

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CABINET**

DATE: **TUESDAY, 12 JUNE 2012**

REPORT BY: **HEAD OF FINANCE, CHIEF EXECUTIVE**

SUBJECT: **MEDIUM TERM FINANCIAL STRATEGY – A
POSITION STATEMENT FOR MEETING THE
FINANCIAL CHALLENGES AHEAD**

1.00 PURPOSE OF REPORT

- 1.01 To provide Members with:-
- (i) an overview of the financial challenges facing the Council
 - (ii) a strategic overview of the Council's medium term financial planning framework and timetable

2.00 BACKGROUND

- 2.01 The Council adopted its Medium Term Financial Strategy 2011 to 2015 in June 2011.
- 2.02 The Council Fund budget for 2012/13, the current year, was set by the Council on 1st March 2012. The final outturn for the 2011/12 financial year will be reported in July 2012. The latest projected position for 2011/12 is reported in detail later on this agenda.
- 2.03 Plans for the development of the Medium Term Financial Strategy (MTFS) and Medium Term Financial Plan (MTFP) for the five year period 2013/14 to 2017/17 were circulated at the end of April in a briefing note to all Members of the outgoing Council. Copies of the paper are available in the Members' library.

3.00 FINANCIAL CHALLENGES FACING THE COUNCIL

The Level of Welsh Government Funding

- 3.01 The total Council Fund revenue budget for 2012/13 which provides the funding to deliver all Council services is £281m. Of this, £184m comes from Welsh Government (WG) through Aggregate External Finance (AEF) which includes Revenue Support Grant and NDR Pool and £39m from specific grants. The remaining £57m is raised locally from Council Tax.

- 3.02 Like all other Councils in Wales, Flintshire does have forward projections of AEF from Welsh Government for the next two years but no further. Whilst this does give some certainty for the coming two years, we still need to plan ahead over a longer timeframe which will require making assumptions for future years.
- 3.03 The forward projections provided by WG show increases in AEF of 1.1% and 0.4% in 2013/14 and 2014/15 respectively. The level of AEF funding to the Council over the preceding two years has been reduced by 1.7% and 0.2% in 2011/12 and 2012/13 respectively. The impact of this is that by 2014/15, the actual level of WG funding in 2014/15 in cash terms will be 0.4% less than it was four years earlier. Against this cumulative reduction in funding the Council needs to fund the pressures of growth, demographic growth and service demands, and the impacts of the economic downturn, to protect services and find resources to fund Council priorities for improvement and service growth.
- 3.04 Adding to the pressure on revenue support funding there is severe and ongoing pressure on specific grants which are reducing steadily – a pattern which is likely to continue. In many cases, specific grants support core council services such as Education and Social Services, with Families First and Supporting People Grants being amongst the biggest.

The Projected Budget Gap

- 3.05 The Council has a Medium Term Financial Plan (MTFP) to forecast funding levels and resources requirements over the medium term, identify the gap between the two, and enable specific actions to be identified to balance the budget and manage resources.
- 3.06 The MTFP for 2013/14 and 2014/15 included in the 2012/13 budget report set out a preliminary position which showed a budget gap for 2013/14 of £2.336m rising by a further £2.970m for 2014/15 to a gap of £5.306m, based on the following factors only:-
- Funding from Welsh Government (WG) based on the indicative funding levels provided to date (as described in 3.03 above).
 - The roll forward of the 2012/13 budget and any full year effects for future years budgets.
 - Provision for pay and price inflation.

- 3.07 The April briefing paper identified that, in recent years, the Council has needed to include around £5m to £6m per annum to meet mainly unavoidable pressures (inflation, demography and the effects of the economic position). Information in Section 3.09 below sets out the major financial pressures which will need to be addressed both in the short and long term and work is ongoing to quantify them across all Council services and responsibilities.
- 3.08 Work is also ongoing to quantify the efficiencies which can be achieved to reduce overall budget costs. This is as described in Section 4.04 below. However, in advance of that work being completed, it is reasonable, for planning purposes, to assume a similar level of pressures to previous years which would mean that the gap in 2013/14 will be in the order of £7m to £8m, against which efficiencies will need to be found to produce a balanced budget for the year.

Financial Pressures

- 3.09 The major issues which will add to the budget gap in 2013/14 and over the medium term (5 years) include:-
- Settlement of Single Status and Equal Pay (planned for 2011/12).
 - The impacts of Welfare Reform, reduced funding for Council Tax Benefit and Benefit Administration and the impact on the Council Tax collection rate (effective from April 2013).
 - Prudential borrowing to fund schools modernisation and the wider capital programme.
 - Inflationary and demographic pressures and the ongoing impacts of the economy through reduced income (fees, charges and other income) and increased demands for services. These impact on the ability to sustain current service levels.
 - Shared WG and Council commitments to increase schools and social care budgets.
 - Investment of resources into:-
 - Council priorities and improvement objectives.
 - Any new chosen service developments.

Delivering Financial Efficiencies

3.10 At the same time that the Council is seeking to manage financial pressures, it is also having to meet the challenge of delivering financial efficiencies through the organisational change programme (known as Flintshire Futures) and “good housekeeping” in services to:-

- achieve organisational improvement and change, and
- achieve the financial efficiencies needed to balance budgets and provide resources for Council priorities and improvement plans.

In each case, where investment is needed to improve services or make change to secure efficiencies, a business case will show the costs to be incurred, the change to be achieved and the ‘payback’.

4.00 MEDIUM TERM FINANCIAL PLANNING FRAMEWORK AND TIMETABLE

4.01 Council finances have been significantly affected since 2011 and latest national forecasts suggest that this will continue until the end of the decade. Along with all other Councils, Flintshire is undergoing a significant amount of change to reshape and modernise Council services and to meet the financial challenge. Resources to maintain services and make improvements need to be generated from within the Council as funding from WG continues to be constrained.

4.02 Strategic financial planning is critical to matching financial resources to Council priorities and improvement objectives and to ensure the sustainability of public services.

4.03 The Council is committed to having a clear MTFP that fully incorporates the financial implications of all the Council’s efficiencies and savings programmes in order to determine the projected shortfalls (or surplus) for future annual budgets and to put plans in place to meet them and allocate resources to priorities.

4.04 The information to populate the MTFP will come from a variety of sources, all of which are actively being progressed at the present time. These include Directorate and Service Plans and the Flintshire Futures Programme.

4.05 Key issues identified in the April paper for early consideration with Members are:-

- A review of council priorities and improvement objectives.
- An assessment of the investment in capacity needed to deliver the next stages of the Flintshire Futures Programme.

- Identification of resources for “Invest to Save” spending in order to achieve the changes required and deliver efficiencies.
- Determination of a 10 year capital strategy.
- Determination of the revenue budget strategy, initially for the next two years (2013/14 and 2014/15), followed by a strategy and plan for the full five year period which incorporates the long term capital view.

4.06 The target date for completion of the developed MTFP and a refreshed MTFS is the end of September 2012. It is proposed that we first develop the current two year MTFP (2013/14 to 2014/15) and then move onto the five year position (2013/14 to 2017/18). At the same time we will be developing the 10 year Capital Strategy, the earlier years of which will feed into the MTFP. The initial two year forecast ties in with the current Comprehensive Spending Review (CSR) period and the indicative forecasts we have from Welsh Government.

4.07 The outline timetable for the development of this work is shown below:-

Key Milestones

By end July	2013/14 to 2014/15 – Detailed update Inclusion of capital forecast
End September (mid 2012/13)	2013/14 to 2017/18 Revised draft MTFS including 10 year Capital Strategy
October/November	Revenue Workshop(s) Capital Workshop(s) 2013/14 & Future Years
From December	Formal 2013/14 budget process and formal agreement of revised MTFS and Capital Strategy

4.08 The projected outturn for 2011/12, reported in detail in a later item on this agenda, estimates a year end underspend of £2.266m and recommends that £1.5m is ringfenced to support organisational change costs. The final position for 2011/12 will be reported in July. It is important to recognise that this sum is only available for non recurring expenditure and cannot be used to fund recurring base budget items.

4.09 As has been described in this report, significant work is in place to forecast pressures and efficiencies and hence the budget gap for 2013/14 and future years. It is also recognised that discussion is needed with Members now that the new Council is in place to review priorities and determine the detailed forward budget strategy. In view of this it is recommended that no changes are made to the 2012/13 budget as set on 1st March 2012 prior to discussion taking place over the coming months in the light of the more detailed financial forecast and clarity over Council Priorities under a new Council and Leadership.

5.00 RECOMMENDATIONS

5.01 Members are asked to:-

- (a) Note the report.
- (b) Endorse the ongoing work on the Medium Term Financial Plan.
- (c) Agree with the recommendation in 4.09 above that no changes are made to the 2012/13 budget as set on 1st March 2012 prior to discussion taking place over the coming months in the light of the more detailed financial forecast and clarity over Council Priorities under a new Council and Leadership.

6.00 FINANCIAL IMPLICATIONS

6.01 None directly as a result of this report. Potential future budget implications are as set out in the report.

7.00 ANTI POVERTY IMPACT

7.01 None directly as a result of this report.

8.00 ENVIRONMENTAL IMPACT

8.01 None directly as a result of this report.

9.00 EQUALITIES IMPACT

9.01 None directly as a result of this report.

10.00 PERSONNEL IMPLICATIONS

10.01 None directly as a result of this report.

11.00 CONSULTATION REQUIRED

11.01 None.

12.00 CONSULTATION UNDERTAKEN

12.01 None.

13.00 APPENDICES

13.01 None.

**LOCAL GOVERNMENT (ACCESS TO INFORMATION ACT) 1985
BACKGROUND DOCUMENTS**

Medium Term Financial Strategy.

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