

ORGANISATIONAL OVERVIEW AND SCRUTINY COMMITTEE

Date of Meeting	Tuesday, 28 June 2016
Report Subject	Council Fund Revenue Budget 2017/18
Portfolio Holders	Deputy Leader and Cabinet Member for Environment; Cabinet Member for Waste Strategy, Public Protection and Leisure; Cabinet Member for Education
Report Author	Chief Officers Organisational Change Chief Executive Officer Corporate Finance Manager
Strategic/Operational	Strategic

EXECUTIVE SUMMARY

This report updates the financial forecast for the 2017/18 financial year and presents the budget pressures and proposed efficiencies for Organisational Change for 2017/18 as the third and final year of the current portfolio business planning cycle.

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. The 'gap' is in effect the total which has to be found in efficiencies, service cost reductions, and income growth as part of annual budget planning. This forecast has been revised at regular intervals based on more recent budget developments at a national and a local level. The latest forecast presents, at this stage, a working 'gap' of £8.1M between the forecast 'gap' and the combined total of working corporate and service portfolio efficiency proposals of £6.3M. Cabinet has endorsed the developing portfolio business plans and corporate financial stewardship plans for early consultation with the Overview and Scrutiny Committees.

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

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

A presentation was made to Council on 14 June on the developing plans for the third part of the strategy *Working with Welsh Government*.

All Overview and Scrutiny Committees are being consulted on the development of the Council Fund Budget for 2017/18 throughout the June and July Committee cycles. The Community and Enterprise Overview and Scrutiny Committee is also being consulted on the Housing Revenue Account.

The following tables and appendices are included within the report:-

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

Table 2: Service Portfolio Business Plan Projections 2017/18

Table 3a and 3b: Summary of Organisational Change Portfolio Cost Pressures and Proposed Efficiencies

Appendix 1: Detailed Organisational Change Business Plan Proposed Efficiencies

RECOMMENDATIONS

1	Committee comments on the Organisational Change Business Plan cost pressures and proposed efficiencies for 2017/18, and indicates its level of support for the proposals.
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REPORT DETAILS

1.00	Medium Term Financial Strategy 2016/17-2018/19
	The Revised Financial Forecast
1.01	The original forecast for the 2017/18 financial year, the third and final year of the current published 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 are 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. The revised forecast as set out in Table 1 below shows a starting 'gap' between anticipated income and predicted cost pressures of £14.4m. A longer-term forecast has been added for the 2018/19 financial year to complete the three year picture.

1.02

Table 1: Revised Financial Forecast 2017/18-2018/19

	2017/18	2018/19
Expenditure	£m	£m
National Pressures	0.7	0.3
Local Pressures	6.2	1.6
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	14.40	6.20

Footnotes to Table 1:

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. The latest revision includes initial estimates of the sizeable increase in care sector costs, and insurance costs
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 Levy 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 any changes in social care transition costs or the longer term impacts of the Living Wage on Council workforce costs.

1.03

Any forecast can only be predictive based on the most reliable available intelligence, and working assumptions, based on past experience. This latest forecast is 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 in a turbulent global economy. National fiscal policy is subject to change as demonstrated in the most 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 yet been given an indicative financial settlement to work with by the incoming 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 external circumstances beyond the control of the Council.

Meeting the Financial Challenge

1.04

The Council has 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 a funding 'gap' of

	<p>up to £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.
1.05	<p>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 mandatory 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. Such funding reductions could possibly have undermined the ability of the Council to meet its mandatory 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. As is shown in this report support will be needed from Welsh Government for Flintshire in 2017/18 due to the size of the working gap between the forecast financial 'gap' and the combined total of corporate and service portfolio efficiency proposals. Other councils will be in a similar position particularly those with low funding per capita under the current Local Government Funding Formula.</p>
1.06	<p>Cabinet has since readopted 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. A presentation was made to Council on 14 June on this ongoing work as part of the response to the report and recommendations of the Independent Commission on Local Government Finance in Wales.
2.00	Portfolio Business Planning
	Service Portfolio Business Plans
2.01	<p>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 efficiencies, service cost reductions and income growth in the region of £6.3M as shown in Table</p>

2 below. The total value of these proposals has reduced by £1.6M since the report made to Committee in April. This is a result of a detailed review of a challenge process on the acceptability and the workability of proposals, and their likely efficiency yield, and also through early engagement with Overview and Scrutiny Committees on specific service change options.

2.02

Table 2: Service Portfolio Business Plan Projections 2017/18

	2016/17	2017/18
Portfolio	£m	£m
Planning & Environment	0.413	0.205
Street-scene & Transportation	2.158	1.900
Social Care	0.838	0.690
Education & Youth	0.710	0.873
Organisational Change	1.272	0.943
Community & Enterprise	1.509	0.807
Corporate Services	0.855	0.903
Total	7.755	6.321

Footnotes to Table 2:

1. 2016/17, column shows approved budgeted efficiencies
2. 2016/17 efficiencies are budgeted as approved by Council. These are subject to in-year variation which will be reported as part of in year monitoring
3. The projected efficiencies for 2017/18 are subject to ongoing review and refinement

2.03

The majority of budget reductions continue to be made through organisational change, overhead and workforce cost reduction, and service modernisation and productivity. The ongoing service changes where there are impacts for the public, and consultation and engagement will be needed include:-

- 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 contributions; entitlement and non-statutory service provision;
- waste policy including household recycling centre provision and side waste enforcement; subsidised transport routes; the review of

	<p>transport entitlement and operational policies e.g. school transport;</p> <ul style="list-style-type: none"> • 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.
2.04	<p>The business plan proposals are being shared with Overview and Scrutiny Committees for consultation through June and July. 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 presented for public consultation.</p>
2.05	<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 realised with neighbouring councils. This is a limiting factor beyond the control of Flintshire.</p>
2.06	<p>The portfolio business plans will continue to be reviewed and developed for future years including 2018/19 as the third and final year of the current MTFS period. The options for identifying further savings at this level, beyond 2017/18, are very limited. The scope for further savings through organisational change, efficiency, and charging within current legislative and national policy limitations, is reducing year on year.</p>
	<p>Organisational Change 1 and 2 Business Plans</p>
2.07	<p>The proposals for the Organisational Change 1 and 2 portfolios are set out in Appendix 1. These are summarised in Table 3 below alongside the service cost pressures.</p>

2.08 **Table 3a: Summary of Organisational Change 1 and 2 Cost Pressures**

	2017/18
Cost Pressures	£m
No cost pressures in 2017/18	
Total Organisational Change Cost Pressures	0

Table 3b: Summary of Organisational Change 1 and 2 Efficiencies

	2017/18
Organisational Change 1 Efficiencies	£m
Deeside Library re-locations	0.020
Alternative Delivery Models	0.415
Total Organisational Change 1	0.435
Organisational Change 2 Efficiencies	
Catering	
Work process changes and office efficiency	0.005
Stock management and control	0.030
Increase meal numbers (income)	0.080
Increased Growth	0.006
Different model of delivery (mobile)	0.005
CCTV	
Income increases	0.010
Other	
Maintenance	0.005
Valuations and Estates	
Lease Renewals	0.021
Office management	0.002
Estate management cost recovery (dilapidations etc)	0.005
Property, Maintenance and Design	
Reduce maintenance budget	0.150
Office running costs	0.004
Office management	0.005
Valuation and Estates	
Staff reductions	0.150
Increased growth	0.030
Total Organisational Change 2	0.508
Total Organisational Change 1 and 2 Efficiencies	0.943

2.09 Progress against business plans for both Organisational Change 1 and Organisation Change 2 have reported fully in earlier reports on this agenda. 2.01 refers to reductions in planned efficiencies across portfolios for 2017/18. The only reduction in Organisational Change is in relation to

	<p>Organisational Change 1 and the Alternative Delivery Models proposal. Originally this was estimated at £0.544. This has now been reduced to £0.415 with an estimated start date of July 1st 2017 rather than April 1st 2017. At the end of the business planning stage these proposals went through rigorous scrutiny and assessment and as a result the timescales have been adjusted to provide a further three months to establish the new organisation.</p>
2.10	<p>Organisational Change 1 services have been through a programme of efficiencies in 2015/16, followed by community asset transfers in 2016/17 and have a planned programme of Alternative Delivery models for 2017/18. In a context of trying to retain jobs and services this is enabling the maximum number of facilities for the community, and jobs for staff, to be sustained. In libraries performance against public library standards has on the whole remained stable with an estimated improvement predicted against performance for 2017/18. Theatr Clwyd has reduced its Council subsidy from £1m to approximately £0.650m in two years with efficiencies, reductions in performance and increases in income. A core and resilient network of library, leisure and cultural facilities and services remain and are considered sustainable, while the target of a 30% saving across these services is planned to be achieved. Any additional savings required to those already planned will impact on the number of facilities that can be kept open and the opening hours of these facilities. Either of these approaches would be viewed as resulting in a network of facilities and services that would not meet our community's needs.</p>
2.11	<p>Organisational Change 2 services have also been through a programme of efficiencies in 2015/16, with Facilities Management Services now transitioning into an Alternative Delivery Model (Independent Trading Company with a TECKAL exemption to trade). The other services within the portfolio (Valuations and Estates Services and Property Maintenance and Design Consultancy {Property Services}) were reviewed as part of the ADM process, however, it was determined that there would be no specific benefit, at this stage, with progressing through an ADM and these services are now developing solutions which will see them restructure and form themselves into a commissioning client. The overarching principles, that the services both Facilities Management and Property Services, follow are that they have a target of 30% savings over the three year period, the target being achieved for 2015/16, and currently on plan for this financial year.</p>
2.12	<p>Given that all portfolios have been expected to fundamentally review their priorities, operations, efficiency and cost within the three year business planning process, the Council has become acutely aware of the risks of change proposals, the public acceptability of major change, and the impacts on maintaining services which are sustainable and resilient. In support of the business plans, and as evidence for our case for the need for national funding support and relief as a 'low funded council', each portfolio is producing an evidential resilience statement and an efficiency statement as twin documents.</p>
2.13	<p>The resilience statements will cover the risks to Council priorities, mandatory duties, service quality and service sustainability should the Council have no</p>

	option but to go beyond the efficiency targets within its current portfolio business plans. The efficiency statements will demonstrate the actual and comparative cost bases of services and their value for money.
2.14	The resilience and efficiency statements for the Organisational Change portfolios will be presented to the Committee at either its July or September meeting.

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
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. The appendix which sets out the specific portfolio business plan proposals for the corporate services includes commentary on risk.
6.00	APPENDICES
6.01	Appendix 1: Detailed Organisational Change Business Plan Proposed Efficiencies

7.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
7.01	<p>MTFS Parts 1 and 2 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 http://cyfarfodyddpwylgor.siryfflint.gov.uk/documents/g3508/Public%20report</p>

[s%20pack%2016th-Feb-2016%2014.00%20Flintshire%20County%20Council.pdf?T=10&LLL=undefined](http://cyfarfodyddpwyllgor.siryfflint.gov.uk/documents/g3574/Public%20report%20pack%2016th-Feb-2016%2014.00%20Flintshire%20County%20Council.pdf?T=10&LLL=undefined)

MTFS Cabinet Report, April 2016

<http://cyfarfodyddpwyllgor.siryfflint.gov.uk/documents/g3574/Public%20report%20pack%2019th-Apr-2016%2009.30%20Cabinet.pdf?T=10&LLL=undefined>

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8.00 GLOSSARY OF TERMS

8.01 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.

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.

Specific Grants: An award of funding from a grant provider (e.g. Welsh Government) which must be used for a pre-defined purpose.

Office of Budget Responsibility: created in 2010 to provide independent and authoritative analysis of the UK public finances.

Institute of Fiscal Studies: formed in 1969 and established as an 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.