

CABINET

Date of Meeting	Tuesday, 19 April 2016
Report Subject	Medium Term Financial Strategy 2016/17-2018/19 and the Council Fund Revenue Budget 2017/18
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

The next version of the Medium Term Financial Strategy (MTFS) will be set for the period 2016/17-2018/19. This is the first report to Cabinet which begins to review the MTFS for re-approval and re-publication. Re-publication of the strategy for this period will both meet the agreed three-year planning cycle and forward plan Council financial strategy to 2019.

The original forecast for the 2017/18 financial year, the third and final year of the current MTFS, set a likely 'gap' between the total spending requirement, and anticipated income, of £13.7M. This forecast has been revised based on more recent budget developments at a national and a local level.

The Council has adopted a three part strategy of addressing the financial 'gap' each year:-

- Service Reform;
- Corporate Financial Stewardship; and
- Working with Welsh Government.

Cabinet is recommended to continue with this three part strategy.

The current version of the service portfolio business plans have been developed with options for the period 2015/16-2017/18. Based on current work there are supportable options with potential for a further round of annualised savings in the region of £7.9M. The work continues on containing and where possible reducing corporate overhead costs and commitments.

Flintshire, as a low funded council, has made the case that it is particularly exposed to the impacts of the significant annualised reductions in public sector funding to meet current and new cost burdens. The risks to Council performance posed by the financial position will be set out clearly before new Government Ministers once the new Welsh Government is appointed following the National Assembly for Wales elections in May.

A full budget setting process and timetable will be published by the Cabinet shortly. The re-adoption of the MTFS, and endorsement of the proposals within the portfolio business plans, is an important first step in the annual budget process.

The following tables are included within the report:-

Table 1: A Revised Forecast for 2017/18-2018/19

Table 2: Service Portfolio Business Plan Projections 2017/18

RECOMMENDATIONS

1	Cabinet adopts the framework for the revision of the Medium Term Financial Strategy 2016/17-2018/19; and
2	Cabinet endorses the developing portfolio business plans and corporate financial stewardship plans for early consultation with the Overview and Scrutiny Committees.

REPORT DETAILS

1.00	MEDIUM TERM FINANCIAL STRATEGY 2016/17-2018/19
1.01	The Council has set a cycle of reviewing its Medium Term Financial Strategy (MTFS) on an annual basis. Within this cycle the annually updated MTFS is to be set for a three year period which combines the financial year in-hand with the two financial years to follow. The first new style MTFS published in two parts in mid and late 2015 was accordingly for the period 2015/16-2017/18. The next version of the MTFS will be set for the period 2016/17-2018/19. This is the first report to Cabinet which begins to review the MTFS for re-approval and re-publication. Re-publication of the strategy for this period will both meet the agreed three-year planning cycle, and forward plan Council financial strategy to 2019. This is significant as 2019 is the year intended by the outgoing Welsh Government for the election of shadow authorities as a first step towards the re-organisation of local government in Wales. Whilst it is not certain that the Local Government Bill on which the out-going Welsh Government consulted prior to its dissolution will be re-tabled by a new Welsh Government, for passing through the legislative process, the date of 2019 needs to be kept in view.
1.02	The current MTFS was published in two parts. Part 1: <i>Forecasting the Challenge</i> was followed by Part 2: <i>Meeting the Financial Challenge</i> . The

	intention for the new revision of the Strategy is to publish a single document which combines the updated forecast with a renewed set of solutions.																																							
	Refreshing the Financial Forecast																																							
1.03	The original forecast for the 2017/18 financial year, the third and final year of the current MTFS, set a likely 'gap' between the total spending requirement, and anticipated income, of £13.7M. This forecast has been revised based on more recent budget developments at a national and a local level. Key variables within this initial forecast will be the eventual local government financial settlement for 2017/18, local Council Tax levels, standard and non-standard inflation patterns, and emergent national and local cost pressures. An initial forecast has been added for the 2018/19 financial year to provide a three year picture.																																							
1.04	A first iteration of a revised forecast for 2017/18-2018/19 is shown in Table 1 below.																																							
1.05	<p>Table 1: Financial Forecast 2017/18-2018/19</p> <table border="1"> <thead> <tr> <th></th> <th>2017/18</th> <th>2018/19</th> </tr> <tr> <th>Expenditure</th> <th>£m</th> <th>£m</th> </tr> </thead> <tbody> <tr> <td>National Pressures</td> <td>0.7</td> <td>0.3</td> </tr> <tr> <td>Local Pressures</td> <td>4.0</td> <td>0.4</td> </tr> <tr> <td>Inflation</td> <td>3.1</td> <td>3.2</td> </tr> <tr> <td>Workforce Pressures</td> <td>4.1</td> <td>0.7</td> </tr> <tr> <td></td> <td></td> <td></td> </tr> <tr> <th>Income</th> <td></td> <td></td> </tr> <tr> <td>Reduction in Revenue Support Grant</td> <td>2.8</td> <td>2.7</td> </tr> <tr> <td>Council Tax increase</td> <td>(2.5)</td> <td>(2.3)</td> </tr> <tr> <td></td> <td></td> <td></td> </tr> <tr> <td>Projected Gap</td> <td>12.20</td> <td>5.00</td> </tr> <tr> <td></td> <td></td> <td></td> </tr> </tbody> </table> <p>Footnotes to Table 1:</p> <ol style="list-style-type: none"> 1. Revenue Support Grant for 2017/18 and 2018/19 is modelled on an illustrative reduction of 1.5% 2. National and local pressures are working estimates based on latest information and intelligence 3. Pay inflation is assumed at 1% for 2017/18 and 2018/19 4. Limited provision is made for price inflation 5. Workforce pressures include the ongoing impact of Single Status, Auto-enrolment, the Apprentice Tax and the outcome of the Clwyd Pension Fund Actuarial Review 6. Council Tax is illustrated at a 3% annual increase for 2017/18 and 2018/19 7. The initial 2018/19 forecast does not include the impact of Social Care transition costs or any impacts of the living wage (see para 1.07) 		2017/18	2018/19	Expenditure	£m	£m	National Pressures	0.7	0.3	Local Pressures	4.0	0.4	Inflation	3.1	3.2	Workforce Pressures	4.1	0.7				Income			Reduction in Revenue Support Grant	2.8	2.7	Council Tax increase	(2.5)	(2.3)				Projected Gap	12.20	5.00			
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1.06	The forecast for 2016/17 is not now included as proposals to meet the gap (originally £20.8m) were approved by Council in February. Progress against the approved budget for 2016/17 will be monitored and reported through the monthly budget monitoring report to Cabinet and Corporate Resources,																																							

	Overview and Scrutiny Committee and an interim exception report is scheduled for July. The forecast concentrated on the coming financial years for which we have to plan.
1.07	The initial forecast gap for 2018/19 is relatively low compared to previous years. However, work is underway to assess some potential significant pressure areas such as Social Care transition costs and any local impact of the National Living Wage. These are not yet added in.
1.08	Any forecast can only be predictive based on the most reliable available intelligence, and working assumptions based on past experience. The forecast will be subject to change through the decisions of decision-makers such as Governments, the impacts of national fiscal policies, economic trends, and changes in supply and demand markets for goods and services. At this stage national fiscal policy is subject to change as demonstrated in the recent budget of the Chancellor of the Exchequer and the authoritative economic forecasts of bodies such as the Office of Budget Responsibility and the Institute of Fiscal Studies; local government in Wales has not been given an indicative financial settlement to work with by the outgoing Welsh Government; unfunded annual workforce cost pressures compound year on year; significant unfunded cost pressures continue to build in the social care sector. There is a high degree of unpredictability in planning due to circumstances beyond the control of the Council.
1.09	The initial forecast set out in Table 1 will be the subject of ongoing professional review, consultation with Group Leaders and Overview and Scrutiny Committees, consultation with external advisors and representative bodies such as the Welsh Local Government Association (WLGA), and refinement, prior to publication. Publication is scheduled to take place no later than July.
	Meeting the Financial Challenge
1.10	<p>The Council adopted an MTFS which took a principled but high risk approach to finding solutions to the unprecedented level of budget savings to be found in 2016/17. Flintshire, as a relatively low funded council under the local government funding formula, and one faced with an initial funding 'gap' in the region of £20M in a single year, had limited options to find solutions without Welsh Government offering some reprieve from the scale of national funding reductions (for Revenue Support Grant and specific grants) first forecast. The Council adopted a three part strategy of:-</p> <ul style="list-style-type: none"> • Service Reform; • Corporate Financial Stewardship; and • Working with Welsh Government
1.11	Without some reprieve over the level of national funding reductions the Council would have faced a position of having to withdraw key services (such as economic development and business support), closing local facilities some of which were at a mid-point of transition to alternative delivery models (such as leisure centres), and reducing funding support to statutory services (such as education and social services). Such decisions would not only have been unsupportable by councillors and local communities alike but would have compromised the achievement of the Council's Improvement Priorities, and

	possibly undermined the ability of the Council to meet its statutory duties in full. The Council was eventually able to set a balanced budget for 2016/17 through following this three part strategy, and with a higher level of risk-taking than in previous years.																											
1.12	<p>Cabinet is recommended to continue with this three part strategy. This will involve:-</p> <ul style="list-style-type: none"> • continuing to reduce costs and increase income through service reform as a central theme of the service portfolio business plans; • continuing to control and reduce corporate costs through careful planning and stewardship; and • working with Welsh Government to maintain sufficient levels of national funding for local government and for Flintshire, reforming the local government funding system to give councils greater financial freedom and flexibility, and properly funding nationally set policies for services and welfare benefits which councils have to administer. 																											
	Portfolio Business Plans																											
1.13	The current version of the service portfolio business plans have been developed with options for the period 2015/16-2017/18. Based on current work there are supportable options with potential for a further round of annualised savings in the region of £7.9M as shown in Table 2 below.																											
1.14	<p>Table 2: Service Portfolio Business Plan Projections 2017/18</p> <table border="1"> <thead> <tr> <th>Portfolio</th> <th>2016/17 (£m)</th> <th>2017/18 (£m)</th> </tr> </thead> <tbody> <tr> <td>Planning & Environment</td> <td>0.413</td> <td>0.205</td> </tr> <tr> <td>Street-scene & Transportation</td> <td>2.158</td> <td>2.975</td> </tr> <tr> <td>Social Care</td> <td>0.838</td> <td>0.765</td> </tr> <tr> <td>Education & Youth</td> <td>0.710</td> <td>0.873</td> </tr> <tr> <td>Organisational Change</td> <td>1.272</td> <td>1.082</td> </tr> <tr> <td>Community & Enterprise</td> <td>1.509</td> <td>0.807</td> </tr> <tr> <td>Corporate Services</td> <td>0.855</td> <td>1.225</td> </tr> <tr> <td>TOTAL</td> <td>7.755</td> <td>7.932</td> </tr> </tbody> </table> <p>Footnotes to Table 2:</p> <ol style="list-style-type: none"> 1. 2016/17 show approved budgeted efficiencies 2. The projected efficiencies for 2017/18 are subject to ongoing review and refinement 	Portfolio	2016/17 (£m)	2017/18 (£m)	Planning & Environment	0.413	0.205	Street-scene & Transportation	2.158	2.975	Social Care	0.838	0.765	Education & Youth	0.710	0.873	Organisational Change	1.272	1.082	Community & Enterprise	1.509	0.807	Corporate Services	0.855	1.225	TOTAL	7.755	7.932
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1.15	<p>The majority of budget reductions continue to be made through organisational change, overhead and workforce cost reduction, and service modernisation and productivity. The service changes where there are impacts for the public and consultation and engagement will be needed include:-</p> <ul style="list-style-type: none"> • the programme of school modernisation and reviews of primary and secondary provision; • the school funding formula and levels of annual funding; • changes to social care models; cost recovery through charging and partnership contribution; entitlement and non-statutory service provision; • waste policy including household recycling centres and side waste enforcement; subsidised transport routes; the review of transport entitlement and operational policies e.g. school transport; • charging and cost recovery for services; and • minimum service provision and the 'core service offer' to local communities which could be supplemented by local community action and local income e.g. through town and community council contributions.
1.16	<p>The business plan proposals will be shared with Overview and Scrutiny Committees for consultation through May and June. The proposals, both those which are internalised and have no direct impact on the public and those which affect service provision and do impact on the public will be shared in full with Committees for consultation. The latter only will be worked up for public consultation.</p>
1.17	<p>A specific supporting report on the next phase of proposed service changes within the Street-scene and Transportation Portfolio is included within this agenda as the next item. At this stage the proposals for this portfolio have been limited to those which the Cabinet feel able to support. Neither the option to move to three weekly collections of residual waste, or to charge for green waste collections have been taken up. These types of service changes are being introduced by other councils. The public in Flintshire has experienced significant waste service changes in recent years and the Council has to be realistic about the level of change which is tolerable, there would be practical difficulties for certain types of households in storing residual waste for a three week period at a time, and charging for green waste may deter participation at a time when the Council is aiming to increase participation and achieve higher recycling.</p>
1.18	<p>As in previous years there will be risk to the achievement of proposed budget efficiencies, either because certain proposals prove to be unacceptable to the Council or the public in their recommended form or because of complexities in their practical implementation. The scope to achieve savings through collaboration with neighbouring councils is limited during a period of uncertainty over the probability of a reorganisation of local government. These limitations are both political and practical. Some of the business plans include pragmatic and beneficial service integration proposals for which support cannot be achieved with neighbouring councils. This is a limiting factor</p>

	beyond the control of Flintshire.
1.19	The business plans will continue to be reviewed and developed for future years including 2018/19 as the third and final year of the new MTFS period. The options for identifying further savings at this level, beyond 2017/18, are limited. The scope for further savings through organisational change, efficiency, and charging within current legislative and national policy limitations, is reducing year on year.
	Corporate Financial Stewardship
1.20	The continuing work on containing and where possible reducing corporate overhead costs and commitments is concentrated in the following areas:- <ul style="list-style-type: none"> • Revenue Support Grant retention; • National specific grants reform and income retention; • local taxation policy; • a corporate income policy covering all current and potential fees and charges and the levels at which they are set; • inflation and annual revenue provision; • pay inflation and revenue provision; • pensions reform and the implications of the imminent triennial review of the Clwyd Pension Fund by the Fund Actuary, and the employer funding contributions to be made; • capital financing revenue contributions; • Treasury Management and investment income; • the use of reserves and balances; • invest to save revenue provision; • assessment of national and local cost pressures; and • the ongoing management and review of the 2016/17 budget and any future year impacts of its final out-turn.
1.21	A summary of this work will be reported to the Cabinet and the Corporate Resources Overview and Scrutiny Committee in May and June.
	Working with Welsh Government
1.22	The principal issue for national recognition and support for a new Welsh Government, post-election in May, remain as set out in the current MTFS and campaigned around for 2016-17:- <ul style="list-style-type: none"> • medium term financial planning at national level; • sufficient and sustainable levels of Revenue Support Grant; • reform of specific grants and retention of sufficient current grant funding levels to maintain services; • relaxing charging levels for services such as domiciliary care; • full funding of welfare schemes such as the Council Tax Reduction Scheme; and • meeting cost pressures of national legislative and public demand in key services such as social care.
1.23	There will be high expectations that a new Welsh Government will adopt a sustainable strategy for the financing of the public sector and will engage with the Welsh Local Government Association and member councils at an early stage of its new term.

1.24	Flintshire, as a low funded council, has made the case that it is particularly exposed to the impacts of the significant annualised reductions in public sector funding to meet current and new cost burdens. The risks to Council performance posed by the financial position will be set out clearly to new Government Ministers.
1.25	The Independent Commission for Local Government Finance in Wales has just published its report and recommendations. The report, which has been anticipated by both local government and Welsh Government, makes a number of progressive recommendations for financial reform. The report should inform a mature and realistic set of discussions between Welsh Government and local government over funding needs, creative solutions, and the capacity for councils to have the freedom to act under the principle of localism.
2.00	Council Fund Revenue Budget 2017-18
2.01	As part of the revision of the Medium Term Financial Strategy the Council should begin to build its budget proposals for 2017/18.
2.02	Based on the initial forecast the budget 'gap' for 2017/18 will be in the range of £12-13M.
2.03	The efficiency proposals within the portfolio business plans will contribute an estimated £7.9M.
2.04	A full budget setting process and timetable will be published by the Cabinet shortly. The re-adoption of the MTFs, and endorsement of the proposals within the portfolio business plans, is an important first step in the annual budget process.

3.00	RESOURCE IMPLICATIONS
3.01	The resource implications of financial are significant. The Medium Term Financial Strategy will continue to carry many risks. Careful risk assessment in planning and decision-making will continue to be a central feature of review and debate.

4.00	CONSULTATIONS REQUIRED / CARRIED OUT
4.01	Consultation with Group Leaders, Overview and Scrutiny Committees, external partners, external advisors and representative bodies, and eventually the communities of Flintshire will follow. The strategic approach advocated for the MTFs builds on the current approach which had majority member and public support in planning the 2016/17 annual budget.

5.00	RISK MANAGEMENT
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5.01	All parts of the financial forecast, and all budget solutions, are risk assessed stage by stage. An overall risk assessment and risk management statement will be produced both for the revised MTFS and the draft annual budget for 2017/18.
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6.00	APPENDICES
6.01	None.

7.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
7.01	<p>MTFS Part 1 and 2 :</p> <p>http://www.flintshire.gov.uk/en/PDFFiles/Medium-Term-Financial-Strategy/Medium-Term-Financial-Strategy-Part-1.pdf</p> <p>http://www.flintshire.gov.uk/en/PDFFiles/Medium-Term-Financial-Strategy/Medium-Term-Financial-Strategy-Part-2-September-2015.pdf</p> <p>2016/17 Council Fund Budget Report :</p> <p>http://cyfarfodyddpwyllgor.siryfflint.gov.uk/mgConvert2PDF.aspx?ID=35776</p> <p>Contact Officers: Colin Everett and Gary Ferguson Telephone: 01352 702101 E-mail: gary.ferguson@flintshire.gov.uk</p>

8.00	GLOSSARY OF TERMS
8.01	<p>Medium Term Financial Strategy (MTFS): 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.</p> <p>Revenue Support Grant: 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> <p>Specific Grants: An award of funding from a grant provider (e.g. Welsh Government) which must be used for a pre-defined purpose.</p> <p>Office of Budget Responsibility: created in 2010 to provide independent and authoritative analysis of the UK public finances.</p> <p>Institute of Fiscal Studies: formed in 1969 and established as an</p>

independent research institute with the principal aim of informing public debate on economics in order to promote the development of effective fiscal policy.

Independent Commission on Local Government Finance in Wales: established to examine how local government funding can be made more sustainable with a view to providing specific recommendations for improvement and reform.

Welsh Local Government Association: the representative body for unitary councils, fire and rescue authorities and national parks authorities in Wales.