

## CABINET

<b>Date of Meeting</b>	Tuesday, 20 February 2018
<b>Report Subject</b>	Council Fund Budget 2018/19 – Third and Closing Stage
<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 developed the budget for 2018/19 in three stages:

**Stage One:** Portfolio Business Plan proposals, endorsed by Cabinet, were reviewed by the respective Overview and Scrutiny Committees throughout October and approved by Council on 14 November. These proposals were all approved except for the proposal to introduce charging for green waste collection which was called in for further review by the Environment Overview and Scrutiny Committee. The Committee subsequently confirmed agreement to the proposals at its meeting in January and the proposals are now in the process of being implemented. Stage One is now closed.

**Stage Two:** Secondary proposals and options were considered at the Corporate Resources Overview and Scrutiny Committee on 6 December and considered by Council on 12 December. All proposals were approved except for schools funding and public car parking charges which were referred for further consideration by the Education and Youth and Environment Overview and Scrutiny Committees respectively. Feedback from these two meetings was reported to Council on 30 January and at that stage remained unresolved. The position on both will need to be settled as part of balancing the budget at this third and final stage.

**Stage Three:** This is the closing stage. The Council will need to set a balanced budget to meet its legal duty. It is the collective responsibility of the whole Council to set the budget on the advice of Cabinet. The options remaining to achieve a legal balanced budget are set out in this report for consideration. The scope for further service reductions for this financial year has been exhausted. The portfolio resilience statements which demonstrate the risks to service capacity and performance of any further budget reductions have been accepted by the Overview and Scrutiny Committees and Cabinet. The position of the three specific requests made to Welsh

Government for financial assistance is set out within the report. Beyond a financial intervention by Welsh Government the only remaining options to balance the budget are Council Tax income and drawing upon reserves and balances.

A full presentation of the report will be made at both the Cabinet and Council meetings.

**List of Tables:**

- Table 1: Stage One Budget Proposals Approved and Adopted
- Table 2: Stage Two Budget Proposals Approved and Adopted
- Table 3: Revised Financial Forecast
- Table 4: Financial Value of Council Tax Increases
- Table 5: Proposed Budget

RECOMMENDATIONS	
1	Cabinet to recommend a final position to Council on schools funding and a target level of income for public car parks for 2018/19 as the two outstanding issues from Stage Two of the budget process.
2	Cabinet to consider the options to set a balanced budget for 2018/19 and to make a recommendation to Council.
3	Cabinet to consider what further approaches should be made to Welsh Government for assistance in funding allocations and flexibilities.

**REPORT DETAILS**

1.00	ARRIVING TO THIS FINAL STAGE OF THE BUDGET 2018/19
1.01	<p><b>Budget Process and Timeline</b></p> <p>The annual budget for 2018/19 has been developed in three stages.</p>
1.02	<p><b>Stage One:</b> Portfolio Business Plan proposals, endorsed by Cabinet, were reviewed by the respective Overview and Scrutiny Committees throughout October and approved by Council on 14 November. These proposals were all approved except for the proposal to introduce charging for green waste collection which was called in for further review by the Environment Overview and Scrutiny Committee. The Committee subsequently confirmed agreement to the proposals at its meeting in January and the proposals are now in the process of being implemented. Stage One is now closed.</p> <p><b>Stage Two:</b> secondary proposals and options were considered at the Corporate Resources Overview and Scrutiny Committee on 6 December and considered by Council on 12 December. All proposals were approved except for schools funding and public car parking charges which were referred for further consideration by the Education and Youth and Environment Overview and Scrutiny Committees respectively. Feedback from these two meetings was reported to Council on 30</p>

January and at that stage remained unresolved. The position on both will need to be settled as part of balancing the budget at this third and final stage.

The options for Council Tax income were shown as a range and deferred for Stage Three of the budget setting process. It is our annual practice, and a legislative requirement, to defer taking a final position on Council Tax levels until the final stage of the budget process.

Three specific requests for support from Welsh Government were made in the Stage Two proposals, and an update on these is included in the report. Welsh Government was also requested to provide supplementary financial support specifically for schools funding and social services.

Impact and consequence statements have been prepared as needed for the Stage One and Two budget proposals. A summary of these was reported to Council at the last meeting and can be accessed via the hyperlink listed under Background papers at the end of the report

**Stage Three:** This is the closing stage. The Council will need to set a balanced budget to meet its legal duty. It is the collective responsibility of the whole Council to set the budget following a recommendation from Cabinet. The options remaining to achieve a legal and balanced budget are set out in this report for consideration.

A summary of the earlier stages is set out below.

**1.03 Stage One – Portfolio Business Plans**

The Stage One budget proposals total £3.029m

**Table 1: Stage One Budget Proposals Approved and Adopted**

<b>Portfolio</b>	<b>£m</b>
Social Services	0.450
Community & Enterprise	0.837
Education & Youth	0.070
Organisational Change 1	0.416
Organisational Change 2	0.286
Streetscene & Transportation	0.800
Planning & Environment	0.160
Corporate Services	0.010
<b>Total</b>	<b>3.029</b>

**Note 1:** details of the service portfolio business plan efficiency proposals can be accessed via the hyperlink listed under Background Papers at the end of the report.

**1.04 Stage Two – Secondary / Corporate budget proposals**

The Stage Two proposals, excluding the two areas referred to Overview and Scrutiny Committees - schools funding and public car parking charges - total £2.418m and are summarised in the table below.

**Table 2: Stage Two Budget Proposals Approved and Adopted**

Efficiency Item	£m
<b>Efficiencies:</b>	
Theatre Clwyd Tax Relief	0.075
County Hall Partial Demolition	0.300
Integrated Care Fund (note 2)	0.500
<b>Cost Pressure Provision Reductions:</b>	
Council Tax Reduction Scheme	0.323
Pensions Auto Enrolment	0.100
Price Inflation	0.139
Social Care Commissioning Costs	0.831
Autism Spectrum Disorder	0.100
Planning Fee Income	0.050
<b>Total</b>	<b>2.418</b>

**Note 1:** Full details of the above proposals can be accessed via the hyperlink listed under Background Papers at the end of the report.

**Note 2:** the request for continuation of the Integrated Care Fund (ICF) contribution to an extension of residential care home services to prevent hospital admissions and facilitate hospital discharges has been made to Welsh Government as one of the three specific national requests to assist with the budget. This will in effect be a regional decision amongst the Health Board and local authorities as the commissioners of ICF funded services in North Wales. Given the continuity and expansion of ICF funding, and the centrality of these local services to the integration of health and social care services under Welsh Government policy there is a high probability of a positive decision to continue this funding into 2018/19.

### **Stage Two – Unresolved Budget Options**

1.05

#### **School Funding**

The Education and Youth Overview and Scrutiny Committee considered the options for schools funding on 18 January and the outcome was reported to Council on 30 January. Given the overall budget provision, the Council does not have the financial capacity to provide any uplift in sustained funding for schools over and above the 2017/18 funding level – thereby resulting in a ‘cash flat’ settlement position at this stage. Welsh Government had been requested to provide supplementary support to the Council specifically for schools. Thus far the Welsh Government has not varied its position that core funding can only be distributed to councils through the local government funding formula, and has not agreed to provide any additional support as a special case. The only local options available to the Council are (1) further use of reserves and balances as a temporary measure which cannot be sustained year on year and (2) a specific

increase in Council Tax over and above that which will be required to balance the budget as it stands. The Council, and the schools and teaching communities, reserve the option to re-approach Welsh Government for supplementary funding given the level of risk to schools which is shown as 'red' on the impact assessment of a 'cash flat' settlement (as reported to Council at the last meeting).

This report does not review the schools funding issue in detail as this was the subject of a full debate at both the Education and Youth Overview and Scrutiny Committee and Council. The full Scrutiny Committee report can be accessed via the hyperlink listed under Background Papers at the end of the report.

**1.06 Public Car Parking**

The Environment Overview and Scrutiny Committee considered the optional schemes to increase public car parking charges at its meeting on 16 January. The outcome was reported to Council on 30 January.

At Stage Two of the budget an additional income target from public car parking charges was shown based on a working set of proposals to raise charges across the public car parks where charging is in place or is planned. The options for charging are still under review following the debate at the Scrutiny Committee, and are not due to be reported back to Cabinet prior to this meeting. Council has been advised that in the absence of a final decision on a revised charging scheme it will have to set a target income figure within the Council Fund budget; Cabinet would then have to meet this figure in making its final decisions. An income target of £0.468m was set out at Stage Two. Realistically, Cabinet will have to adopt a scheme which is projected to bring in additional car parking charging income of £0.450m upwards in a full financial year as a required contribution to the annual budget. The scheme should be introduced at the earliest point in the financial year to avoid slippage in achieving the target.

**1.07** The financial impact of both (1) the approved and adopted and (2) the outstanding budget options from Stages One and Two are shown in the table below. Having taken both into account the remaining budget gap to be balanced stands at £5.771m.

**Table 3: Revised Financial Forecast**

Item	£m
Original Forecast Budget Gap	11.601
Revised Forecast Budget Gap at the Provisional Settlement	13.501
Less: Stage 1 Budget Proposals Approved	(3.029)
Less: Final Settlement Revised Reduction in Grant	(1.037)
Less: Stage 2 Budget Proposals Approved	(2.418)
Less: Stage 2 Outstanding Options (Schools Funding and Public Car Parking Charges) note 1	(1.881)
Add: New and Emergent Cost Pressures note 2	0.635
<b>Revised Working Budget Gap</b>	<b>5.771</b>

**Note 1:** the budget forecast had included provision of £1.431m to offset inflationary cost pressures for schools. A revised target for increased car parking charging income of £0.450m is included in the Stage 2 budget options based on a working set of proposals to raise charges across the public car parks where charging is in

	<p>place or is planned</p> <p><b>Note 2:</b> the updated final list of adjusted cost pressures to be taken into account in the final stage of budget setting were reported to Council in January.</p>
--	---

<b>2.00</b>	<b>STAGE THREE – CLOSING AND BALANCING THE BUDGET</b>
	<b>Stage Three – The Closing Stage of Budget Setting</b>
2.01	<p>The scope for further service portfolio reductions for 2018/19 has been exhausted. This position is accepted by the Overview and Scrutiny Committees and Cabinet.</p> <p>The three specific requests made to Welsh Government for assistance with the budget, in accordance with the previous Council resolution, have been made and are under negotiation. Of the three, the request for continuity of the Integrated Care Funding (£0.500m) into 2018/19 has been assumed and has been built into the Stage Two budget calculations. Refer to Table 2 and note 2 in 1.04 above. A business case in support of this request has been made to Welsh Government.</p> <p>The request for the local flexibility to move from a £70 per week to a £100 per week charging cap for domiciliary care services from 2018/19 is under active consideration by Cabinet Secretaries in Welsh Government. Government policy is for the charging cap to rise from £70 per week in 2017/18 to £100 per week in 2020/21 in annual increments of £10. We have requested a local flexibility at the very time that Welsh Government is consulting local authorities on the powers, freedoms and flexibilities they require for the future. We have made the case that a local flexibility will not breach this policy as it would be within the charging cap that Welsh Government believes should be the maximum for uniformity across Wales. A business case in support of this request has been made to Welsh Government and a positive decision is being sought prior to the meeting. Refusal of the request could require the Council to review its levels of support for domiciliary care and other personal social services in an attempt to reduce service costs. This would be a counter-productive outcome. No positive budget outcome from this request is assumed at this stage.</p> <p>The request for a return of 50% of the Apprentice Tax Levy annual payments to sustain the Council's own trainee and apprenticeship scheme is under less active consideration. Welsh Government is still developing its policy for the use of the Tax Levy to support apprenticeship schemes at the national and regional levels. The Council as a major employer of size is being taxed to contribute to the national costs of further education and other support for apprenticeship schemes with no direct benefit. A business case has been offered to Welsh Government in support of our request. No positive budget outcome from this request is assumed at this stage.</p> <p>The financial value of the two requests is domiciliary care charging (£0.490m) and Apprentice Tax Levy part return (£0.350m).</p>
2.02	Beyond a financial intervention by Welsh Government the only remaining options to balance the budget are Council Tax income and drawing upon reserves and balances. These two options are explored in the sections which follow.

	<b>Use of Reserves and Balances</b>
2.03	<p>Public bodies are encouraged to make strategic use of their reserves and balances to contribute to annual budget setting. Fuelled by political comment there is a public expectation that public bodies do so. However, the situation across local government in England and Wales is variable with some councils being 'reserve rich' and others being 'reserve poor'. Compared to many councils Flintshire has modest and limited reserves to call upon. We have an established protocol for reporting on reserves and the purpose for retaining them each quarter. This is seen as good practice in our sector. The Council has drawn on its reserves to (1) cross-fund one-off cost pressures (2) balance the budget as needed and (3) meet the costs of voluntary redundancies to reduce the Council workforce in recent years. Reserves can only be used once and an over-reliance upon their use to balance annual budgets is not a sustainable way of funding services.</p> <p>In the last 3 years the Council has utilised £4.774m from its reserves and £2.345m was used in 2017/18 to help balance the budget and suppress Council Tax levels. This use of reserves was not a recurring solution and permanent funding is needed as one of the budget pressures for 2018/19 onwards.</p>
2.04	<p>The Council has limited useable or 'un-earmarked' reserves to draw upon. The Month 9 budget monitoring report advises of a projected Contingency Reserve at the end of March 2018 of £4.174m. However, this is subject to change between now and the close of the financial year. The Council also holds earmarked reserves which are set aside for specific purposes. Some are restricted in their use by, for example, the terms and conditions of grant where their source is Government funding. The month 9 budget monitoring report provides an update on current projected levels of earmarked reserves and shows that the amount is likely to reduce from £20m to £10m by the end of the financial year as these reserves are 'drawn down' (See Appendix 8).</p> <p>A review of the remaining earmarked reserves is close to completion and only those for which there is a strong business case will be retained with the remainder being released for use as part of the Medium Term Financial Strategy. The outcome of the review will be reported at both the Cabinet and Council meetings.</p>
2.05	<p>The Contingency Reserve (currently projected at £4.714m) is the Council's only 'defence' against in-year cost pressures. It is utilised to meet the impact of an overall overspend in a given financial year - as is the case in the current financial year with a projected overspend of £0.908m.</p>
2.06	<p>The Council could also be exposed to several significant additional cost pressures later in 2018/19 and reserves will need to be held back as an in-year 'buffer' to meet them. The most significant is the outcome of the national pay award negotiations between the local government employers and the trade union representatives. If any award above 1% is settled, and it is not nationally funded, the Council as the employer will be exposed to the cost which is estimated to be in the region of £2m. The collective position of local government in Wales and England is that the pay awards should be funded at a UK level with Welsh Government then receiving the additional quantum of funding to distribute. Welsh Government has confirmed that it cannot fund any additional pay award costs from its own resources. This applies to both local authority and teaching workforces. The other significant risks are rising social care costs, and the upward trend in the number of cases of Out of County placements across Wales which has resulted in</p>

	<p>a projected in-year overspend of £1.799m although this has been partly addressed by the inclusion of an additional £0.500m in the budget proposals for 2018/19.</p> <p>Due to these significant risks the Council will need to be prudent in drawing upon reserves to balance the 2018/19 budget.</p>																								
	<b>Council Tax</b>																								
2.07	The budget forecast does not make any provision for an annual increase in Council Tax. The use of some reserves would reduce the working gap. In the absence of an alternative, and any supplementary support from Welsh Government, the remaining gap would need to be met in full from Council Tax.																								
2.08	The Final Settlement from Welsh Government has set the Standard Spending Assessment (SSA) for Flintshire at £264.333m. The SSA threshold is notional and is not a reliable indicator of true or current need. However, in the current public expenditure situation, councils would be expected to maximise their sources of local taxation and other income to at least reach this threshold. For Flintshire to reach the SSA threshold, a Council Tax rise of 6.71% would be necessary. Welsh Government has confirmed that councils have the local flexibility to set Council Tax levels at their discretion and that the previous advisory cap of 5% will not be applied by Government, through any form of intervention, if any council set Council Tax above it. Councils are expected to act reasonably and be mindful of the burdens placed upon local taxpayers in setting Council Tax.																								
2.09	The table below illustrates the contribution to the budget of Council Tax rises on a scale net of the Council Tax Reduction Scheme (CTRS) projected benefit payments to those entitled to whole or partial benefit. A comparison of Council Tax levels across Wales is attached at Appendix 9 for reference.																								
2.10	<p><b>Table 4: The Financial Value of Council Tax Increases</b></p> <table border="1"> <thead> <tr> <th>Increase (%)</th> <th>Net Contribution (£m)</th> </tr> </thead> <tbody> <tr> <td>3.0</td> <td>2.435</td> </tr> <tr> <td>3.5</td> <td>2.788</td> </tr> <tr> <td>4.0</td> <td>3.140</td> </tr> <tr> <td>4.5</td> <td>3.492</td> </tr> <tr> <td>5.0</td> <td>3.844</td> </tr> <tr> <td>5.5</td> <td>4.182</td> </tr> <tr> <td>6.0</td> <td>4.514</td> </tr> <tr> <td><b>6.71</b></td> <td><b>4.984</b></td> </tr> <tr> <td>7.0</td> <td>5.161</td> </tr> <tr> <td>8.0</td> <td>5.460</td> </tr> <tr> <td>9.0</td> <td>6.353</td> </tr> </tbody> </table>	Increase (%)	Net Contribution (£m)	3.0	2.435	3.5	2.788	4.0	3.140	4.5	3.492	5.0	3.844	5.5	4.182	6.0	4.514	<b>6.71</b>	<b>4.984</b>	7.0	5.161	8.0	5.460	9.0	6.353
Increase (%)	Net Contribution (£m)																								
3.0	2.435																								
3.5	2.788																								
4.0	3.140																								
4.5	3.492																								
5.0	3.844																								
5.5	4.182																								
6.0	4.514																								
<b>6.71</b>	<b>4.984</b>																								
7.0	5.161																								
8.0	5.460																								
9.0	6.353																								

<b>3.00</b>	<b>STAGE THREE – OVERALL POSITION AND CONCLUDING ADVICE</b>
3.01	The table below summarises the overall position and the remaining budget gap to be bridged through the budget balancing options which remain open to the Council.

**Table 5: Proposed Budget 2018/19**

<b>Funding</b>	<b>£m</b>
Aggregate External Funding (AEF)/RSG NNDR	189.156
Council Tax at 17/18 level	70.123
<b>SSA/Budget Requirement</b>	<b>259.279</b>
Specific Grants (Estimated)	31.326
Use of Reserves	0.000
<b>Total Funding</b>	<b>290.605</b>
<b>Expenditure</b>	
Base Budget Rolled Forward	291.245
Transfers in/out of settlement (Appendix 2)	4.092
Prior Year Budget Decisions Recurring (Appendix 1)	1.048
Inflation (Appendix 3)	1.572
Recurring Pressures and Investments (Appendix 4)	6.278
Fire Levy Increase	0.070
Efficiencies - Stage 1 (see para 1.03)	(3.029)
Efficiencies - Stage 2 (Appendix 5)	(1.613)
Efficiencies - Stage 2.1 (Appendix 6)	(0.869)
Less Specific Grants 2017/18	(33.744)
Plus Specific Grants 2018/19 (Estimated Appendix 7)	31.326
<b>Total Expenditure</b>	<b>296.376</b>
<b>Remaining Budget Gap</b>	<b>5.771</b>

3.02 As an outcome of making the case to Welsh Government for supplementary support, and local funding flexibilities, we agreed, with the support of the Welsh Local Government Association and the endorsement of Welsh Government, to engage some expert and independent peer support. The purpose of the peer support was to both challenge and validate our self-assessment of our risk position, and to explore any further options. This work was commissioned in January.

The peer advice on further options recommends that we review our policy on the method of calculating Minimum Revenue Provision and consider the merits of moving to a different model which might release more revenue in the shorter-term similarly to a number of English local authorities. The advice is that we also

	<p>explore rebalancing contributions between the Housing Revenue Account (HRA) and the Council Fund to increase funding to the latter. Both of these recommendations are under urgent review and we are seeking specialist advice, including that of our external auditors, in developing professional advice for the Council to consider. Both are technically complex issues. Any possible rebalancing of contributions between the HRA and Council Fund could not be allowed to compromise the operational performance of the HRA or achievement of the Council's Housing Strategy and Business Plan. The peer work did not reveal any significant new options for income. The work largely validated our self-assessment of risks and has underlined the need to act on a number of service options for 2019/20 onwards - options which are already under consideration for the medium-term.</p> <p>Welsh Government was invited to review our self-assessment of risk as an 'open book' approach in support of our case for urgent supplementary support and local funding flexibilities. Welsh Government agreed to participate in the peer work to gain a greater understanding of the challenges we face and a civil servant was attached to the project as an observer. The Wales Audit Office was also invited to review our self-assessment. They have now offered to review our resilience statements and other key documentation in the first quarter of 2019/20.</p>
	<b>Funding</b>
3.03	The budget expenditure proposals (unbalanced) set a budget requirement of £259.279m which includes £189.156m of the Council's core grant (Revenue Support Grant and share of National Rates Pool) and £70.123m of Council Tax yield based on 2017/18 levels and before any uplift is applied.
	<b>Expenditure Provisions</b>
3.04	<p><b>Previous Year Budget Decisions and Pressures</b></p> <p>Each year indicative amounts for pressures and investments from the previous year are included in the budget. These are updated as part of the ongoing review of the forecast and are summarised in Appendix 1. Details of all other pressures taken into account in the budget process are included in Appendix 4.</p>
3.05	<p><b>Transfers into/out of the Settlement</b></p> <p>The transfers in and out of the settlement together with any new responsibilities, as confirmed in the Final Settlement are summarised in Appendix 2.</p>
3.06	<p><b>Pay and Price Inflation</b></p> <p>A summary of the inflationary increases in the budget is included in Appendix 3. Pay inflation is included at 1%. However, the ongoing national pay negotiations remain a significant risk as outlined in the report.</p>
3.07	<p><b>Specific Grants</b></p> <p>Appendix 7 provides details on specific grants. The levels of funding for some specific grants have not yet been confirmed by Welsh Government.</p>
3.08	<p><b>Managing the In-Year Position</b></p> <p>As an important organisational discipline we will continue to review all operational budgets and cost pressures throughout the year to (1) aim to stay within budgets</p>

	<p>and avoid a projected year-end overspend on the Council Fund and (2) identify operational efficiencies to either off-set cost pressures or release funds back into the Contingency Reserve. Under (2) the workforce establishment, workforce costs and vacancy management will be re-reviewed as good practice and as prompted by a member question at the previous Council meeting. A 'blanket' recruitment 'freeze' would not be possible as a failure to recruit to key vacancies could prevent the Council from meeting its legal obligations, from achieving service standards, and from work teams having sufficient capacity to meet work demands without individuals having to take on unreasonable and unmanageable workloads. The workforce establishment, and number of management and other posts, has been reviewed with rigour as part of the portfolio business planning process with a number of reviews to reduce workforce numbers coming to a close. Any immediate budget savings from this work in-year are therefore likely to be limited. Any recommended reviews of the establishment or workforce costs, or changes to practices for example vacancy management, would require careful consideration and prior consultation with the Trade Union.</p>
	<p><b>Opinions of the Statutory Officers</b></p>
3.09	<p><b>Opinion of the Corporate Finance Manager</b></p> <p>Section 25 of the Local Government Act 2003 includes a specific duty on the Chief Finance Officer (for Flintshire this is the Corporate Finance Manager) to report to the Council when it is considering its budget and Council Tax setting on the robustness of the estimates and the adequacy of reserves. The Act requires the Council to have regard to this report in making its decisions in relation to the budget</p>
3.10	<p>The 2018/19 budget has again been set within the context of the Medium Term Financial Strategy. It presents a significant financial challenge. The Council's budget strategy for dealing with this has been clearly set out in detail for all stakeholders in previous budget reports, supported by a series of member workshop sessions together with community engagement events across the County.</p>
3.11	<p>For the estimates contained within the budget, all figures are supported by a clear and robust methodology with the efficiency proposals considered achievable, but not without risk. The pressures are supported by evidenced method statements some of which have been reviewed by the Council's internal auditors on a sample basis.</p>
3.12	<p>The Council's Reserves and Balances Protocol sets out how the Council will determine, manage and review the level of its Council Fund Balance and Earmarked Reserves taking into account legislation and professional guidance. An outcome of this protocol was to report quarterly the level of Earmarked Reserves held to both Cabinet and Corporate Resources Overview and Scrutiny Committee and this has continued to be done in 2017/18 through the budget monitoring report. This ensures that members can have a better understanding of all the reserves held by the Council.</p>
3.13	<p>The Council's overall level of reserves and balances is reviewed annually as part of the budget process and the adequacy and purpose of reserves held is challenged, with any reserves no longer required at the same level being made available for</p>

	Corporate use. The outcome of the current review is nearing completion and will be reported to Cabinet and Council. Any additional contributions will provide a further safeguard to support the Councils financial position and the risks that will remain into 2018/19.
3.14	Supported by the above, I can confirm the reasonableness of the estimates contained in the proposed budget having regard to the Council's spending needs in 2018/19 and the financial context within which the budget is being set. It is clear that there are still some significant risks in the 2018/19 budget proposals, particularly around pay provision, social care demand and any under-achievement of the efficiencies included in the budget. Therefore, it is important that the Council protects its current level of reserves as far as possible to safeguard against these risks. A robust programme for the delivery of the efficiencies within the budget and to the timescales set together with effective and disciplined in-year financial management is essential to ensure that budgets are managed effectively with prompt action taken to mitigate any impacts should variances occur.
3.15	Within the context described above, I recommend that the Council should maintain sufficient general balances of £5.769m and retain a sizeable Contingency Reserve as a safeguard to manage any in-year cost pressures and variances. The over-use of reserves in the balancing of the annual budget would create a level of risk which I would not support.
	<b>Opinion of the Chief Executive</b>
3.16	<p>My professional advice complements that of the Corporate Finance Manager as set out above. The draft budget follows the Medium Term Financial Strategy adopted by the Council. It is the most balanced approach possible for achieving an annual budget, as required by law and the principles of good governance, whilst attempting to protect the improvement objectives and public service duties and obligations of the Council, as a short-term solution. However, there are growing risks that the Council will not achieve its priority outcomes as set out in the Council Plan, or maintain performance to service standards, as it might have done, due to reducing budgets and reducing organisational capacity. In its most recent annual letter the Wales Audit Office said of Flintshire: "whilst satisfied that the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources, its financial outlook represents a significant challenge".</p> <p>The Audit Committee at its January meeting acknowledged that the Council manages its resources well in accord with the opinion of its external auditors, and agreed with the view that the Council cannot see a way through the medium-term given its funding position. The Committee accepts that the solutions for the future are largely outside of its own control and rest with Governments. The annual letter goes on to say: "the Council has acknowledged that it is at a high risk of becoming financially unsustainable as it continues to face unprecedented financial challenges in the short and medium term".</p>
3.17	The level of risk having to be taken in recommending a balanced budget for 2018/19 is higher than in previous years. I am concerned over the risks posed to schools should the Council not be in a position to invest in the schools funding formula at least to partly offset pay and price inflation cost pressures, and the impact on the in-year budget of the eventual outcome of the national pay negotiations should Governments not fund any award over and above 1%. I remain concerned at the levels of stress within the organisation as individual managers

	and their teams have to manage their responsibilities with less capacity, and face an uncertain future both for their services and themselves. Maintaining morale in these circumstances is a daily managerial challenge.
3.18	The Council has been advised previously that (1) without national funding to meet rising costs (2), with the risks of further reductions in national budgets, and (3) with the ongoing transfer of responsibilities and costs from Governments to local government then its budget might no longer be sustainable in the short to medium-term. The medium-term budget forecast, and the detailed forecast for 2019/20, will be presented to Council as set out in 4.00. At this stage it is hard to see how the Council will be able to successfully balance the budget in 2019/20 without some reversal of national fiscal policy. The same is true in a growing number of councils across Wales and England. Governments need to acknowledge and accept the risks and consequences of their fiscal policies and take action to properly fund local government before the situation becomes irreversible and we see the collapse of public services.
3.19	<p><b>Concluding Advice</b></p> <p>The Council has no option at this stage but to openly consider the use of reserves and balances to part close the remaining budget gap and then to set a higher than traditional level of Council Tax for 2019/20 both to balance the budget and provide any support for the schools funding formula. A Council Tax rise of 6.71% would raise £4.984m towards the remaining budget gap of £5.771m, as an illustration, and would also see the Council reach its Standard Spending Assessment threshold. Reserves and balances can be drawn upon to a manageable level only in support of balancing the budget.</p> <p>The two outstanding requests made to Welsh Government are significant in the calculation. A local flexibility to move to the £100 per week domiciliary care charging cap would increase cost recovery income by an estimated £0.490m, and a return of 50% of the outgoing Apprentice Tax Levy a further £0.350m. This additional income would allow some flexibility around Council Tax setting and other budget risks including schools funding. An update on negotiations with Welsh Government will be given at the meeting.</p> <p>Further advice will be given on the work referred to in 3.02 above, and whether there are any further options to balance the budget, before or at the meeting.</p>

<b>4.00</b>	<b>THE MEDIUM TERM OUTLOOK</b>
4.01	The financial forecast for the medium-term, and more specifically for 2019/20, is being reviewed and revised and will be reported to Cabinet in April. There are a number of variables which will have a major impact on the forecast and its reliability, none of which are within our control. These include the level of funding for local government in future funding settlements, the continuity and funding level of key specific grants, and the outcome of both the current and future national pay negotiations.
4.02	An overview of the developing forecast for 2019/20 will be included in the presentation of the report to both Cabinet and Council.

<b>5.00</b>	<b>RESOURCE IMPLICATIONS</b>
5.01	As set out within the report.

<b>6.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
6.01	<p><b>Public Engagement Events:</b></p> <p>A total of 217 people took part in seven public engagement events held across the County during October and November 2017. Areas of concern and/or interest for people included:</p> <ul style="list-style-type: none"> <li>• Supporting people in need</li> <li>• Protection of local services</li> <li>• The continued resilience of Council services</li> <li>• Making the most of Council assets</li> <li>• The use of Council reserves</li> <li>• Council mergers and public sector collaboration</li> </ul> <p>People strongly agreed that:</p> <ul style="list-style-type: none"> <li>• The Council had done as much as could be expected to make efficiencies</li> <li>• Major service cuts and closures would be needed if the financial situation did not improve</li> <li>• It was inevitable that some Councils would need to increase Council Tax by 5%</li> </ul> <p>There was a range of opinion about:</p> <ul style="list-style-type: none"> <li>• The protection, as far as possible for schools and social services</li> <li>• The introduction of charges for services such as green waste</li> <li>• The lifting of the national public sector pay cap</li> </ul>
6.02	<p><b>Other consultation</b> has been undertaken through:</p> <ul style="list-style-type: none"> <li>• All-Member Workshops in July, September and November.</li> <li>• Overview and Scrutiny Meetings.</li> <li>• School Budget Forum and Headteacher Federations.</li> <li>• Trade Unions</li> <li>• The Workforce through a special seminar</li> <li>• Portfolio management teams</li> <li>• Consultation with the ten highest business rate payers in the County</li> </ul>

<b>7.00</b>	<b>RISK MANAGEMENT</b>
7.01	Within the Settlement there is limited information on specific grants. Proposed reductions in and change to specific grants pose a significant risk. The Education Improvement Grant (EIG) and Single Environment Grant are of particular concern.

	The new pressures and efficiencies included within the revised forecast are based on latest intelligence. Welsh Government (WG) has announced a reduction in EIG of 11.36%. This would be a significant reduction and, as yet, no guidance has been issued as to how the grant terms will be changed to reflect this funding. Further information and guidance is awaited on the Minor Ethnic and Language Achievement Grant (MEAG) which funds support services for pupils from Gypsy/Traveller Communities and for those for whom English is an additional language. The value of this grant to Flintshire is £0.174m. There is no information whether this funding has been included in the Revenue Support Grant (RSG) or is to be funded through some other means.
7.02	The Council has only budgeted for a 1% annual pay award in its forecast. The national pay negotiations remain open and a higher annual pay award is the expected outcome. Refer to the commentary in 2.06 on the position and the risks.

<b>8.00</b>	<b>APPENDICES</b>
8.01	Appendix 1: Prior Year Budget Decisions Appendix 2: Transfers into/out of the Settlement Appendix 3: Inflation Appendix 4: Cost Pressures and Investments Appendix 5/6: Stage 2 Efficiencies Appendix 7: Specific Grants Appendix 8: Earmarked Reserves Appendix 9: Council Tax Levels in Wales 2017/18

<b>9.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
9.01	Paragraph 1.02: <a href="http://committeemeetings.flintshire.gov.uk/documents/s47126/Appendix%203.pdf?LLL=0">http://committeemeetings.flintshire.gov.uk/documents/s47126/Appendix%203.pdf?LLL=0</a>  Paragraph 1.03: <a href="http://committeemeetings.flintshire.gov.uk/documents/s47124/Appendix%201.pdf?LLL=0">http://committeemeetings.flintshire.gov.uk/documents/s47124/Appendix%201.pdf?LLL=0</a>  Paragraph 1.04: <a href="http://committeemeetings.flintshire.gov.uk/documents/s47125/Appendix%202.pdf?LLL=0">http://committeemeetings.flintshire.gov.uk/documents/s47125/Appendix%202.pdf?LLL=0</a>  Paragraph 1.05: <a href="http://committeemeetings.flintshire.gov.uk/documents/s46915/201819%20Council%20Fund%20Budget%20Stage%20Two%20Proposals%20for%20the%20School%20Funding%20Formula%20Level.pdf?LLL=0">http://committeemeetings.flintshire.gov.uk/documents/s46915/201819%20Council%20Fund%20Budget%20Stage%20Two%20Proposals%20for%20the%20School%20Funding%20Formula%20Level.pdf?LLL=0</a>
9.02	<b>Contact Officers:</b> Colin Everett, Chief Executive Gary Ferguson, Corporate Finance Manager <b>Telephone:</b> 01352 702101 <b>E-mail:</b> <a href="mailto:gary.ferguson@flintshire.gov.uk">gary.ferguson@flintshire.gov.uk</a>

## 10.00 GLOSSARY OF TERMS

**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.

**Local Government Funding Formula:** the system through which the annual funding needs of each council is assessed at a national level, and from which each council's annual AEF (see above) is derived. The formula is very complex. In summary, using information such as statistics on local population change and deprivation, the formula sets a guide for each Council's funding needs called the Standard Spending Assessment (SSA).

**Revenue Support Grant (RSG):** 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.

**Aggregate external finance (AEF):** represents the support for local revenue spending from the Welsh Government and is made up of formula grant. Formula grant includes the revenue support grant (RSG), and the distributable part of non-domestic rates (NDR). Amounts are determined annually and in advance of each new financial year as part of the Local Government Financial Settlement.

**Annual Settlement:** the amount of its funds the Welsh Government will allocate annually to local government as a whole, as part of its total budget and to individual councils one by one. The amount of Revenue Support Grant (see below) each council will receive is based on a complex distribution formula for awarding Aggregate External Finance (AEF). The formula is underpinned by assessments of local need based, for example, of population size and demographics and levels of social deprivation.

**Budget:** a statement expressing the Council's policies and service levels in financial terms for a particular financial year.

**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.

**Earmarked Reserves:** Funding set aside that must be used for a specific purpose.

**Un-earmarked Reserves:** Funding set aside as a safeguard against unforeseen events and can be used for any purpose. The Council maintains a prudent base level.

**Contingency Reserve:** A reserve accumulated from historical underspends and used to mitigate in-year variations.

**Integrated Care Fund:** A regional grant allocated by Welsh Government which is administered by a regional partnership board. Local Authorities, Health and other partner agencies work in partnership to support older people, people with a learning disability and children with complex needs.

**Apprentice Tax Levy:** A levy on the pay bill introduced by UK Government for all large organisations.

**Minimum Revenue Provision (MRP):** 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.

**Education Improvement Grant (EIG):** The *Education Improvement Grant* (EIG), established in April 2015, provides financial assistance to schools, local authorities and regional *education* consortia to improve *educational* outcomes for all learners.

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