

## CABINET MEETING

<b>Date of Meeting</b>	15 September 2015
<b>Report Subject</b>	Medium Term Financial Strategy
<b>Portfolio Holder</b>	Leader
<b>Report Authors</b>	Chief Executive and Corporate Finance Manager
<b>Type of report</b>	Strategic

### **EXECUTIVE SUMMARY**

This report introduces Part II of the Medium Term Financial Strategy (MTFS) for the three year period 2015-2018 for the Council Fund.

Part I of the Strategy, which forecast the resources which are likely to be available to the Council for this three year period, and the pressures on those resources that we can foresee and calculate, was published earlier this summer.

Part II will set out how the Council could manage a significant reduction in resources – in a period of major reductions in national funding for local government - whilst seeking to protect local public services and retaining its position as a well governed and high performing local authority in Wales. This concluding part of the MTFS, which will be presented at the meeting, is titled *Meeting the Financial Challenge*.

*Meeting the Financial Challenge* opens by sizing the financial challenge facing the Council, some £52.8m of budget reductions required over three years, and then explores how Flintshire is funded and performs compared to the rest of the local government sector in Wales. The funding strategy to meet this unprecedented financial challenge is then set out in three parts:-

Funding Strategy Part 1: Service

Funding Strategy Part 2: Corporate Financial Stewardship

Funding Strategy Part 3: Working with Welsh Government

Given that the Council already has in place a plan for meeting the £18.3M gap in resources in 2015-16, the strategy concentrates on how to meet the gap in 2016-17 (£20.8M) and again in 2017-18 (£13.7m)

## Recommendations

1. The second and concluding part of the Medium Term Financial Strategy (MTFS) titled *Meeting the Financial Challenge* is adopted for consultation and development as the first step towards setting balanced budgets for 2016-17 and 2017-18;
2. The specific proposals set out for service reform, corporate financing options, and national support and relief, be approved in principle for more detailed consultation and development; and
3. Early engagement with Welsh Government, with the support and involvement of the Welsh Local Government Association as our representative body, on the case for national support and relief as set out in *Meeting the Financial Challenge*.

## REPORT DETAILS

1.00	EXPLAINING THE MEDIUM TERM FINANCIAL STRATEGY
1.01	Councils are required to publish a Medium Term Financial Strategy (MTFS) as part of good governance. The dual purpose of an MTFS is to forecast the financial resources available to a Council for a given period, and to set out plans for how best to deploy those resources to meet its priorities, duties and obligations.
1.02	The latest version of the MTFS of the Council is being published in two parts - Part 1: <i>Forecasting the Challenge</i> and Part 2: <i>Meeting the Challenge</i> . The MTFS is being published for the three year period 2015/16 to 2017/18 which will take Flintshire to the end of the first year of the new Council which will be elected in May 2017. This new style MTFS will be revised and republished twice per year. Firstly, in January/February, as part of the annual budget setting process, and then in September/October as part of setting the context for the following budget year. The MTFS covers the Council Fund and excludes the stand-alone Housing Revenue Account (HRA) which is a 'ring-fenced' account. A separate MTFS style summary of the HRA is being produced.
1.03	Part 1: <i>Forecasting the Challenge</i> has already been published and reported to Cabinet and Corporate Resources Overview and Scrutiny. It is attached as Appendix 1.
1.04	Part 2: <i>Meeting the Challenge</i> will be presented and published in final draft on the day of the meeting. This report gives a preview of its contents
1.05	Part 1 of the Strategy forecasts a cumulative real reduction in resources available to the Council of £52.8M over the three year period. As Part 1 summarises "our resources are being reduced year on year, through big reductions in the grants we depend on from Government. We then also have to meet cost pressures, such as inflation, with less money at our disposal. Inflation, rises in demand for critical services, such as social care, and the cost of legal obligations placed upon us, such as pensions reform, all place a strain on our reducing budget." In the 'annual settlement' where Government decides how much funding to set aside for local government,

	<p>provision was once made for inflation and other pressures with councils being funded to meet them. This is no longer the case with councils now facing this double pressure of an actual reduction in its annual grant on the one side, and no financial protection for the extra things they have to fund on the other. This is why the annual targets for budget reductions are so high. For Flintshire the target for 2015/16 is £18.3M, for 2016/17 20.8M, and for 2017/18 £13.7M. This is how the cumulative target for £52.8M breaks down over the three years based on our latest predictions.</p>
1.06	<p>The Council plans to meet the first £18.3M through a programme of service reforms, efficiencies, budget reductions and income growth. This programme was adopted as part of setting the 2015/16 annual budget. Despite the Council having a high success rate in achieving its annual efficiency targets year on year it cannot be guaranteed that the Council will achieve this challenging total in full. Any 'failure rate' in the achievement of targets could mean that we have to find further efficiencies in future years to make up the difference.</p>
1.07	<p>Part II of the Strategy is built up in eight chapters:-</p> <ul style="list-style-type: none"> <li>• Chapter 1: <i>Sizing the Challenge</i> where the forecast for the three year period from Part I of the Strategy is again set out</li> <li>• Chapter 2: <i>Flintshire: An Efficient and Innovative Council</i> which summarises the Council's track record of being innovative and cost-effective in managing the decline in public funding thus far</li> <li>• Chapter 3: <i>Flintshire: A Low Funded Council</i> where the case is made that Flintshire, as a low funded council under the national funding formula for local government, is particularly at risk under the UK Government's national programme of public sector funding reductions and fiscal constraint</li> <li>• Chapter 4: <i>Our Three Part Funding Strategy</i> which introduces the strategy which follows</li> <li>• Chapter 5: <i>Funding Strategy Part 1: Service Reform</i> which sets out our continued programme of service reforms as the first part of a tripartite strategy to manage and save money</li> <li>• Chapter 6: <i>Funding Strategy Part 2: Corporate Financial Stewardship</i> which sets out our proposals for financing options for the whole Council as the second part of a tripartite strategy to manage and save money</li> <li>• Chapter 7: <i>Funding Strategy Part 3: Working with Welsh Government</i> which sets out our case to Welsh Government for financial support and relief as the third part of a tripartite strategy to manage and save money</li> <li>• Chapter 8: <i>Summary and Conclusions</i> where everything is pulled together</li> </ul>
1.08	<p>In <i>Meeting the Challenge</i> we set out for 2016/17 estimated efficiencies and income growth within services, through service reform proposals, of £7M and a further £5M+ through corporate financing proposals. We then go to set out a number of funding proposals and reforms for Welsh Government of around £7M. The three parts of the funding strategy combined would take us to a total of approaching £20M for the next financial year. The strategy is a basis for future budget options through to 2017/18. There are risks to this</p>

	<p>strategy. Nothing can be assumed under the third part of the strategy and the willingness and ability of Welsh Government to assist. What is clear from the Council's funding position, and our space to identify further savings beyond those already being reported, is that if Welsh Government does not provide support with flexibilities and some relief then the Council will have to turn to options for much deeper funding cuts which neither it nor the public will find acceptable.</p>
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<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
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2.01	<p>The Medium Term Financial Strategy involved planning the use of the financial resources of the Council for a three year period. The implications and risks are therefore significant. The report and the appendices are self-explanatory in presenting the risks to the Council of the major annual reductions in Government funding it is facing. The three part Funding Strategy is in itself a set of proposed solutions.</p>
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<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
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3.01	<p>Members of the Council have been invited to two workshops in July where the financial forecast and the developing strategy have been shared and explored. Group Leaders and Overview and Scrutiny Chairs have also been engaged over a period of time by the Leader. Part 1 of the Strategy has been formally reported to Cabinet and Corporate Resources Overview and Scrutiny for comment and adoption. Chief Officers, the Finance Team, and many service managers and teams have been involved in developing the business plans and corporate finance options which are featured in Part II of the Strategy.</p>
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<b>4.00</b>	<b>RISK MANAGEMENT</b>
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4.01	<p>The national reductions in funding for local government poses the greatest risk to the governance, performance and sustainability of the Council since. The previous reorganisation in the mid-1990s. This risk can be mitigated through a twofold approach. Firstly, the Council continuing to streamline and innovate. Secondly, by working with Welsh Government to seek some support and relief from budget reductions based on a reasoned case. This twofold approach is set out in the draft of Part II of the Strategy <i>Meeting the Challenge</i>.</p>
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4.02	<p>The risks posed to the plans to change and innovate within specific services are managed through assessing the risks and impacts of change as part of framing options and making decisions. The Programme Boards set up to oversee the implementation of the Chief Officer portfolio business plans manage these risks in close detail, with reports being made to Cabinet and Overview and Scrutiny at key stages of decision-taking and, later, performance reporting and evaluation.</p>
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<b>5.00</b>	<b>APPENDICES</b>
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5.01	Appendix 1: Published Medium Term Financial Strategy 2015-2018 Part 1: <i>Forecasting the Challenge</i>
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<b>6.00</b>	<b>SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972 List of Accessible Background Documents</b>
6.01	<p>Various working papers and national reference documents held by the Corporate Finance Officer and Chief Executive.</p> <p><b>Contact Officer:</b> Colin Everett  <b>Telephone:</b> 01352 702101  <b>E-mail:</b> <a href="mailto:chief.executive@flintshire.gov.uk">chief.executive@flintshire.gov.uk</a></p>

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<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.
7.02	<b>Council Fund:</b> the majority of the Council's revenue expenditure covering all services except Council Housing for which there is a stand-alone and ring-fenced account called the Housing Revenue Account (HRA).
7.03	<b>Housing Revenue Account (HRA):</b> The Housing Revenue Account is "ring-fenced". This means that local authority housing finance is kept separate from other council accounts.
7.04	<b>Annual Settlement:</b> the amount of its funds the Welsh Government will allocate annually to local government as a whole, as part of its total budget, and to individual councils one by one. The amount of Revenue Support Grant (see below) each council will receive is based on a complex distribution formula for awarding Aggregate External Finance (AEF). The formula is underpinned by assessments of local need based, for example, of population size and demographics and levels of social deprivation.
7.05	<b>Aggregate External Finance (AEF):</b> the total amount of support the Welsh Government provides to councils each year. The total is made up of Revenue Support Grant (see below), a share of the national 'pool' of National Non-Domestic Rates (see below) and a number of specific grant where funds are provided for councils to spend on specified services to achieve pre-set outcomes for example in education or waste collection.
7.06	<b>Local Government Funding Formula:</b> the system through which the annual funding needs of each council is assessed at a national level, and from which each council's annual AEF (see above) is derived. The formula is very complex. In summary, using information such as statistics on local population change and deprivation, the formula sets a guide for each council's funding needs called the Standard Spending Assessment (SSA).

7.07	<p><b>Standard Spending Assessment (SSA):</b> Standard Spending Assessments are notional calculations of what each Council needs to spend to provide a standard level of service.</p>
7.08	<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>
7.09	<p><b>National Non-Domestic Rates:</b> the business equivalent of the Council Tax where companies pay a property based tax for local services. Each council as the local collection authority collects the tax from companies, pays it into a national 'pool', and then receives a share back as part of its Annual Settlement (see above).</p>