

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CABINET**

DATE: **TUESDAY, 16 DECEMBER 2014**

REPORT BY: **CHIEF EXECUTIVE, CHIEF OFFICER (PEOPLE AND RESOURCES), CORPORATE FINANCE MANAGER**

SUBJECT: **DRAFT COUNCIL FUND REVENUE BUDGET 2015/16**

1.00 PURPOSE OF REPORT

- 1.01 To present the draft revenue budget proposals for the Council Fund for 2015/16 for approval as the basis for formal consultation with the Overview and Scrutiny Committees, and for public information and consultation where specified.
- 1.02 To explain the level of budget deficit 'gap' which remains, over and above the sum of the proposals, and to advise on the ongoing work to offer further proposals.

2.00 BACKGROUND

- 2.01 The Provisional Local Government Settlement for 2015/16 was published by Welsh Government for consultation on 8th October. Details of the provisional settlement and the implications for Flintshire were reported to Cabinet on 16th October.
- 2.02 The County Council considered and supported the consultation response proposed by Cabinet to Welsh Government at its meeting on 18th November.
- 2.03 Preparatory workshops for members were held in late October and early November to set out the budget context; the renewed Cabinet and Chief Officer approach to fundamental reviews of all service budgets; the likely budget position for 2015/16 following the publication of the Provisional Settlement; the specific budget proposals developed thus far; the further work required to reach a balanced budget for recommendation to Council in February 2015.
- 2.04 Following consideration and adoption by Cabinet the draft budget proposals will be subject to a series of formal Overview and Scrutiny meetings to be held throughout January.
- 2.05 The Final Settlement was due to be announced on 10th December following completion of this report. A verbal update will be given at the meeting on any changes to the Settlement made between the

provisional and final stages and any implications for Flintshire.

3.00 CONSIDERATIONS

Impact of the National Budget Announcements

- 3.01 As part of the previous year's settlement announcement in 2013 the Welsh Government provided all Welsh Authorities with an indicative allocation to plan ahead for 2015/16. For Flintshire this was a reduction of 1.6% in its Aggregate External Finance (AEF). AEF is a combination of the Revenue Support Grant and a share of the National Business Rates Pool. AEF provides close to 75% of the Council's overall funding with the remainder being raised directly from Council Tax.
- 3.02 The impact of this indicated decrease in funding meant that there was a projected budget gap for 2015/16 in the region of £12m at that time, having taken into account inflation and other cost pressures
- 3.03 In June 2014 the situation changed dramatically and for the worse. The then Minister for Local Government advised Councils that they should now plan for reductions in funding of up to 4.5%. This meant that the scale of the financial challenge for 2015/16 increased to an estimated £18.5m.
- 3.04 The Provisional Local Government Settlement received on 8th October notified the council of a reduction of 3.4% which, although set at a lower level than that first expected, still created a 'real money' gap of £16.4m. This figure will be increased by any impact from 2014/15 workforce efficiency targets not being achieved in full. This scale of cost reduction by far exceeds anything the Council has had to face in balancing its annual budget in previous financial years. From 2011/12 to 2014/15 the Council will already have achieved some £33m of efficiencies and savings and as each year of reducing budgets passes, the scope to find new efficiencies diminishes.

Budget Strategy

- 3.05 For the 2014/15 budget – to achieve a then unprecedented level of required annual efficiencies - the Council set out an organisational strategy to reduce costs to shield and protect local public services. Whilst building and capitalising upon the efficiency programmes in being from earlier years, the renewed strategy had to be more ambitious due to the scale of the financial challenge. The strategy was built on the four pillars of 'corporate' or whole council efficiencies, 'functional' or within service efficiencies, organisational

redesign of management structures based on a new 'operating model', and workforce efficiencies through phased reductions in the number of people we employ.

- 3.06 The principles which underpinned this strategy, as set out in the Council's Medium Term Financial Plan for the period 2013-2017, have been followed through:-
- planning for the long-term as a whole organisation
 - making decisions for local public services which can be sustained
 - being ambitious and positive about change to better the organisation
 - having a clear philosophy underpinned by social values
 - managing the transition from the current to the future with care
- 3.07 The twin objectives of these programmes of change and cost reduction have been and remain as:-
- maximising the financial efficiency of the organisation and prioritising our resources
 - modernising the organisation to be lean, productive, efficient, resilient and high performing
- 3.08 Whilst the Medium Term Financial Plan (MTFP) is under review alongside the developing budget for 2015/16, with the purpose of re-forecasting the changing budget assumptions for future years and realigning our organisational strategy to suit, the principles and objectives within the plan stand fast.
- 3.09 The organisational strategy followed for the current year has had to be reviewed to cope with the worsened financial position caused by reductions in the Welsh block Grant by UK Government and the change in Welsh Government policy over the prioritisation of local government within the macro Welsh budget. In adopting a new operating model for the Council in March as a first step to the reorganisation of senior management, it was recognised by the Cabinet that the top priority for the Chief Executive and new Chief Officers Team would be a sustainable corporate financing strategy to bridge the annual budget challenges ahead whilst protecting the prioritised and most critical local services.
- 3.10 The basis of the corporate financing strategy has been a series of fundamental business plan reviews across each new Chief Officer portfolio. Chief Officers and their operational teams have been set the challenge of working to a collective budget savings target of up to 30% of total Council resources up to 2017/18. The business planning approach which has challenged priorities, models of

service design and delivery, base budget allocations, value for money, income and cost recovery for services, and management and workforce structures and cost, has generated the proposals listed in the appendices to this report.

3.11 The overall budget which is coming together as a package of measures and proposals combines:-

- corporate financing options e.g. how to manage inflation
- portfolio level business plan proposals
- review of pressures on portfolio budgets
- maximising income generation
- reviews of workforce numbers and costs
- a review of council tax levels
- a full review of reserves and balances

3.12 Ongoing work on options to close the working gap which remains includes further workforce efficiency options - both creative options over overhead costs and workforce sizing, other corporate financing options, and further options in cost reduction in services. The first of these is the subject of ongoing discussion with the Trade Unions in readiness for options to be shared in January.

3.13 The MTFP and the Improvement Plan of the Council set out ambition for alternative ways of working and alternative service delivery models some of which will be new to Flintshire. A number of the budget proposals for this and later year budgets are based on creative and ambitious ideas for community ownership of assets, community and social enterprise, commissioning and trading, and more extensive collaboration. Within the budget are the seeds of new ways of working described in the new Council operating model, the MTFP and the Improvement Plan.

Public Engagement

3.14 Earlier this year the Council launched its 'Big Budget Conversation' as a way of:-

- raising awareness of the budget situation and the significant financial challenges facing the Council
- gauging the level of public acceptance of some of the difficult decisions ahead.

3.15 The period of consultation ran from mid-August to mid-September. A number of specific public consultations will need to follow on certain areas of the budget proposals, where there is an impact on service users, including consultation with the groups with 'protected

characteristics' identified under the Equality Impact Assessments we have been running.

- 3.16 Many of the budget proposals have no direct public impact as shown in the detail in the appendices. For these budget proposals Cabinet and Overview and Scrutiny Committees will be invited to support their early implementation so that the risk of failing to achieve full or part year efficiencies will be minimised through early action in advance of the formal budget setting Council meeting.
- 3.17 A summary report on the outcome of the first stage of the Big Budget Conversation is attached as Appendix 1.

4.00 TOTAL REVENUE BUDGET AND BUDGET REQUIREMENT

Proposed Budget

- 4.01 At this point in the budget planning there is a remaining budget gap on the recurring base budget of £1.760m as detailed in the table below.
- 4.02 Sections 4.03 – 4.17 below set out further details and assumptions made:-

<u>Funding</u>	£m
Aggregate External Funding (AEF)/RSG NNDR	186.506
Council Tax	63.100
SSA/Budget Requirement	249.606
Specific Grants (Estimated)	35.141
Outcome Agreement Grant (Estimated)	1.458
Use of Reserves - Investment Strategy	0.730
Total Funding	286.935
<u>Expenditure</u>	
Base Budget Rolled Forward	296.945
Prior Year Budget Decisions (Appendix 2)	(1.657)
Inflation (Appendix 3)	2.155
Transfers in/out of the settlement (Appendix 4)	0.406
Pressures & Investments Recurring (Appendix 5)	1.109
Pressures & Investments One off	0.730
Efficiencies - Business Planning (Appendix 6)	(10.616)
Less Specific Grants 2014/15	(35.518)
Plus Specific Grants 2015/16 (Estimated Appendix 7)	35.141
Total Expenditure	288.695
Shortfall	(1.760)
<u>Resources</u>	

- 4.03 Total resources of £286.935m include funding from Revenue Support Grant (RSG), Non Domestic Rates (NDR), Council Tax, Unhypothecated and Specific Grants and the use of Reserves.
- 4.04 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 Council precepts) and a 99% collection rate. This equates to an increase of £29.65 on 2014/15 and a Band D Rate of £1,017.86. 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, will need to be one of the factors to be reviewed in closing the remaining budget gap.
- 4.05 A 3.0% increase in the Band D Rate results in a Budget Requirement of £249.606m.
- 4.06 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 £1.649m below its calculated SSA of £251.255m as notified in the Provisional Settlement.

- 4.07 The provisional settlement did not include a specific amount for the Outcome Agreement Grant, although the overall amount across Wales remained unchanged from 2014/15. As always this grant will be subject to assessment against agreed performance criteria. For budget purposes it has been assumed that the same level of grant will be received in full for 2015/16.
- 4.08 The specific grants figure of £35.141m is provisional, with the Welsh Government yet to advise of the 2015/16 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 Welsh Government. Appendix 7 details the information received from the WG to date.

Expenditure

Previous Year Growth / Items Dropping Out

- 4.09 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 2013/14 and 2014/15 equate to a net reduction of £1.657m as detailed in Appendix 2. These amounts have been reviewed as part of the 2015/16 budget and where appropriate an adjustment made to reflect the current position.

Pay and Price Inflation

- 4.10 Inflation of £2.155m is shown in detail in Appendix 3.

The proposals at this stage assume a 1% increase on pay from April 2015, although the outcome of national negotiations has confirmed an average pay increase of 2.2% from 1st January 2015 to 31st March 2016. Initial financial modelling on this complex pay award, which cuts across 2 financial years, suggests that the 1% included for 2015/16 will be sufficient to meet this award.

- 4.11 Price inflation of £0.545m has only been included for some targeted service areas at levels 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 Chief Officer.
- 4.12 In addition to the standard level of inflation outlined above, non-

standard inflation of £0.560m 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, as has been the case in prior years.

- 4.13 Inflation of 3% amounting to £0.254m has generally been assumed on the yield from existing fees and charges.
- 4.14 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 Welsh Government but this will be cost neutral to the Council.
- 4.15 The provisional settlement included various transfers in and out of the settlement and, following an assessment of the local impact for Flintshire, the relevant amount of funding has either been 'passported' to (for transfers in) or taken from (for transfers out) the service concerned as detailed in Appendix 4.
- 4.16 Appendix 5 sets out the recurring pressures and investment included in the 2015/16 budget and include items such as increased resources needed to fulfil Statutory obligations such as Deprivation of Liberty Safeguards (DOLs), the increased pressure on the Council Tax Reduction Scheme (CTRS) as well as reflecting increased cost pressures on environmental services.
- 4.17 Information regarding the efficiency proposals arising from the portfolio Business Plans are detailed in appendix 6 which in total contribute £10.616m to the overall budget position.

Schools Budget

- 4.18 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 14th February each year. The First Minister has indicated his commitment to protect schools funding in 2015/16 by 1% above the change in the overall Welsh Government budget. For 2015/16 this equates to 0.6%. It should be noted that the protection expectation is relative to Welsh Government's funding from the UK Treasury and not the level of Individual Council settlements from Welsh Government.
- 4.19 The current budget proposals meet the First Minister's expectation of protecting schools, although the Council will continue to review investment in schools, particularly for inflationary pressures.
- 4.20 The Council is also committed to increasing the amount of the school budget delegated to schools progressively. 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.

- 4.21 The Welsh Government is planning to make significant changes to the education grants regime in 2015/16; Eleven existing grants will be merged into a single Education Improvement Grant. As indicated in the final settlement the value of this new grant relative to the previous funding levels in 2014/15 will be a reduction in funding of 10%. Based on recent intelligence on Post 16 funding levels we are anticipating a reduction nationally of 8.4%. The impact of these grant reductions on Flintshire cannot be ascertained until further detail is provided by Welsh Government.

4.22 **One off / Time Limited Investment Costs**

As referred to above, efficiencies of £10.616m have been identified in 2015/16 as part of the work that has taken part around business planning. There is a requirement to fund some one off investment costs to enable these efficiencies to be achieved and currently this is estimated to be £0.730m.

It is recommended that these one off costs are funded from the reserves identified as available following the extensive review of historical reserves and balances.

Equality Impact Assessment

- 4.23 The Council has an obligation to assess the potential equalities impact of its budget proposals, some specific budget proposals are subject to an appropriate Equalities Impact Assessment to ensure that there is no discrimination or disadvantage to either service users or employees.
- 4.24 The Council has reviewed all the budget proposals to identify those that might impact on people to whom it owes an equality duty. Impact assessments have been carried out on those proposals and consultation will be undertaken with the public and affected groups as appropriate. The results of the consultation will be fed into the budget scrutiny process in order to inform councillors and help to develop measures for mitigating any impact.

5.00 **EARMARKED AND UNEARMARKED RESERVES**

Base Level of Unearmarked Reserves

- 5.01 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 £5.769m as reported in the monthly budget monitoring reports. Despite the fact that funding has reduced in 2015/16 over 2014/15 it is proposed that unearmarked reserves are maintained at the same level for 2015/16 which will provide an additional safeguard in the current uncertain financial climate.

Contingency Reserve

- 5.02 When the 2014/15 budget was set the Contingency Reserve was estimated to be £3.709m at 31 March 2014. As a result of the net underspend reported in the final outturn for 2013/14 the actual amount in the Contingency Reserve at the year end was £5.328m.
- 5.03 The monthly budget monitoring report has provided updates on the movements in this reserve for:-
- use of £2.500m to meet budgeted one-off / time limited costs
 - replenishing the reserve for termination benefits paid £0.745m
 - allocation to fund investment costs of £0.696m approved under delegated powers
- 5.04 The 2014/15 Month 6 Budget Monitoring report which is also on this agenda, shows an estimated balance of £3.822m in the contingency reserve as at 31 March 2015.
- 5.05 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.

Review of Reserves and Balances

- 5.06 As part of its budget strategy a critical review and challenge of all reserves and balances held by the Council was undertaken to ensure that all balances were still required for the intended purpose and at the same amount. This was undertaken with a view to maximising the amount of one-off funding available for use in relation to future investment costs. The outcome of this work has identified £1.1m of reserves and balances that can be released with no direct risk or impact on service levels.

6.00 2016/17 AND THE MEDIUM TERM

- 6.01 As referred to earlier in the report the Council's MTFP is currently being reviewed and a shortened version in a more concise and graphic format is planned to be completed in January. This will be followed by a fuller version scheduled to be completed for the start of the next financial year after the budget has been finalised.
- 6.02 The critical element of the MTFP is inevitably the forecasting of

future year settlements from Welsh Government, and the fact that the Provisional Local Government Settlement received in October provided no indication of funding for future years highlights the difficulties of local financial planning in such an uncertain environment.

6.03 Given the uncertainty in planning ahead the ongoing impacts of UK fiscal policy in pursuit of the objective of the control and reduction of national debt mean that sizeable annual reductions in resources need to be assumed for the foreseeable future. This is compounded by the fact that the Council will still need to meet the impact of future pay awards, inflationary pressures, new legislative and policy impacts together with meeting growing demands in key service areas such as Children's and Adult Services.

6.04 To address these financial challenges work is already underway through Portfolio Business Plans on sustainable savings options in each portfolio budget up to 2017/18.

7.00 RECOMMENDATIONS

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.

8.00 FINANCIAL IMPLICATIONS

As set out in the report.

9.00 ANTI POVERTY IMPACT

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

10.00 ENVIRONMENTAL IMPACT

10.10 Individual growth and efficiency items may have specific environmental impacts.

11.00 EQUALITIES IMPACT

11.10 As set out in 4.23 - 4.24 of the report.

12.00 PERSONNEL IMPLICATIONS

12.01 There will be significant workforce implications arising from the fundamental review of business plans and resulting proposals and further workforce efficiency options.

- 12.02 In recognising that the organisation will have fewer jobs and workforce numbers, every effort will be made to maximise the option of voluntary redundancy wherever possible. Employees who are placed at risk of redundancy will receive outplacement advice to support their transition into alternative employment or a new career, or into retirement, which may include re-training, career counselling or retirement planning guidance, depending on the specific circumstances.
- 12.03 The Council have ensured that there are appropriate consultation arrangements in place with individual employees and the Trade Unions for all employees who may be affected, in accordance with the statutory requirements and the Council's HR policies and procedures.
- 12.04 Every proposal in the business plans, or in relation to new workforce efficiencies will undergo a thorough equalities impact assessment so that any apparent adverse impacts on specific groups can be mitigated appropriately.

13.00 CONSULTATION REQUIRED

- 13.01 Formal consultation is required with Overview and Scrutiny. Meetings of Overview and Scrutiny Committees have been arranged as follows:
- 22nd January: Corporate Resources
 - 23rd January: Housing
 - 23rd January: Environment
 - 26th January: Social & Health Care
 - 26th January: Lifelong Learning
 - 30th January: Corporate Resources - Open to all members (to take an overview of budget based on feedback from other scrutiny meetings) and also to consider Capital.
- 13.02 Formal consultation is required with the School Budget Forum. Consultation is ongoing.
- 13.03 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.
- 13.04 The budget proposals are shared with the Flintshire Joint Trades Unions Committee. Consultation is ongoing.
- 13.05 Formal consultation on workforce proposals will be set out in the detailed plans and timescales of the workforce programme and in accordance with statutory requirements and Council policy.

14.00 CONSULTATION UNDERTAKEN

- 14.01 The developing financial position and the strategy to meet the projected budget gap was shared at two member workshops, open to all members in late October and early November.
- 14.02 The Big Budget Conversation provided an opportunity for all stakeholders to provide comments and views and the consultation process was undertaken between 18th August and 12th September 2014.
- 14.03 Updates to meetings of the School Budget Forum have been made on an ongoing basis.
- 14.04 Dialogue and information sharing is part of an ongoing process with Trade Unions and FJTUC.

15.00 APPENDICES

- 15.01 As set out in the report.

LOCAL GOVERNMENT (ACCESS TO INFORMATION ACT) 1985 BACKGROUND DOCUMENTS

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