price Inflation	Appendix 5	2.425
New Responsibilities and Transfers into the Settlement	Appendix 6	0.092
Pressures and Investments - Ongoing	Appendix 7	4.697
Pressures and Investments - One-off and Time Limited		4.800
Efficiencies	Appendices 2 & 3	(11.030)
Less Specific Grants 2013/14	Appendix 8	(33.127)
Plus Specific Grants 2014/15 (Estimated)	Appendix 8	35.519
Total Expenditure		<u>297.860</u>
Shortfall		<u>0.915</u>

Details of The Budget Build Up

Resources

- 6.04 Total resources of £296.945m include funding from Revenue Support Grant (RSG), Non Domestic Rates (NDR), Council Tax, Unhypothecated and Specific Grants and the use of Reserves.
- 6.05 Currently, the amount to be raised from Council Tax is assumed as an increase in the Band D Council Rate of 3.0% (excluding Police and Town/Community Councils' precepts) and a 99% collection rate. This equates to an increase of £28.78 on 2013/14 and a Band D Rate of £988.21. A 3.0% increase has been used for planning purposes in the two MTFP revisions in 2013 based on the pattern of past Council decisions. At 3%, this assumption is at the lower end based on the Council's local taxation policy set out in the Medium Term Financial Strategy and, as such, could be one of the factors to be reviewed in closing the remaining budget gap.
- A Council Tax collection rate of 99% for 2014/15 was agreed by Cabinet in November 2013.
- 6.06 A 3.0% increase in the Band D Rate results in a Budget Requirement of £253.718m.

- 6.07 As the Council's proposed increase in the Band D rate differs from that assumed by the WG when calculating Flintshire's Standard Spending Assessment (SSA), the budget requirement is £1.423m below its calculated SSA of £255.141m as notified in the Final Settlement.
- 6.08 The amount of Outcome Agreement Grant of £1.458m has been advised by the WG as part of the final 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.
- 6.09 The specific grants figure of £35.519m is provisional, with the WG yet to advise of the 2014/15 level for a number of grants. However, in line with the Council's MTFS, expenditure levels need to 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

- 6.10 Each year indicative amounts for previous year's pressures and investments 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 2012/13 and 2013/14 budget total £1.138m, rising to £2.745m in 2015/16 and are detailed in Appendix 4. These amounts have been reviewed as part of the 2014/15 budget and where appropriate an adjustment made to reflect the current position. The most significant change relates to the removal of the Investment in Organisational Change allocation of £1.580m. The investment strategy detailed in section 9 identifies that the estimated investment costs needed to deliver the efficiencies in this budget can be met from available reserves and balances without the need for this additional contribution. Accordingly, the allocation has been taken out for 2014/15, but remains in the MTFP for future years.

Pay and Price Inflation

- 6.11 Inflation of £2.425m is shown in detail in Appendix 5. The proposals at this stage assume a 1% increase from April 2014, although the outcome of national negotiations is not likely to be known until in the new year.
- 6.12 Price inflation of £0.589m has only been included for some targeted service areas at a rate of 1% - 3%, where this has been deemed essential. A significant amount of detailed work has been undertaken to assess the need for an inflationary increase and wherever possible increases have been omitted with agreement of the relevant Head of Service.
- 6.13 In addition to the standard level of inflation outlined above, non-standard inflation of £0.681m has been included as detailed in Appendix 5 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, as has been the case in prior years.

- 6.14 Inflation of 3% amounting to £0.151m has generally been assumed on the yield from existing fees and charges. This excludes areas whereby the charge applicable for 2014/15 has already been approved e.g. Increases for leisure have been introduced from January 2014.
- 6.15 The inflation figures referred to above 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.
- 6.16 The final settlement included one transfer into the settlement relating to Administration Subsidy for the Council Tax Reduction Scheme and, following an assessment of the level of need for Flintshire, the amount of funding 'passported' to the service concerned is detailed in Appendix 6.
- 6.17 Appendix 7 sets out the recurring pressures and investment included in the budget and include:

Leisure Centres

The proposed budget includes an amount of £0.962m to address the in-year overspend in relation to leisure, related in part to capital payment. This has been reported to members throughout the current financial year. This will provide budget to manage the risk of an ongoing overspend in the new financial year, pending any review of leisure provision as part of the future review of service models referred to in Section 11.00.

Actuarial Valuation

The Clwyd Pension Fund has been subject to an actuarial valuation as at 31st March 2013, as required under the triennial review of pension funds. The valuation identifies the amounts which employers in the Fund (of which Flintshire is one), need to make into the Fund over the coming three years to cover past and future service liabilities. An amount of £0.991m has been included in the 2014/15 budget for planning purposes. Following discussions with the Pension Fund and the Actuary this level of budget is required and is reflected in these proposals, with the impacts for future years built into the MTFP.

Pensioners Grant Scheme

Funding for this scheme to provide assistance to Pensioners with Council Tax (beyond support provided by Council Tax Support), has previously been provided from WG by specific grant. The Final Settlement advised that funding had been included for 2014/15 in the RSG to enable Councils to continue with the scheme. The budget proposals assume the continuation of this scheme at a cost of £0.201m.

Children's Out of County Placements

Members will be aware of the volatile nature of this service and the difficulty in predicting future numbers and costs of clients. However, due to an increasing trend in this area as reported in the budget monitoring report, an additional £0.250m has been included at this stage. Further detailed work is being undertaken to risk assess future need and will be considered again in the final budget proposals, based on the most up to date information available.

- 6.18 Information regarding the efficiency proposals are summarised in section 4.00 and detailed in appendices 2 and 3 which in total contribute £11.030m to the overall budget position.

Risk Assessment and Assurance

- 6.19 In line with the financial strategy, a risk based approach has been taken to the assessment of all potential items of additional cost as to their likelihood and the level required. The basis of calculation for pressures and efficiencies is recorded and has been subject to internal challenge to ensure a robust approach and to give assurance to the estimates included. Assessments have been taken of the areas of financial pressure in the current financial year e.g. leisure and out of county placements and assessments made of the provision to be included for 2014/15, taking a balance between the challenge of the overall budget position and the potential for variations in demand.

The achievement of planned efficiencies is a priority with the Improvement Plan and the Council has a good record of making efficiencies year on year. For 2014/15, the scale of the challenge is greater than in previous years which is recognised through the broader based and more ambitious change programme. Decisive action is required to ensure delivery of the plans.

Schools Budget

- 6.20 Under the School Funding (Wales) Regulations 2010 local authorities are required to notify Welsh Government of the proposed budget for schools for the forthcoming year by 14 February each year.
- 6.21 The Final Settlement advised of a continuation of the First Minister's commitment to protect schools funding by 1% above the change in the overall Welsh Government budget.
- 6.22 For 2014/15 this equates to 0.9% with the resources to meet this commitment being included in equal shares through an increase in the pupil deprivation grant and an additional element within the revenue support grant. It should be noted that the protection expectation is relative to WG's funding from the UK Treasury and not the level of Individual Council settlements from WG.
- 6.23 The current budget proposals meet the First Minister's expectation of protecting schools, although the council will continue to review it's investment in schools, particularly in relation to inflationary pressures.

- 6.24 The Council is also committed to increasing the amount of the school budget delegated to schools which we have been doing progressively over a number of years. This is within the strategic framework which embraces the school modernisation programme, numbers of children in school (demographic change) and investment through the 21st Century Schools Programme.
- 6.25 Throughout 2013/14 a significant project has been undertaken to review the funding formula which is used to allocate resources to schools. This project is working towards completion with the aim being to introduce the new formula for the 2014/15 school budgets subject to final consultations with the Schools Budget Forum and cabinet approval.
- 6.26 In 2014/15 a new funding methodology has been introduced by Welsh Government for Post 16. The Post 16 allocation for 2014/15 in Flintshire will be 2.46% less than 2013/14. Work is ongoing with schools to agree an appropriate formula and consultation will be through the Schools Budget Forum.

Relationship to the Capital Programme

- 6.27 The Council Fund Capital Programme 2014/15 and Indicative Funding to 2017/18 report is also reported to Cabinet on 21st January.
- 6.28 The capital report sets out the work undertaken in 2013 to review capital assets for detailed member consideration and public engagement in the spring.
- 6.29 Any revenue costs from schemes in the capital programme in 2014/15 are reflected in this revenue budget and for future years in the Medium Term Financial Plan.
- 6.30 Any future capital schemes not already included in the programme and potentially arising from the assets review will be considered in-year with any additional revenue or capital funding being considered on the basis of the business case and affordability within overall council resources.

7.00 EQUALITY IMPACT ASSESSMENTS (EIAs)

- 7.01 The Council has an obligation to assess the potential equalities impacts of its budget proposals and it is important that all aspects of the Organisational Redesign and Change Programme are subject to an appropriate Equalities Impact Assessment, to ensure that there is no potential for discrimination or disadvantaging either service users or employees.

Corporate and Functional Efficiencies

- 7.02 The initial efficiency proposals for establishing the Value for Money Reviews have been equality impact assessed as part of a higher level filtering exercise undertaken by Directorate Management Team's and supported by both Policy and Finance team members. A fuller and proportionate equality impact

assessment will be conducted where any risks have been identified and appropriate adjustments made in the implementation of these reviews accordingly.

Workforce Efficiencies

- 7.03 For the Workforce Programme, the Council have commissioned some independent support, similar to that commissioned for the Single Status EIA work but less complicated. This will ensure that the proposals, including any entitlement policies that might apply, do not have any adverse consequences for any groups of employees. The independence of this work is helpful to ensure that the Council can evidence that a fair and equitable approach has been adopted.

8.00 EARMARKED AND UNEARMARKED RESERVES

Base Level of Unearmarked Reserves

- 8.01 The Council's Medium Term Financial Strategy confirms the Council's commitment to maintaining a base level of reserves of 2% of turnover. The current base level of reserves is £5.834m as reported in the monthly budget monitoring reports. Despite the fact that funding has reduced in 2014/15 over 2013/14 it is proposed that unearmarked reserves are maintained at the same level for 2014/15 which will provide an additional safeguard in the current uncertain financial climate.

Contingency Reserve

- 8.02 When the 2013/14 budget was set the Contingency Reserve was estimated to be £0.200m at 31 March 2013. As a result of the net underspend reported in the final outturn for 2012/13 the actual amount in the Contingency Reserve at the year end was £3.159m after taking into account commitments in 2013/14 :

- Use of £0.297m to meet one-off / time limited costs
- Replenishing the winter maintenance reserve by £0.250m

Cabinet approved in the final outturn report that the amount held in the contingency reserve of £3.159m be held and considered within the context of the Medium Term Financial Plan and 2014/15 budget strategy.

- 8.03 The 2013/14 Month 7 Budget Monitoring report which is also on this agenda, shows an estimated balance of £3.585m in the contingency reserve as at 31 March 2014, which after the setting aside of £0.518m to provide funding for the severe weather costs incurred early on in the financial year.

- 8.04 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

- 8.05 Council Fund Earmarked Reserves include service balances, corporate balances and schools balances.
- 8.06 Service balances are made up of those balances held by departments which Cabinet has agreed can be carried forward. Corporate Balances are held to meet commitments which fall in future years on specific items of expenditure.
- 8.07 The Council also holds Specific Reserves which are set aside for a specific future purpose.
- 8.08 Appendix 9 details the estimated closing balances for 2013/14 and 2014/15 in respect of all reserves and balances. The Head of Finance is satisfied that the level of these reserves is appropriate.

9.00 INVESTMENT STRATEGY

- 9.01 The scale and ambition of the Organisational Change and Redesign Programme will require significant initial investment to make the change happen. As set out in Section 5.00, a significant strand of the financial strategy for 2014/15 is to have in place an affordable Investment Strategy to provide the level of one-off monies needed to achieve change and recognise the timing of the implementation of change.
- 9.02 Work is ongoing to assess the costs which will be needed in order to achieve the change. At this stage, an estimate of £4.8m has been made of the costs needed to support both 'up-front' invest to save costs (e.g. software improvement) and the costs of employees leaving the authority as a result of the Workforce Programmes. Workforce costs are assessed on average costs at this point as precise costs vary from position to position e.g. salary level, length of service etc. These estimates will be finalised as the workforce programmes progress. This one-off investment will deliver £12.5m of ongoing savings in a full year.
- 9.03 In any large scale change programme the delivery of some efficiencies will take time to implement and will therefore not provide a full year saving in the first year. In these cases it is reasonable to meet the difference from transitional funding due to the fact that the full year effect of these efficiencies will ensure that the budget is sustainable over this period. The full year effect of efficiencies which have a part year effect in 2014/15 is £1.4m
- 9.04 The currently estimated amount to be met from one-off resources in 2014/15 through the investment strategy is therefore £6.2m.
- 9.05 To meet the significant investment required in 2014/15 the following funding streams are available which can be utilised in any combination:-

Contingency Reserve

- 9.06 The month 7 budget monitoring report also on this agenda advises of an estimated contingency reserve available as at the end of March 2014 of £3.585m. However, this will be subject to change in line with the final outturn position and the final figure will not be confirmed until the 2013/14 accounts are closed.

Use of Single Status/Equal Pay Reserve

- 9.07 The Single Status report to Council in October 2013 advised of an option to capitalise up to £3.7m of costs for Equal Pay should it be necessary as part of the total workforce strategy. If an application was approved, noting that the Council has a provisional application listed with WG, this would release £3.7m of the Single Status / Equal Pay Reserve that could be used to contribute to the 2014/15 budget strategy.
- 9.08 A capitalisation direction is subject to Ministerial approval and an application must be made to Welsh Government (WG) in the year that expenditure is to be incurred, with so approval is not now likely be known prior to 2014/15.

Review of Reserves and Balances

- 9.09 In addition to the above a review of all reserves and balances currently held is currently being undertaken with the intention of making funds available wherever possible. These will be available for contributing to the overall investment strategy as necessary. This work is ongoing and will be reported on further alongside the final budget proposals

Affordability

- 9.10 Whilst the release of further reserves and balances will add to the amounts to be included in the Investment Strategy, it can be seen that the combination of the utilisation of the Single Status / Equal Pay Reserve and the Contingency reserves will provide a total of £7.2m to fund the estimated one-off costs for 2014/15 of £6.2m that are required to ensure that the efficiencies to reduce the base budget on an ongoing basis are delivered.

10.00 CHIEF FINANCE OFFICER REPORT ON ESTIMATES AND RESERVES

- 10.01 Section 25 of the Local Government Act 2003 includes a specific duty on the Chief Finance Officer to report to the Authority, when it is considering its Budget and Council Tax, on the robustness of the estimates and the adequacy of reserves. The Act requires the Council to have regard to this report in making its decisions. (The reference to the first person which follows is to the Head of Finance in this role).
- 10.02 My formal statement on the robustness of the estimates and the adequacy of reserves will be made on the final budget proposals recommended to Council. However, at this initial proposal stage, I confirm the reasonableness of the

estimates in these proposals, having regard to the Council's spending needs in 2014/15 and the financial context in which the budget is being set and that the investment strategy as set out in this report is affordable. The financial strategy on which the budget is based is set out in Section 5.00 and the assumptions behind the detailed budget build up is in Section 6.00.

- 10.03 Sections 8.00 and 9.00 set out the position in relation to reserves and the investment strategy being adopted to deliver the Council's Change programme. I am satisfied that this strategy is reasonable and supports the Council's ability to deliver an ongoing programme of change which will deliver efficiencies in the base budget. As work on this is continuing, final comments on affordability and the adequacy of the level of reserves will follow in the report in February.

11.00 2015/16 AND THE MEDIUM TERM

- 11.01 The Council has adopted a Medium Term Financial Strategy and Medium Term Financial Plan which sets out a developing approach to the most effective use of its resources in pursuit of its priorities and statutory services. The stability of these plans depends heavily on the predictability of future local government settlements as set by Welsh Government. Revenue Support Grant (RSG) and nationally controlled specific grants combined provide the majority share of total Council annual resources. The Welsh Government has given an indicative guide for the settlement for 2015-16, however, this cannot be presumed and there has been no guide yet given for 2016-17 onwards.
- 11.02 Local government has experienced a significant reduction in RSG for 2014/15 which was not pre-announced as part of its medium term strategy for the macro public sector in Wales, and the Council will have to guard against repeat fluctuations in national resource planning in future years. The ability of Welsh Government to plan ahead with certainty and confidence is limited by its reliance on UK Government public sector fiscal policy. In turn, the ability of local authorities and the rest of the public sector in Wales to plan ahead is limited. The Wales Audit Office has commented on the need for improvement in medium term financial planning in this and other councils; the reality is that planning ahead with confidence is compromised by this fiscal environment and the restrictions placed on councils to be flexible in the use of their resources e.g. the number and value of specific grants where revenue has to be allocated to specific services under funding criteria.
- 11.03 Given this uncertainty in planning ahead, and given the expert analysis of the ongoing impacts of UK fiscal policy in pursuit of the objective of the control and reduction of national debt by the Institute of Financial Studies (IFS) and others, sizeable annual reductions in resource availability have to be assumed. Even if RSG is reduced by a smaller percentage than the known reduction for 2014/15, or stabilised in later years, the lack of provision in the settlement for pay and price inflation, new legislative and policy impacts, and growing and changing demands in key services such as adults and children's services, means that councils face a significant real cost negative impact year on year which will necessitate continued annual overhead and service cost reductions and efficiencies.

- 11.04 The developing organisational change programme will remove a significant proportion of operating and employment overhead costs from the Council Fund base budget. Whilst there is further scope for overhead reductions as an on-going organisational change objective within the Medium Term Financial Plan, this scope will reduce year on year. As set out in previous statements on the Cabinet strategy for the medium term 2014/15 is planned as a year for reducing operating costs and protecting local services giving time and opportunity for more fundamental reviews of the models for future services.
- 11.05 During 2014 the Council plans to review and consult on a number of service models and their future shape from 2015/16 onwards. Future year cost reductions and efficiencies will need to be a combination of on-going internal changes and cost reductions and changes to service models. This programme will include reviews of alternative models of delivery for selected services; reviews of locality assets based services; 'channel shift' and electronic delivery of services; local community ownership of services including community asset transfer; the roles and responsibilities of the community council and third sectors; controlling and reducing demand for services; income policy and fees and charges. This programme will need public and partner organisation consultation and engagement.

12.00 RECOMMENDATIONS

- 12.01 Members are asked to endorse the initial budget proposals and ongoing work to close the budget gap, and refer them to overview and scrutiny committees for consideration.

13.00 FINANCIAL IMPLICATIONS

- 13.01 The financial implications are set out in the report.

14.00 ANTI POVERTY IMPACT

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

15.00 ENVIRONMENTAL IMPACT

- 15.01 There are no direct environmental implications arising from the report.

16.00 EQUALITIES IMPACT

- 16.01 As detailed in section 7 of the report.

17.00 PERSONNEL IMPLICATIONS

17.01 The Discretionary Compensation provisions are currently under review to make sure that redundancy entitlements offered are fair, are likely to incentivise employees to express an interest in Voluntary Redundancy or Early Voluntary Retirement, and are affordable for the Council.

Employees who are either displaced, or who leave the Council voluntarily, will receive outplacement advice to support their transition into alternative employment or a new career, or into retirement, which may include opportunities to up-skill or retrain, business 'start up' advice, career counselling and retirement planning guidance, depending on the circumstances.

The Council will ensure that appropriate consultation arrangements are in place for all affected employees in line with statutory requirements and the Council's Organisational Change policy.

18.00 CONSULTATION REQUIRED

18.01 Formal consultation is required with Overview and Scrutiny. Meetings of Overview and Scrutiny Committees have been arranged as follows:

- 28th January: Joint Housing (GF only) and Social & Healthcare
- 28th January: Environment
- 28th January: Corporate Resources (for Corporate Departments)
- 30th January: Lifelong Learning
- 3rd February: Corporate Resources - Open to all members (to take an overview of budget based on feedback from other scrutiny meetings).

The round of scrutiny meetings is to be preceded by a further Member Workshop (open to all members) on the afternoon of 28th January to consider the budget overview.

18.02 Formal consultation is required with the School Budget Forum. The next meeting of the School Budget Forum is arranged for 23rd January.

18.03 Statutory consultation is required with Business Ratepayers. This will be undertaken in writing after the Cabinet meeting with the largest businesses within Flintshire and the representative trade and business organisations.

18.04 The budget proposals will be discussed at a meeting with the Flintshire Joint Trades Unions on 23rd January, as part of ongoing dialogue and information sharing.

18.05 Formal consultation on workforce proposals will be in accordance with the detailed plans and timescales of the workforce programme taking account of statutory requirements and local policy.

19.00 CONSULTATION UNDERTAKEN

- 19.01 Prior to the formal consultation processes set out in 16.01 above, the developing financial position and the strategy to meet it have been discussed with members throughout the current financial year. This has been achieved through reports on the Medium Term Financial Plan updates as at May 2013 and September 2013 and at the Member Workshops held on 16th and 18th December 2013.
- 19.02 Updates to meetings of the School Budget Forum have been made on an ongoing basis over the same period.
- 19.03 Copies of the Medium Term Financial Plan updates have been provided to partner organisations in the Local Service Board and to local AM's MP's for information.
- 19.04 Dialogue and information sharing is part of an ongoing process with Trade Unions through FJTUC.

20.00 APPENDICES

- 20.01 As set out in the report.

LOCAL GOVERNMENT (ACCESS TO INFORMATION ACT) 1985 BACKGROUND DOCUMENTS

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