

CABINET

Date of Meeting	Tuesday, 16 February 2016
Report Subject	Council Fund Revenue Budget 2016/17
Cabinet Member	Leader of the Council and Cabinet Member for Finance
Report Author	Corporate Finance Manager and Chief Executive
Type of Report	Strategic

EXECUTIVE SUMMARY

This report presents budget options for the closing Stage Two of the annual budget process. By deciding on these, and then adding them to the budget proposals adopted at Stage One in January, Cabinet will be in a position to recommend a balanced budget to full Council for 2016/17. The earlier and substantive Stage One budget report is appended to this report for reference.

The budget has been built up in two main stages. Stage One was concluded in January. At the end of Stage One the remaining budget 'gap' to be closed stood at £3.447M. Cabinet has directed officers to develop options for the closing Stage Two from four work-streams: review of the new and emergent pressures; workforce; Council Tax; use of reserves and balances. The Stage Two options presented within this report are drawn from those four work-streams and from these alone.

The report includes a summary risk assessment of the budget and the formal opinions of the Corporate Finance Manager in their statutory role as Section 151 Officer, and of the Chief Executive.

The final and complete budget will be drawn together by Cabinet on the morning of Tuesday 16 February and will then be recommended to full Council on the afternoon of the same day. Council will be recommended to adopt a balanced budget, without any deferral, on that day, to meet its statutory duty in good time. Council will then meet again on 1 March. The purpose of this second Council meeting will be to pass the Council Tax resolution, including the Town and Community Council precepts, based on the budget resolution to be passed on 16 February.

A list of tables within the report is set out below as a guide:-

Table 1: Stage Two Budget Proposals

Table 2: A Complete and Balanced Budget

Table 3: Summary Risk Assessment

RECOMMENDATIONS

1	To consider the remaining options for the closing Stage Two of the annual budget process; and
2	To recommend to Council a final balanced budget based on a combination of the previously adopted Stage One budget proposals and the closing Stage Two options from within this report

REPORT DETAILS

1.00	PRESENTING THE SECOND STAGE OF THE COUNCIL FUND REVENUE BUDGET
	Conclusion of Stage One of the Budget Process
1.01	Cabinet have already agreed the majority of its proposals to achieve a balanced budget during Stage One of the budget process. The Stage One proposals adopted by Cabinet on 19 January were presented to the Corporate Resources Overview and Scrutiny Committee on 29 January (Appendix C). The Committee did not recommend the withdrawal or amendment of any of the proposals presented, or recommend any additional or alternative proposals for further work by officers. Further explanation was requested on the variations made to the Service Business Planning figures since the round of Overview and Scrutiny Committee meetings held in December (attached at Appendix A). At the conclusion of Stage One of the budget process the remaining budget 'gap' stood at £3.447M.
1.02	Cabinet has directed officers to develop proposals for the closing Stage Two from four work-streams: review of the new and emergent pressures; workforce; Council Tax; use of reserves and balances. As per the direction given by Cabinet, and as supported by all six overview and scrutiny committees, no new options have been sought from within service portfolios themselves. The Stage Two options presented within this report are drawn from those four work-streams and, in the opinion of the Chief Executive and Chief Officer Team, there are no other corporate sources from where efficiencies and savings could be identified and relied upon at this late stage of the budget process.

	Additional Service Issues for Consideration		
1.03	A service issue which was raised late in the budget was the provision of a weekly allowance to the clients of the Learning Disability Workplace Schemes. Cabinet, since the publication of the January budget report, has directed that this allowance be continued for 2016/17 and the budget reinstated. This will require a budget provision of £0.070M which has the impact of increasing the remaining gap to £3.517M.		
1.04	Discussions and negotiations are ongoing between the independent care providers and the councils which commission their services in residential, nursing, specialist care, domiciliary care, and direct payments social services over the rate of annual uplift to be made by commissioning councils to contribute to inflationary costs in the sector. Whilst some provision has been set aside by the Council in the corporate provision made for inflation, it is recognised that the inflationary pressures are higher in 2016/17 than in previous years specifically due to the impact of changes to the Minimum Wage and the incremental introduction of the Living Wage. Subject to the outcome of these negotiations the corporate provision may not be sufficient and there is a risk of a further financial pressure to be met in 2016/17 and later to be built into base costs for funding from 2017/18. Whilst the Council could draw further on reserves to meet this additional inflationary impact in 2016/17 this would not be sustainable from 2017/18. The North Wales councils are in discussion with the Betsi Cadwaladr University Health Board over the allocation of a proportion of the additional Intermediate Care Fund monies granted to the region by Welsh Government to subsidise commissioning costs to support the care sector. Any such allocation made would reduce or even mitigate this cost impact. For 2017/18 onwards Welsh Government will need to recognise in its annual budgets these high annualised inflationary pressures in the care sector for the sector to have a sustainable funding base. The risks are acute in Flintshire where the provider market is finely balanced with client demand rates, and a large proportion of residential and nursing homes are of relatively smaller size and therefore less resilient in accommodating inflationary pressures without financial support.		
1.05	The Provisional Settlement advised of an estimated reduction of £0.201M in the Single Environment Grant. Final notification of the allocation (received on 9 February) gave an amount of £2.998M which is £0.055M more than previously notified. This has the effect of reducing the new and emergent pressures total by the same amount.		
	Stage Two Budget Proposals		
1.06	The remaining Stage Two budget options are shown in Table 1 below and reflect how the amount of £3.517M will be met.		
	Table 1: Stage Two Budget Proposal		
	Work-Stream	Proposal with Risk Mitigation	£M
	<i>Review of New and Emergent Pressures</i>	Reduction of provision for the following new and emergent pressures listed in the attached report following reassessment of the likelihood of them impacting and of alternative	0.209

		ways of absorbing the costs (1) Leisure income (£0.070M) (2) Housing Benefit Subsidy (£0.043M) (3) Remittance Advice to Landlords (£0.041M) and (4) Sustainable Recycling Grant (£0.055M) <i>Acceptability Risk: none</i> <i>Workability Risk: low</i>	
	Workforce	A managed further round of voluntary redundancies and reductions in other workforce costs notably overtime costs and agency worker costs. (The option of deferring automatic salary increments has been discounted in consultation with the Trade Unions): £0.500M A significant reduction in the number of posts eligible for essential car user allowances as a first phase of a review of travel allowances with fleet vehicles to be provided as an alternative mode of transport where required. The Trade Unions have been notified of this intention and are not in complete agreement at this stage: £0.500M <i>Acceptability Risk: medium</i> <i>Workability Risk: medium</i>	1.000
	Council Tax	Setting Council Tax at 4.5% with the objectives of (1) maximising this local taxation income source to balance the budget (2) protecting the committed net increase of £0.869M in the contribution to schools through the schools funding formula, and the continuity of the community assets which are proceeding through the community asset transfer process and (3) closing the gap between Council planned expenditure and the Standard Spending Assessment. The recommended contribution of £0.862m to the budget gap is net of the increase in relation to the Council Tax Reduction Scheme (CTRS) of £0.103M. <i>Acceptability Risk: medium to high</i> <i>Workability Risk: none</i>	0.862
	Use of Reserves and Balances	Deployment of reserves and balances, as a balancing figure, to meet both non-recurring and recurring budget pressures specifically for (1) the local costs pressures arising from the nationally imposed charging cap on domiciliary care charging (£0.500M), and for the Council Tax Reduction Scheme (CTRS) (£0.474M) and (2) a proportion of the costs of the new and emergent pressures (£0.455M).	1.429

		<p><i>Acceptability Risk: low</i> <i>Workability Risk: none for 2016/17 noting that any impacts for future years of meeting recurring costs through one-off use of reserves would have to be mitigated in the 2017/18 budget</i></p>	
	Other Adjustments	<p>Adjustment to the levy payable to North Wales Fire and Rescue Authority due to variations in the regional population base on which the per capital contribution per local authority is based: £0.010M</p> <p>Reduction in the annual contribution to GWE (Regional School Improvement Consortium) due to an agreed reduction of 1.6% to its contributory budget: £0.007M</p> <p><i>Acceptability Risk: none</i> <i>Workability Risk: none</i></p>	0.017
	Total		3.517
	Council Tax and the Use of Reserves and Balances		
1.07	<p>Having taking into account the reduction in pressures and the additional efficiency options including workforce, the finalisation of the budget comes down to striking a balance between the level of Council Tax to be set and drawing upon reserves and balances.</p> <p>Several factors require careful consideration. These are the extent of the remaining 'gap' to be funded, the comparison of planned Council spend with the Standard Spending Assessment (SSA) as our national spending guideline, and the impact of using too high a level of reserves now on the 2017/18 budgetlater.</p> <p>The final recommended position has to be a balanced judgement and is a material factor in the formal advice of the Section 151 Officer.</p> <p>Although higher than in previous years the proposed increase in Council Tax of 4.5% is still 0.5% lower than the maximum allowable level of 5%, and the utilisation of £1.429M of reserves and balances is consistent with examples of recent local practice (e.g. utilisation of £1.450M in 2014/15) and is not at a level where sustainability of budget planning is unachievable against the latest Medium Term Financial Planning forecast.</p>		

	Achieving a Complete and Balanced Budget																																																																				
1.08	<p>Through combining the Stage One budget proposals and the Stage Two budget options a balanced budget can be achieved as shown in Table 2 below</p> <p>Table 2: A Complete and Balanced Budget</p> <table> <tr> <th>Proposed Budget 2016/17</th><th>£M</th></tr> <tr> <td></td><td></td></tr> <tr> <td><u>Funding</u></td><td></td></tr> <tr> <td></td><td></td></tr> <tr> <td>Aggregate External Funding (AEF)/RSG NNDR</td><td>184.743</td></tr> <tr> <td>Council Tax</td><td>67.240</td></tr> <tr> <td>Budget Requirement</td><td>251.983</td></tr> <tr> <td></td><td></td></tr> <tr> <td>Specific Grants (Estimated)</td><td>34.159</td></tr> <tr> <td></td><td></td></tr> <tr> <td>Use of Reserves</td><td>1.429</td></tr> <tr> <td></td><td></td></tr> <tr> <td>Total Funding</td><td>287.571</td></tr> <tr> <td></td><td></td></tr> <tr> <td><u>Expenditure</u></td><td></td></tr> <tr> <td></td><td></td></tr> <tr> <td>Base Budget Rolled Forward</td><td>287.605</td></tr> <tr> <td></td><td></td></tr> <tr> <td>Prior Year Budget Decisions Recurring (Appendix 6)</td><td>8.845</td></tr> <tr> <td></td><td></td></tr> <tr> <td>Prior Year Budget Decisions One off dropping out (Appendix 6)</td><td>(0.730)</td></tr> <tr> <td></td><td></td></tr> <tr> <td>Inflation (Appendix 7)</td><td>2.193</td></tr> <tr> <td></td><td></td></tr> <tr> <td>Pressures & Investments Recurring (Appendix 8)</td><td>1.928</td></tr> <tr> <td></td><td></td></tr> <tr> <td>Efficiencies - Business Planning (Appendix 9)</td><td>(7.755)</td></tr> <tr> <td>Efficiencies - Corporate Finance (Appendix 10)</td><td>(3.527)</td></tr> <tr> <td></td><td></td></tr> <tr> <td>Less Specific Grants 2015/16</td><td>(35.147)</td></tr> <tr> <td>Plus Specific Grants 2016/17 (Estimated Appendix 11)</td><td>34.159</td></tr> <tr> <td></td><td></td></tr> <tr> <td>Total Expenditure</td><td>287.571</td></tr> <tr> <td></td><td></td></tr> </table>	Proposed Budget 2016/17	£M			<u>Funding</u>				Aggregate External Funding (AEF)/RSG NNDR	184.743	Council Tax	67.240	Budget Requirement	251.983			Specific Grants (Estimated)	34.159			Use of Reserves	1.429			Total Funding	287.571			<u>Expenditure</u>				Base Budget Rolled Forward	287.605			Prior Year Budget Decisions Recurring (Appendix 6)	8.845			Prior Year Budget Decisions One off dropping out (Appendix 6)	(0.730)			Inflation (Appendix 7)	2.193			Pressures & Investments Recurring (Appendix 8)	1.928			Efficiencies - Business Planning (Appendix 9)	(7.755)	Efficiencies - Corporate Finance (Appendix 10)	(3.527)			Less Specific Grants 2015/16	(35.147)	Plus Specific Grants 2016/17 (Estimated Appendix 11)	34.159			Total Expenditure	287.571		
Proposed Budget 2016/17	£M																																																																				
<u>Funding</u>																																																																					
Aggregate External Funding (AEF)/RSG NNDR	184.743																																																																				
Council Tax	67.240																																																																				
Budget Requirement	251.983																																																																				
Specific Grants (Estimated)	34.159																																																																				
Use of Reserves	1.429																																																																				
Total Funding	287.571																																																																				
<u>Expenditure</u>																																																																					
Base Budget Rolled Forward	287.605																																																																				
Prior Year Budget Decisions Recurring (Appendix 6)	8.845																																																																				
Prior Year Budget Decisions One off dropping out (Appendix 6)	(0.730)																																																																				
Inflation (Appendix 7)	2.193																																																																				
Pressures & Investments Recurring (Appendix 8)	1.928																																																																				
Efficiencies - Business Planning (Appendix 9)	(7.755)																																																																				
Efficiencies - Corporate Finance (Appendix 10)	(3.527)																																																																				
Less Specific Grants 2015/16	(35.147)																																																																				
Plus Specific Grants 2016/17 (Estimated Appendix 11)	34.159																																																																				
Total Expenditure	287.571																																																																				
	Funding																																																																				
1.09	<p>The budget proposals in this report set a budget requirement of £251.983M which is an amount of £1.748M below the calculated Standard Spending Assessment (SSA) of £253.731M. At this level of spend, the increase on the Band D Council Tax Rate (excluding Police and Town/Community Council precepts) is 4.5%. This equates to an increase of £46.14 on 2015/16 and a Band D rate of £1,071.41. The Council Tax</p>																																																																				

	system in Wales contains nine property bands ranging from Band A to Band I. In order to ensure consistency between councils when reporting Council Tax information it is agreed practice that all related information is expressed in terms of Band D equivalents.
	Schools Budget
1.10	A further Education and Youth Overview and Scrutiny Committee meeting was held on 19 January 2016 and no specific amendments were raised. There was a request to maintain the 1% uplift of the Schools Budget of £0.869M and for this investment to remain unchanged as part of the final balancing proposals. This request has been met in that there are no changes to the School Budget proposals within this report.
1.11	Since the January report confirmation of the Education Improvement Grant has been received which is in line with previous assumptions. It has also been confirmed that this grant will not transfer into the settlement in 2016/17.
	Unearmarked Balance and Earmarked Reserves
	Base Level of Unearmarked Reserves
1.12	The budget proposals do not change the current base level of reserves of £5.769M as set out in the January report which provide an additional safeguard in the current uncertain financial climate.
	Contingency Reserve
1.13	The monthly budget monitoring report has provided updates on the movements on the reserve and the Month 8 monitoring report shows an estimated balance of £4.379M in the Contingency Reserve as at 31 March 2016. It is recommended that this reserve is retained and its use considered within the context of the overall financial plan for 2016/17 and future years. 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
1.14	As outlined in the Reserves and Balances Protocol the level of Earmarked Reserves is now reported quarterly through the monthly budget monitoring report. Appendix B details the estimated closing balances for 2015/16 and 2016/17 for all reserves and balances. The Section 151 Officer is satisfied that the level of these reserves is appropriate (see also Section 1.19 – 1.25 below).
	Final Settlement Announcement
1.15	The Final Settlement is not due to be announced until the 9 March 2016 which presents challenges for all councils in setting a balanced budget within the statutory timescale, ensuring that there is sufficient time to deal with the practicalities of Council Tax billing in advance of the new financial

	<p>year.</p> <p>Advice provided by Welsh Government is that there is unlikely to be any significant change from the allocation provided at the Provisional Settlement stage. Setting a budget based now, based on the Provisional Settlement, is considered to be low risk.</p> <p>If there were to be any change in funding at the Final Settlement stage it is recommended that the level of utilisation of reserves is adjusted accordingly on the advice of the Corporate Finance Manager.</p>												
	Medium Term Outlook												
1.16	A full refresh of the Medium Term Financial forecast reflecting latest intelligence and demand expectations is underway. A high level indication of the initial amended forecast budget gap of £9.8M was shared with members at the Corporate Resources Overview and Scrutiny meeting. This will be increased to approximately £11M after taking into account the adjustment for the utilisation of reserves of £1.429M and other factors.												
	Budget Risk Assessment												
1.17	<p>A summary risks assessment is set out in Table 3 below.</p> <p>Table 3: Summary Risk Assessment</p> <table><tr><th>Risk</th><th>Mitigation</th><th>Status</th></tr><tr><td>Impact of reductions in Specific Grant funds</td><td>The reductions in specific grants already notified by Welsh Government have been built into the budget through a combination of budget reductions and provision for new and emergent pressures. Few grants remain unconfirmed at this late stage of the budget process.</td><td>Amber</td></tr><tr><td>Inflationary impacts</td><td>A detailed risk assessment has been completed of the likely trends in and impacts of inflation with a medium level of financial provision included within the budget proposals. The Contingency Reserve provides an in-year safeguard for any un-met efficiency targets.</td><td>Amber</td></tr><tr><td>Failure to achieve income targets in full</td><td>Income targets have been set service by service based on careful calculations and trends in service use. The Contingency Reserve provides an in-year safeguard for</td><td>Amber</td></tr></table>	Risk	Mitigation	Status	Impact of reductions in Specific Grant funds	The reductions in specific grants already notified by Welsh Government have been built into the budget through a combination of budget reductions and provision for new and emergent pressures. Few grants remain unconfirmed at this late stage of the budget process.	Amber	Inflationary impacts	A detailed risk assessment has been completed of the likely trends in and impacts of inflation with a medium level of financial provision included within the budget proposals. The Contingency Reserve provides an in-year safeguard for any un-met efficiency targets.	Amber	Failure to achieve income targets in full	Income targets have been set service by service based on careful calculations and trends in service use. The Contingency Reserve provides an in-year safeguard for	Amber
Risk	Mitigation	Status											
Impact of reductions in Specific Grant funds	The reductions in specific grants already notified by Welsh Government have been built into the budget through a combination of budget reductions and provision for new and emergent pressures. Few grants remain unconfirmed at this late stage of the budget process.	Amber											
Inflationary impacts	A detailed risk assessment has been completed of the likely trends in and impacts of inflation with a medium level of financial provision included within the budget proposals. The Contingency Reserve provides an in-year safeguard for any un-met efficiency targets.	Amber											
Failure to achieve income targets in full	Income targets have been set service by service based on careful calculations and trends in service use. The Contingency Reserve provides an in-year safeguard for	Amber											

		any un-met efficiency targets.	
	Failure to achieve efficiency targets in full	Provided that there is no delay in decision-making around the specific budget proposals which still require further work/consultation then there is a high probability of efficiencies being achieved in full. The Contingency Reserves provides an in-year safeguard for any un-met efficiency targets. The Council has a track record of making other adjustments in-year to compensate for any unachieved efficiencies from other sources.	Amber
	Insufficient capacity to implement change programmes and projects to time and to financial target	Organisational capacity has been aligned to implement efficiency plans both within services and corporately. The option always remains to bring in additional external capacity and capability, or to adjust the allocation of internal capacity, as required.	Amber
	Impact of new and emergent pressures	Significant provision has been made in the draft budget to meet the new and emergent pressures which are evident at this late stage of the budget process.	Amber
	Over use of reserves and balances	Only partial use of set aside reserves and balances is made in the draft budget.	Green
	Sufficiency of remaining reserves and balances to meet unforeseen pressures	Neither the Contingency Reserve nor earmarked reserves have been drawn upon as part of the budget. The Contingency Reserve at £4M+ has the specific purpose of acting as a safeguard to meet unforeseen cost pressures and variations in-year.	Green
	Opinions of the Statutory Officers		
1.18	The formal opinions of the Corporate Finance Manager in their statutory role as Section 151 Officer, and of the Chief Executive, are set out below.		

	Opinion of the Corporate Finance Manager
1.19	Section 25 of the Local Government Act 2003 includes a specific duty on the Chief Finance Officer (for Flintshire this is the Corporate Finance Manager) to report to the Council when it is considering its budget and Council Tax setting 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 in relation to the budget.
1.20	The 2016/17 budget has been set within the context of the Medium Term Financial Strategy and continues to recognise a significant reduction in the funding available to the Council from Welsh Government, being a 1.5% cash reduction in 2016/17 which follows a 3.4% reduction in 2015/16. The Council's budget strategy for dealing with this significant financial challenge has been clearly set out in detail for all stakeholders in previous budget reports and complemented by a range of member workshops and scrutiny sessions together with seven Community Engagement events.
1.21	For the estimates contained within the budget, all figures are supported by a clear and robust methodology with the efficiency proposals considered achievable and the pressures supported by evidenced method statements.
1.22	In September 2015 County Council approved a new Reserves and Balances Protocol which sets out how the Council will determine, manage and review the level of its Council Fund Balance and Earmarked Reserves taking into account relevant legislation and professional guidance. An outcome of this protocol was to report quarterly the level of Earmarked Reserves held to both Cabinet and Corporate Resources Overview and Scrutiny Committee which improves both the transparency and understanding of all reserves held by the Council.
1.23	The Council's overall level of reserves and balances is reviewed annually as part of the budget process and the adequacy and purpose of reserves held challenged, with any reserves no longer required at the same level made available for corporate use.
1.24	Supported by the above, I can confirm the reasonableness of the estimates contained in the proposed budget, having regard to the Council's spending needs in 2016/17 and the financial context within which the budget is being set. Inevitably in managing a budget of this scale across a large and diverse organisation variances will occur, but I believe that the budget assumptions represent a measured and acceptable level of risk. A robust programme for the delivery of the £11.282M of efficiencies within the budget and to the timescales set together with effective and disciplined in-year financial management will ensure that budgets are managed effectively with prompt action taken to mitigate any impacts should variances occur.
1.25	Within the context described above, I recommend that the Council should maintain the level of general balances of £5.769M which will safeguard its position and also enable it to plan ahead to meet future financial challenges as set out in the Medium Term Financial Strategy. The

	Contingency Reserve (currently estimated to be £4.379M) also provides further assurance around the Council's ability to manage any in-year variances should they not be able to mitigate from other areas which the Council has successfully been able to do in recent years.
	Opinion of the Chief Executive
1.26	My professional advice complements that of the Corporate Finance Manager as set out above.
1.27	The draft budget follows the Medium Term Financial Strategy adopted by the Council and is a balanced approach to achieving an annual budget, as required by law and the principles of good governance, whilst protecting the improvement objectives and public service duties and obligations of the Council.
1.28	As each year passes during a period of central government fiscal policy, a policy which necessitates annualised reductions in net public expenditure, then the challenge of setting an annual budget in this way becomes ever harder. As shown in the summary risk assessment in Table 3 the Council has to have a greater 'appetite' for risk. This is indeed the case for all public bodies. Provided that the risks are understood, the likelihood of their occurring and the impact they will make if they do so occur is assessed, and there are sufficient plans to mitigate those impacts in that eventuality, then the approach to risk can be supported. An underlying organisational risk is that there is less financial flexibility to adjust to new cost pressures in year as (1) budgets are more precisely based on forecast need with smaller margins for flexibility and error and (2) the total quantum of funding available to the Council as a corporate body is smaller than in past years.

2.00	RESOURCE IMPLICATIONS
2.01	As within the substantive Stage One budget report which is attached.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	As within the substantive Stage One budget report which is attached.

4.00	RISK MANAGEMENT
4.01	As within the substantive Stage One budget report which is attached.

5.00	APPENDICES AND ATTACHMENTS
	Appendix A: List of variations to the Service Business Planning figures from the version reported in December

	<p>Appendix B: Reserves and Balances</p> <p>Appendix C: Cabinet report of the Chief Executive and Corporate Finance Manager from January 2016 - Council Fund Revenue Budget for 2016/17</p>
--	---

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>As listed within the substantive Stage One budget report which is attached at Appendix C.</p> <p>The Budget Factsheets which are available on request and available in the Members' Services area for inspection.</p> <p>Contact Officer: Gary Ferguson Telephone: 01352 702101 E-mail: gary.ferguson@flintshire.gov.uk</p>

7.00	GLOSSARY OF TERMS
7.01	As set out within the substantive Stage One report which is attached.