

**CABINET**

<b>Date of Meeting</b>	20 September 2016
<b>Report Subject</b>	Council Fund Revenue Budget 2017/18 Stage One
<b>Cabinet Member</b>	Leader of the Council and Cabinet Member for Finance
<b>Report Author</b>	Chief Executive and Corporate Finance Manager
<b>Type of Report</b>	Strategic

**EXECUTIVE SUMMARY**

The Cabinet reviewed and re-adopted the three part strategy for Medium Term Financial Planning for the period 2016/17-2018/19 in April this year. This was the first step in planning the annual Council Fund Revenue Budget for the 2017/18 financial year and how the then forecast gap of £13.7M might be bridged.

The forecast 'gap' between predicted income levels and the projected expenditure requirement reported in July 2016 stood at £14.4M (an increase of £0.7M) on the April forecast.

The Cabinet has developed a set of service portfolio business plans. These plans had been reviewed extensively by Cabinet Members and Chief Officers and their teams with the annualised efficiency proposals becoming the basis for recommendations for the annual budget. The proposals for budget efficiencies and income charging within the business plans for 2017/18 were reported in full to the Overview and Scrutiny Committees throughout the June/July meeting cycle. The Committees were invited to review the proposals, their acceptability and workability, and their risks. The higher profile and more controversial service planning options, such as schools funding and waste services, had already been the subject of detailed reports to the respective Overview and Scrutiny Committees as part of the business planning process.

The Overview and Scrutiny Committees were supportive of the efficiency and charging proposals overall. The cumulative total of the proposals is estimated to be £5.921M.

The Overview and Scrutiny Committees also received presentations on an assessment of the efficiency and resilience status of the services within their respective portfolios. These assessments reviewed the efficiency of each service,

the extent to which each service offers value for money, and the resilience of each service to withstand its cost pressures, demands and obligations. These assessments demonstrated the limited options which remain for achieving further efficiencies of scale without having to reduce services to unacceptable levels of provision or running the risk of service failure.

This report re-presents the service portfolio business plan proposals for 2017/18 for formal recommendation to the Council as the first stage of the Council Fund Budget. The review of the portfolio business plans is the first of the three part strategy for Medium Term Financial Planning:-

- Service reform
- Corporate financial stewardship
- Working with Welsh Government

The report also summarises the ongoing review of the corporate financing options. Corporate financing is the second part of the strategy for Medium Term Financial Planning.

The report concludes with an update on national work around the funding formula and the local government financial settlement. National funding is the third part of the strategy for Medium Term Financial Planning.

The following tables are included within the report:-

Table 1 – Financial Forecast 2017/18 – 2018/19

Table 2 – Service Portfolio Business Plan Projections 2017/18

## RECOMMENDATIONS

1	Cabinet formally recommends the service portfolio efficiency proposals listed in the appendices for adoption by Council as stage one of setting the Council Fund Revenue Budget for 2017/18.
2	Cabinet notes the ongoing work on reviewing corporate financing options, and the national activity around the funding formula and Local Government Settlement.

## REPORT DETAILS

<b>1.00</b>	<b>Financial Planning</b>
1.01	The Council has a three year Medium Term Financial Strategy (MTFS) for the period 2015/16-2017/18. Whilst an updated version of the MTFS is being developed for the period 2016/17-2018/19 the Cabinet re-adopted, in April, the three part approach for financial planning set out within the MTFS. This was the first step in planning the annual Council Fund Revenue Budget for 2017/18 and how the then forecast gap of £13.7M might be bridged.

## The Financial Forecast

1.02 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 was updated and reported to the Overview and Scrutiny Committees in July 2016 set out in Table 1 below. The forecast is under continuous review and will be updated for reporting in October/November following:-

- announcement of the Provisional Local Government Settlement (which is due for publication in mid-October 2016 according to recent Ministerial confirmation);
- all cost pressures built into the MTFS having been reassessed and re-profiled; and
- the assessment of the impacts of national interest rate trends, investment market developments and inflation having been completed.

An initial forecast has been included for the 2018/19 financial year to provide a three year picture. The 2018/19 forecast will be similarly updated.

1.03 The working forecast for 2017/18-2018/19 is shown in Table 1 below.

1.04 **Table 1: Financial Forecast 2017/18-2018/19**

	2017/18	2018/19
<b>Expenditure</b>	<b>£m</b>	<b>£m</b>
National Pressures	0.7	0.3
Local Pressures	6.2	1.6
Inflation	3.1	3.2
Workforce Pressures	4.1	0.7
<b>Income</b>		
Reduction in Revenue Support Grant	2.8	2.7
Council Tax increase	(2.5)	(2.3)
<b>Projected Gap</b>	<b>14.40</b>	<b>6.20</b>

### **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. The full cost impacts of the implementation of the Living Wage are being assessed and profiled
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

	<b>Meeting the Financial Challenge</b>																				
1.05	<p>The Council has adopted an MTFs which is underpinned by a principled and risk based approach to solutions to the unprecedented level of budget savings to be found year on year. Flintshire, as a relatively low funded Council under the local government funding formula, and one with modest reserves and balances, has limited efficiency options remaining to find solutions without Welsh Government offering some reprieve from the scale of national funding reductions (for Revenue Support Grant and specific grants combined) first forecast. The Council adopted a three part strategy which has been re-adopted by Cabinet as the basis for planning the annual budget for 2017/18 and the financial years immediately thereafter:-</p> <ul style="list-style-type: none"> <li>• Service Reform;</li> <li>• Corporate Financial Stewardship; and</li> <li>• Working with Welsh Government.</li> </ul>																				
	<b>Portfolio Business Plans</b>																				
1.06	<p>The Cabinet has developed a set of service portfolio business plans for the period 2015/16-2017/18. These plans have been reviewed extensively by Cabinet members and Chief Officers and their teams with the annualised efficiency proposals becoming the basis for recommendations for the annual budget. The proposals for budget efficiencies and income charging within the business plans for 2017/18 were reported in full to the Overview and Scrutiny Committees throughout the June/July 2016 meeting cycle. The Committees were invited to review the proposals, their acceptability and their workability, and their risks. The higher profile and more controversial service planning options, such as schools funding and waste services, had already been the subject of detailed reports to the respective Overview and Scrutiny Committees as part of the business planning process. The portfolio efficiency proposals are listed in Appendix A.</p>																				
1.07	<p>The estimate of the total value of the full set of original efficiency options for 2017/18 first stood at £7.932M. Following the comprehensive review of the business plans, efficiency proposals remain at a total value of £5.921M. This figure has been reduced by:-</p> <ul style="list-style-type: none"> <li>• the removal of or change to options which were not considered to be acceptable and/or workable; and</li> <li>• the review and refinement of detailed cost estimates per proposal based on detailed planning and cost method calculations.</li> </ul>																				
1.08	<p><b>Table 2: Service Portfolio Business Plan Projections 2017/18</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;"><b>2016/17</b></th> <th style="text-align: center;"><b>2017/18</b></th> </tr> <tr> <th style="text-align: left;"><b>Portfolio</b></th> <th style="text-align: center;"><b>£m</b></th> <th style="text-align: center;"><b>£m</b></th> </tr> </thead> <tbody> <tr> <td>Planning &amp; Environment</td> <td style="text-align: center;">0.413</td> <td style="text-align: center;">0.205</td> </tr> <tr> <td>Street-scene &amp; Transportation</td> <td style="text-align: center;">2.158</td> <td style="text-align: center;">1.350</td> </tr> <tr> <td>Social Care</td> <td style="text-align: center;">0.838</td> <td style="text-align: center;">0.690</td> </tr> <tr> <td>Education &amp; Youth</td> <td style="text-align: center;">0.710</td> <td style="text-align: center;">0.873</td> </tr> </tbody> </table>				<b>2016/17</b>	<b>2017/18</b>	<b>Portfolio</b>	<b>£m</b>	<b>£m</b>	Planning & Environment	0.413	0.205	Street-scene & Transportation	2.158	1.350	Social Care	0.838	0.690	Education & Youth	0.710	0.873
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	Organisational Change	1.272	0.943
	Community & Enterprise	1.509	0.807
	Corporate Services	0.855	0.903
	Central & Corporate	3.527	0.150
	<b>Total</b>	<b>11.282</b>	<b>5.921</b>
	<b>Footnotes to Table 2:</b>		
	<ol style="list-style-type: none"> <li>1. 2016/17 column shows approved budgeted efficiencies</li> <li>2. These are subject to in year variation which will be reported as part of in year monitoring</li> <li>3. The projected efficiencies for 2017/18 are subject to ongoing review and refinement</li> </ol>		
1.09	The Overview and Scrutiny Committees were supportive of the efficiency and charging proposals overall and endorsed them as being acceptable and workable. A summary of the relevant Committees is attached as Appendix B.		
1.10	The Overview and Scrutiny Committees also received presentations on the assessment of the efficiency and resilience status of the services within their respective portfolios. These assessments reviewed the efficiency of each service, the extent to which each service offers value for money, and the resilience of each service to withstand its cost pressures, demands and duties. These assessments demonstrated the limited options which remain for achieving further efficiencies of scale without having to reduce services to unacceptable levels of provision or running the risk of service failure. A summary of the Red/Amber/Green (RAG) assessment of services is attached as Appendix C.		
	<b>Corporate Financial Stewardship Options</b>		
1.11	<p>As the second part of the budget strategy work is ongoing to seek to offset or reduce cost pressures through corporate financial stewardship. Work is concentrated on the following. A report on the outcome of this work will be made to Cabinet in October 2016. Any reductions in the provision required for cost pressures will contribute to lowering the forecast budget 'gap':-</p> <ul style="list-style-type: none"> <li>• inflation;</li> <li>• pay inflation, and incremental pay progression provision;</li> <li>• the outcomes of the of the triennial review of the Clwyd Pension Fund currently underway with the Fund Actuary, and the employer funding contributions required for future years;</li> <li>• provision within the Central Loans and Investment Account (CLIA) for capital financing charges including interest on debt and Minimum Revenue Provision for debt repayment and any income returns made from investments;</li> <li>• the use of reserves and balances;</li> <li>• detailed assessment of national and local cost pressures including latest</li> </ul>		

	<p>intelligence on risks to the continuation of national specific grants to current levels of funding; and</p> <ul style="list-style-type: none"> <li>the impacts of the 2016/17 projected out-turn for 2017/18 and future years.</li> </ul>
1.12	<p>Work is also underway on developing a corporate income policy covering all current and potential fees and charges and the levels at which they are set. External expertise has been commissioned to guide and inform this work with access to extensive information on charging policy and practice in other local authorities across the United Kingdom. The outcome of this work will be reported by December.</p>
	<p><b>National Work on the Settlement and Funding Formula</b></p>
1.13	<p>The Council is actively involved in national discussions over the Welsh Government Budget for 2017/18 including the Local Government Settlement, both as part of the Welsh Local Government Association and as an individual council. Key issues under debate for a new Welsh Government include:-</p> <ul style="list-style-type: none"> <li>the need for medium term financial planning at national level;</li> <li>sufficient and sustainable levels of Revenue Support Grant (RSG) and the option for the Welsh Government to set a zero-reduction or 'flat-line' RSG for 2017/18 at 2016/17 levels;</li> <li>reform of specific grants and retention of sufficient current grant funding levels to maintain services;</li> <li>relaxing charging levels for services including domiciliary care;</li> <li>meeting cost pressures of national legislative and public demand in key services such as social care;</li> <li>recognition of the workforce cost impacts of the Living Wage in both directly provided services and commissioned services; and</li> <li>local retention of Non Domestic Rate Relief (NNDR) growth by the collecting authority. (Growth is defined as the annual inflation in the NNDR yield for existing businesses plus additional contributions from new or expanding businesses within a county).</li> </ul>
1.14	<p>There are high expectations that a new Welsh Government will adopt a sustainable strategy for the financing of the public sector. Early engagement between the Welsh Local Government Association and its member councils and the new Welsh Government have been positive.</p>
1.15	<p>Flintshire, as a low funded council, continues to make 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 are being set out clearly to new Government Ministers and civil servants, the Welsh Local Government Association, and other national bodies including the Wales Audit Office.</p>

<b>2.00</b>	<b>Council Fund Revenue Budget 2017-18</b>
2.01	By adopting the service portfolio efficiency proposals listed in the appendices for adoption the Cabinet is in effect recommending the first stage of setting the Council Fund Revenue Budget for 2017/18. A detailed timetable and process for completing the budget setting between October 2016 and February 2017 will follow. The ability to complete a balanced budget for recommendation to Council in February 2017 will depend on a combination of the scale of the feasible options for corporate financing solutions and the extent of financial support and relief offered by Welsh Government in the Provisional Local Government Settlement.

<b>3.00</b>	<b>RESOURCE IMPLICATIONS</b>
3.01	The financial resource implications 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.

<b>4.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
4.01	Consultation with Group Leaders, Overview and Scrutiny Committees and external partners have been held to date in the development of the business plans, budget proposals and resilience assessments.

<b>5.00</b>	<b>RISK MANAGEMENT</b>
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. Services have already been assessed against efficiency, value for money and resilience with the assessment being reported to the Overview and Scrutiny Committees throughout July 2016.

<b>6.00</b>	<b>APPENDICES</b>
6.01	Appendix A: Service Portfolio Efficiency Proposals 2017/18 Appendix B: Summary of Overview and Scrutiny Committee observations on the portfolio business plan efficiency proposals Appendix C: Summary of Red/Amber/Green resilience assessments of services

<b>7.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
7.01	<a href="#">Medium-Term-Financial-Strategy-Part-1</a> <a href="#">Medium-Term-Financial-Strategy-Part-2-September-2015</a>  <b>Contact Officers:</b> Colin Everett and Gary Ferguson <b>Telephone:</b> 01352 702101

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<b>8.00</b>	<b>GLOSSARY OF TERMS</b>
8.01	<p><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.</p> <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> <p><b>Specific Grants:</b> An award of funding from a grant provider (e.g. Welsh Government) which must be used for a pre-defined purpose.</p> <p><b>Central Loan and Investment Account (CLIA):</b> brings together the revenue costs of all Council's borrowing and investment activity. Contains; interest on debt, MRP (see below), Treasury Management costs (staff, advisors, software etc, charges for debt rescheduling undertaken in earlier years and income generated from investments. Also referred to as Capital Financing Charges.</p> <p><b>Minimum Revenue Provision (MRP):</b> method for charging (debt-funded) capital expenditure to the revenue account in local authority accounts. Full Council sets an MRP policy annually selecting from a range of options contained with Welsh Regulations set by Welsh Government.</p> <p><b>Welsh Local Government Association:</b> the representative body for unitary councils, fire and rescue authorities and national parks authorities in Wales.</p>