

## CABINET

<b>Date of Meeting</b>	Tuesday, 24 <sup>th</sup> April 2018
<b>Report Subject</b>	Medium Term Financial Strategy – Forecast 2019/20
<b>Cabinet Member</b>	Leader of the Council and Cabinet Member for Finance
<b>Report Author</b>	Corporate Finance Manager and Chief Executive
<b>Type of Report</b>	Strategic

### EXECUTIVE SUMMARY

The Council has set a cycle of reviewing its Medium Term Financial Strategy (MTFS) on an annual basis.

This initial report gives the first detailed overview of the financial forecast for 2019/20 with further work on forecasting up to 2021/22 to follow. This will provide members with the opportunity to consider the financial position and potential solutions at an early stage.

At the Council budget meeting on 20 February a high level overview of the range of potential pressures was presented. Due to a number of areas of uncertainty the potential budget gap for 2019/20 forecast at that time ranged from £6m to £15m.

Further detailed work is being undertaken to confirm the forecasts with method statements to underpin the estimates. However, the high level projection, based on known issues and excluding national funding scenarios, shows a potential budget gap of £10.6m for 2019/20. The Social Care pressures and investments have been included at the higher end of the range pending more detailed work. If these costs were set at the lower of the range, the potential gap would reduce by £1.5m to £9.1m.

Resources from Aggregate External Finance and Council Tax are assumed at the same level as 2018/19 at this stage for illustrative purposes.

## RECOMMENDATIONS

1	Members are asked to examine the updated forecast and adopt it as the basis for initial planning.
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## REPORT DETAILS

<b>1.00</b>	<b>EXPLAINING THE MEDIUM TERM FINANCIAL STRATEGY – FORECAST 2019/20</b>
1.01	<p>The Council has set a cycle of reviewing its Medium Term Financial Strategy (MTFS) on an annual basis.</p> <p>This initial report gives the first detailed overview of the financial forecast for 2019/20 with further work on forecasting up to 2021/22 to follow. This will provide members with the opportunity to consider the financial position and potential solutions at an early stage.</p>
1.02	<p>The Council Fund budget for 2018/19 was approved by County Council on 20 February and included the temporary utilisation of reserves. Following a debate at a special Corporate Resources Overview and Scrutiny Committee a report is being prepared for Constitution Committee on the budget process.</p>
1.03	<p>At the Council budget meeting on 20 February a high level overview of a range of potential pressures and investments was presented. Due to a number of areas of uncertainty the potential budget gap for 2019/20 ranged from £6m to £15m. The following paragraphs refine the forecast further.</p>
	<b>Welsh Government Funding</b>
1.04	<p>The Council's core funding comes from Aggregate External Finance (AEF) comprising of Revenue Support Grant and the Council's share of the National Rates Pool. The forecast assumes at this stage that the Council will receive £189.156m which is the same amount of funding as 2018/19 i.e. 'cash flat'.</p>
1.05	<p>However, the provisional settlement for 2018/19 indicated a reduction in AEF of 1.5% for 2019/20 although there was no further update provided in the Final Settlement received in December. Welsh Government have recently announced additional funding transferring into the overall quantum for Local Government of £20m in 2018/19 rising to £40m in 2019/20. Taking this into account, and in the absence of further specific indications from Welsh Government there could still potentially be a reduction of 1% which would equate to £1.892m.</p>
	<b>Council Tax</b>
1.06	<p>The Council approved a 6.71% increase in council tax in 2018/19 to provide additional investment for schools and to ensure that the spending</p>

	<p>requirement was increased to the Standard Spending Assessment (SSA) calculated by Welsh Government via the national funding formula.</p> <p>The forecast at this stage does not assume any specific increase for 2019/20. The available resources are therefore at a minimum of £75.172m.</p>																		
	<p><b>Overall Resources available</b></p>																		
1.07	<p>The overall resources available to the Council assuming no change in AEF and Council Tax is £264.328m. The total expenditure requirement before reflecting any changes is £266.273m which is due to the amount utilised from reserves on a temporary basis 'dropping out'. The budget for 2018/19 included transitional funding of £1.945m to balance the budget and an additional £0.460m to provide further support to schools on a temporary basis. Therefore, the transitional funding amount of £1.945m is required to be built back into the budget for 2019/20.</p> <p>The Council also generates income from charging for some of its services which has the effect of contributing to the overall costs of services provided, either in part or in full. A member workshop is being held on 18 April to further develop a strategy around income generation.</p>																		
1.08	<p>Other changes to the forecast are detailed in the following paragraphs and a summary of the impact on the budget forecast are summarised below in Table 1:</p> <table border="1" data-bbox="319 1075 1385 1534"> <thead> <tr> <th></th> <th>£m</th> </tr> </thead> <tbody> <tr> <td>Available Resources (AEF / Council Tax)</td> <td>264.3</td> </tr> <tr> <td>Use of Reserves 'dropping out'</td> <td>1.9</td> </tr> <tr> <td>Workforce Costs</td> <td>3.0</td> </tr> <tr> <td>Social Care Demands</td> <td>3.4</td> </tr> <tr> <td>Schools costs</td> <td>1.2</td> </tr> <tr> <td>Corporate / Inflation</td> <td>1.1</td> </tr> <tr> <td>Spending Requirement</td> <td>274.9</td> </tr> <tr> <td>Projected Budget Gap</td> <td>10.6</td> </tr> </tbody> </table>		£m	Available Resources (AEF / Council Tax)	264.3	Use of Reserves 'dropping out'	1.9	Workforce Costs	3.0	Social Care Demands	3.4	Schools costs	1.2	Corporate / Inflation	1.1	Spending Requirement	274.9	Projected Budget Gap	10.6
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	<p><b>Workforce Costs and Pay</b></p>																		
1.09	<p>The national pay negotiations were still ongoing at the time of setting the budget for 2018/19 and an uplift of 1% was included in the budget. The outcome of the pay negotiations is now known.</p> <p>The impact of the current pay award for non-schools employees over and above the 1% uplift is in the region of £0.750m which will need to be met from reserves on a temporary basis. However, the cumulative effect for 2019/20 increases to £3m when taking into account factors such as incremental progression. The potential impact on school based employees is £1.2m as detailed below in para 1.12.</p>																		

	<b>Inflation</b>
1.10	<p>Each year the Council is subject to numerous inflationary impacts for areas such as energy, national non-domestic rates, insurance and software licenses. At this stage, based on historical activity it is estimated that there could be additional costs in the region of £1.2m.</p> <p>A detailed review of all inflationary costs is being undertaken.</p>
	<b>Social Services Demands</b>
1.11	<p>The increasing demands within the social care sector continue to provide challenges to the Council and a number of estimated pressures, investments and incomes are detailed below:</p> <p>Social Care Commissioning: inflationary uplifts are agreed each year with the Council's care providers. Based on previous years the cost of commissioned care could increase in the range of £0.800m to £1.600m.</p> <p>Transition to Adulthood: the cost of care packages for clients moving into adulthood is an ongoing cost pressure. Based on known school leavers, and past year expenditure patterns, additional funding in the range of £0.500m to £0.700m may be required.</p> <p>Residential Care (new placements): it is anticipated that there will be a cost pressure in the range of £0.500m to £1m due to the increase in the capital limit introduced by Welsh Government and general increases in demand.</p> <p>Independent Living Fund: this former specific grant has transferred into the annual settlement at the existing amount. However, from 2019/20 the allocation will be formula based and it is anticipated that this will mean a reduction of £0.326m for the Council.</p> <p>Charging for Domiciliary Care: the charging cap for domiciliary care is being increased year on year by £10 per week (increased to £80 per week in 2018/19). A further increase of £10 to £90 per week in 2019/20 would generate additional income in the region of £0.200m.</p>
	<b>Schools and Education</b>
1.12	<p>The 2018/19 budget included an additional recurring uplift of £1.140m. This was subsequently increased by a further £0.460m on a temporary basis - from reserves - at the Council meeting held on 1 March.</p> <p>The impact of the non-teacher pay award for school based staff is estimated to be in the region of £1.2m.</p> <p>The impact of a later teacher pay award of 2% would add a further £1.2m. This is not included in the forecast and should be a nationally-funded cost pressure.</p> <p>In addition to this there is a likelihood that teacher pension employer contributions could rise significantly in 2019/20 which would further significantly impact on costs to schools.</p>

	Other inflationary pressures such as energy and National Non Domestic Rates will also have an impact on schools.
	<b>Corporate</b>
	<b>Minimum Revenue Provision (MRP)</b>
1.13	At Council on 1 March the Council's MRP policy was changed to the Annuity Method from the Straight Line Method. This has the effect of reducing the spending requirement for 2019/20 by £1.396m.
	<b>Previous Year Time Limited Efficiencies</b>
1.14	The 2018/19 budget included a number of efficiencies, some of which were time-limited and cannot be continued in the 2019/20 budget. These amount to £0.744m.
	<b>Other Portfolio Areas</b>
1.15	Work is also underway on various specific portfolio based pressures and if relevant and supported by robust method statements will be included in future updates. A prudent estimate of £0.500m is included in the forecast at this stage as a balancing figure.
	<b>Other potential risks</b>
	<b>Out of County Placements</b>
1.16	The costs of meeting demand in this area continue to be a significant challenge with a projected overspend of £1.8m in 2017/18. The 2018/19 budget has been increased by £0.500m and the Education and Social Care Portfolios are working together to address the cost base. However, the scale and complexity of the issue inevitably means that there is a high risk of a continued pressure in 2019/20.
	<b>Waste Recycling</b>
1.17	Waste recycling income targets are currently proving challenging to achieve due to a significant market downturn. It is expected that there will be a shortfall in income in 2018/19. The longer term outlook is for the downturn to continue and the position will need to be closely monitored.
	<b>Summary</b>
1.18	Further detailed work is being undertaken to confirm the forecasts using comprehensive method statements that have been designed to ensure consistency and the robustness of the estimates. However, the high level projection shows a potential budget gap of £10.6m for 2019/20.  The Social Care pressures and investments have been included at the top end of the range pending more detailed work, although if these were incorporated at the bottom end of the range the forecast would reduce by

	£1.5m to £9.1m.
	<b>Addressing the Shortfall</b>
1.19	The Council has limited options to address the potential budget gap: <ul style="list-style-type: none"> <li>- Income (Council Tax/ Fees and Charges etc)</li> <li>- Portfolio Business Plans – next phase</li> <li>- Organisational Change and Collaboration</li> <li>- Corporate Costs</li> <li>- National negotiations on funding and pay awards</li> </ul>

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	As set out in the report.

<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	Consultation with Group Leaders, Overview and Scrutiny Committees, external partners, external advisors and representative bodies, and eventually the communities of Flintshire will follow as part of the annual budget process.

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	All parts of the financial forecast will be risk assessed stage by stage.

<b>5.00</b>	<b>APPENDICES</b>
5.01	None.

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<b>Contact Officer:</b> Gary Ferguson, Corporate Finance Manager <b>Telephone:</b> 01352 702271 <b>E-mail:</b> gary.ferguson@flintshire.gov.uk

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<b>Medium Term Financial Strategy (MTFS):</b> a written strategy which gives a forecast of the financial resources which will be available to a Council for a given period, and sets out plans for how best to deploy those resources to meet its priorities, duties and obligations.

**Revenue:** a term used to describe the day to day costs of running Council services and income deriving from those services. It also includes charges for the repayment of debt, including interest, and may include direct financing of capital expenditure.

**Budget:** a statement expressing the Council's policies and service levels in financial terms for a particular financial year. In its broadest sense it includes both the revenue budget and capital programme and any authorised amendments to them.

**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.

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

**Financial Year:** the period of 12 months commencing on 1 April