

## CABINET

<b>Date of Meeting</b>	Tuesday, 14 February 2017
<b>Report Subject</b>	Council Fund Revenue Budget 2017/18
<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 Council has developed the budget for 2017/18 in stages.

The Stage One budget proposals for the service portfolios were approved by Council on 15 November (See Table 1).

The Stage Two proposals for corporate financial stewardship were approved by Council on 6 December having been given prior consideration by the Corporate Resources Overview and Scrutiny Committee on 30 November (See Table 2).

In sharing the options to balance the budget with the Corporate Resources Overview and Scrutiny Committee on 20 January the remaining budget gap was confirmed as £1.997m (See Table 3).

The Council has long campaigned for increased investment in Social Care. The Welsh Government has confirmed that the charging cap limit for domiciliary care will be raised from £60 per week to £70 per week from 1 April 2017. For Flintshire this will generate projected additional income of £0.238m in 2017/18.

An additional specific grant of £10m was also announced to support the rising costs of domiciliary care across Wales as part of the Final Local Government Settlement. Flintshire expects to receive around £0.430m of this. Whilst this funding will be received via a grant in 2017/18, the funding has been confirmed as ongoing and will be transferred into the Settlement for 2018/19.

**Taking into account increased income levels and the specific grant for domiciliary care the gap is reduced by £0.668m to £1.329m.**

The North Wales Fire and Rescue Authority has set an increase of 4% in its levy. When taking into account regional population changes Flintshire's annual increase

will be 4.52%. This is a cost pressure of £0.317m for which there is no provision in the current budget estimate. As this increase cannot be met by further reductions in Council budgets the only options are to add the increase to Council Tax (equal to a 0.55% rise) or to meet the cost from reserves and balances.

**The budget gap is increased to £1.646m once the increase in the levy is taken into account.**

The Corporate Resources Overview and Scrutiny Committee on 20 January recommended that that the proposed level of school investment be maintained in the final budget proposals for 2017/18.

Assuming that the current level of school investment is maintained then the closure of the budget comes down to striking a balance between the level of Council Tax to be set and drawing upon reserves and balances. It is important to note that funding derived from Council Tax is recurrent funding which will assist budget setting in future years.

Members are requested to consider the formal advice of the Section 151 Officer and Chief Executive and to recommend a final position to Council based on a balanced judgement.

## RECOMMENDATIONS

1	Re-affirm the stage one and stage two budget proposals for 2017/18.
2	Recommend to Council a method of closing the remaining budget gap.
3	Receive and consider the formal advice of the Section 151 Officer and Chief Executive in making recommendation 2 above.

## REPORT DETAILS

<b>1.00</b>	<b>BALANCING THE BUDGET FOR 2017/18</b>																														
1.01	The report sets out the requirements and options to finalise a balanced budget for 2017/18 to meet the Council's statutory duty. Full consideration of the Council's Medium Term Financial Strategy and the options for the 2017/18 budget process has been given by Cabinet, Council and the Overview and Scrutiny Committees in stages over the past twelve months.																														
1.02	<p>The annual Council Fund budget for 2017/18 has been developed in two stages:</p> <ul style="list-style-type: none"> <li>• Stage One: which covers Part 1 of our Medium Term Financial Strategy (MTFS) – service reform based on the service portfolio business plans</li> <li>• Stage Two: which covers Parts 2 and 3 of our Medium Term Financial Strategy (MTFS) – corporate financial stewardship and working with Welsh Government.</li> </ul>																														
1.03	<p>The Stage One budget proposals were approved by Council on 15 November and are summarised below:</p> <p><b>Table 1</b></p> <table border="1"> <thead> <tr> <th>Portfolio</th> <th></th> <th>£m</th> </tr> </thead> <tbody> <tr> <td>Planning and Environment</td> <td></td> <td>0.205</td> </tr> <tr> <td>Streetscene and Transportation</td> <td></td> <td>1.350</td> </tr> <tr> <td>Social Care</td> <td></td> <td>0.690</td> </tr> <tr> <td>Education and Youth</td> <td></td> <td>0.873</td> </tr> <tr> <td>Organisational Change</td> <td></td> <td>0.943</td> </tr> <tr> <td>Community and Enterprise</td> <td></td> <td>0.629</td> </tr> <tr> <td>Corporate Services</td> <td></td> <td>0.903</td> </tr> <tr> <td>Central and Corporate Finance</td> <td></td> <td>0.150</td> </tr> <tr> <td><b>Total</b></td> <td></td> <td><b>5.743</b></td> </tr> </tbody> </table> <p>Full details of all service portfolio business plan efficiency proposals can be accessed by the following hyperlink</p> <p><a href="http://committeemeetings.flintshire.gov.uk/documents/s40622/Council%20Fund%20Budget%2020172018.pdf?LLL=0">http://committeemeetings.flintshire.gov.uk/documents/s40622/Council%20Fund%20Budget%2020172018.pdf?LLL=0</a></p>	Portfolio		£m	Planning and Environment		0.205	Streetscene and Transportation		1.350	Social Care		0.690	Education and Youth		0.873	Organisational Change		0.943	Community and Enterprise		0.629	Corporate Services		0.903	Central and Corporate Finance		0.150	<b>Total</b>		<b>5.743</b>
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1.04 The Stage Two proposals on corporate financial stewardship were approved by Council on 6 December following consideration by Corporate Resources Overview and Scrutiny Committee on 30 November and are summarised below:

**Table 2**

Description	£m
Council Tax Base Increase	0.345
Independent Living Fund (ILF)	0.412
Transition to Adulthood	0.162
Flint Extra Care Scheme	0.170
Schools Investment	0.400
Apprentice Tax Levy	0.470
Central Loans and Investment Account (CLIA)	2.690
<b>Total</b>	<b>4.649</b>

1.05 At the meeting on 6 December new and emerging pressures totalling £0.597m were also reported and added to the budget requirement for 2017/18. A full list of all pressures included in the budget are included as Appendix 4.

1.06 The Final Local Government Settlement was received on 21 December. A full report was given to Cabinet and to the Corporate Resources Overview and Scrutiny Committee in January. The impact of the Settlement was a net reduction in funding of £0.157m having taking into account a new responsibility for homelessness services of a value of £0.201m.

1.07 At the Corporate Resources Overview and Scrutiny Committee on 20 January the amount remaining to be found to achieve a balanced budget stood at £1.997m as summarised in the table below:

**Table 3**

Description	£m
Projected Budget "gap"	14.4
<b>Less:</b>	
Portfolio Business Plans	(5.7)
Corporate Financial Stewardship	(4.6)
Provisional Settlement	(2.8)
<b>Add:</b>	
New and Emerging Pressures	0.6
Impact of Final Settlement	0.1
<b>Remaining Budget "Gap"</b>	<b>2.0</b>

The limited options available to meet the remaining budget gap were considered at the meeting which was open to all members and an update is provided below.

	<b>Domiciliary Care - Charging Levels</b>
1.08	Welsh Government has confirmed that the charging cap for home care will be raised from the current amount of £60 per week to £70 per week (from 1 April 2017). For Flintshire this will generate additional income of approximately £0.238m in 2017/18.
1.09	An additional specific grant of £10m to support the rising costs of domiciliary care across Wales was confirmed as part of the Final Settlement. Although the formula distribution for the grant is yet to be confirmed, the Council expects to receive around £0.430m. Although this funding will be received via a grant in 2017/18 the funding has been confirmed as recurring and will be transferred into the Settlement for 2018/19.  <b>The additional funding from a combination of the increase in the charging cap, combined with a share of the specific grant, reduces the projected gap by £0.668m to £1.329m.</b>
	<b>Local Taxation</b>
1.10	The forecast assumes a Council Tax increase of 3% for 2017/18 as standard. The maximum permissible annual rise for councils is 5% per year. As a guideline every 0.1% of increase in Council Tax contributes approximately £0.058m to the budget position (net of the impact of increased benefit entitlements under the Council Tax Reduction Scheme budget).
1.11	It has previously been reported that the North Wales Fire and Rescue Authority approved an increase of 4% on its levy at its meeting on the 19 December. When taking into account regional population changes Flintshire's annual increase is set at 4.52%. This presents an added cost pressure of £0.317m for which there is not currently any provision in the budget estimate.
1.12	As this increase cannot be met by further reductions in Council budgets there are only two options: add the levy increase to Council Tax, increasing the planned rise from 3.00% to 3.55% or meeting the cost through the reserves and balances.  <b>The budget gap is increased to £1.646m once the increase in the levy is taken into account.</b>
	<b>Schools Investment</b>
1.13	An uplift of £1.2m (1.34%) is currently included for the overall schools budget. The budget is distributed to schools through the local schools funding formula. Any reduction in this provision would cause risks for schools budget planning.
1.14	The Corporate Resources Overview and Scrutiny Committee has recommended that the planned level of investment be maintained in the final budget proposals for 2017/18.

	<b>Use of Reserves and Balances</b>																				
1.15	The final option is to utilise reserves to assist in the budget for 2017/18 noting that this only provides a one year solution. As part of the Corporate Financial Stewardship options an amount of £0.699m has already been earmarked to meet the first year costs of the new UK Government introduced Apprentice Tax Levy.																				
1.16	Any use of reserves in the budget would need to be made good in the base budget in the following year. Any use of reserves to balance the budget greater than £2m is considered to be high risk noting that £0.699m is already being drawn down as explained in 1.15 above.																				
	<b>Council Tax and the Use of Reserves and Balances</b>																				
1.17	Assuming that the current level of school investment is maintained the finalisation of the budget comes down to striking a balance between the level of Council Tax to be set and drawing upon reserves and balances.																				
1.18	A judgement has to be made over what is a prudent level of reserves and balances to draw upon being mindful of the impacts for budget setting in 2018/19 and future years.																				
1.19	It is important to note that funding derived from Council Tax is recurrent funding which will contribute to the budget position for both 2017/18 and future years.																				
1.20	Members should consider carefully the formal advice of the Section 151 Officer and the Chief Executive in making this judgement.																				
	<b>Overall Budget Position</b>																				
1.21	The table below summarises the overall position and the budget gap remaining:  <b>Table 4</b>																				
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	Prior Year Budget Decisions Recurring (Appendix 1)	4.193
	Prior Year Budget Decisions One off dropping out (Appendix 1)	(0.221)
	Transfers in/out of settlement (Appendix 2)	0.498
	Inflation (Appendix 3)	2.574
	Pressures & Investments Recurring (Appendix 4)	5.821
	Fire Levy Increase	0.317
	Efficiencies - Business Planning	(5.743)
	Efficiencies – Review of MRP Policy	(2.690)
	Efficiencies – Social Care	(0.668)
	Less Specific Grants 2016/17	(34.159)
	Plus Specific Grants 2017/18 (Estimated Appendix 5)	33.744
	<b>Total Expenditure</b>	<b>291.245</b>
	<b>Gap as per Cabinet Report</b>	<b>1.646</b>
	<b>Funding</b>	
1.22	The budget proposals (unbalanced) set a budget requirement of £255.156M which is an amount of £2.370M below the calculated Standard Spending Assessment (SSA) of £257.526M. At this level of spend, the increase on the Band D Council Tax Rate (excluding Police and Town/Community Council precepts) is 3% which is equal to an increase of £32.14 on 2016/17 and a Band D rate of £1,103.55.	
	<b>Expenditure</b>	
1.23	<i>Previous Year Budget Decisions</i> Each year indicative amounts for previous year's pressures and investments and efficiencies are included in the budget for the following two years. In the current budget the net effects of the changes agreed in 2015/16 and 2016/17 equate to a net increase of £3.972m as detailed in Appendix 1. These amounts have been reviewed as part of the 2017/18 budget and where appropriate an adjustment made to reflect the current position.	
1.24	<i>Transfers in/out of the Settlement (including new responsibilities)</i> The transfers in/out of the settlement as confirmed in the Final Settlement are summarised in appendix 2.	
1.25	<i>Pay and Price Inflation</i> A summary of the inflationary increases to the budget are summarised in appendix 3. Pay inflation has been included at 1%.	
1.26	<i>Specific Grants</i> The inflation figures referred to above exclude inflation on specific grant income and related expenditure as the specific grant figures are indicative only at this	

	stage. Adjustments will be applied when the figures are confirmed by the Welsh Government. As a general principle this will be cost neutral to the Council. Appendix 5 provides further details.
	<b>Unearmarked Balances and Earmarked Reserves</b>
	<b>Base Level of Unearmarked Reserves</b>
1.27	The budget proposals do not change the current base level of reserves of £5.769M which provide a safeguard in the current uncertain financial climate.
	<b>Contingency Reserve</b>
1.28	The monthly budget monitoring report has provided updates on the movements on this reserve. The Month 9 monitoring report shows a projected balance of £5.279M in the Contingency Reserve as at 31 March 2017. It is recommended that this reserve is retained to mitigate the risks set out later in the report and for future budget planning. Whilst the base level of reserves is a known sum which is set aside, the level of the Contingency Reserve is subject to change.
	<b>Council Fund Earmarked Reserves</b>
1.29	As outlined in the Reserves and Balances Protocol the level of Earmarked Reserves is reported quarterly through the monthly budget monitoring Report. Appendix 6 details the estimated closing balances for 2016/17 and 2017/18 for all reserves and balances and includes a projected earmarked amount of £2.885m for the budget strategy. The Section 151 Officer is satisfied that the level of these reserves is sufficient and appropriate (see also Section 1.35 – 1.41).
1.30	The Council continues to progress the implementation of different delivery methods for some of its services and it is considered prudent to set aside some funding as a contingency against any financial issues arising in the early stages. It is recommended that a sum of £0.250m is ring-fenced for this purpose.
	<b>Budget Risks and Issues</b>
	<b>Single Environment Grant</b>
1.31	Welsh Government is considering making a reduction in this grant of 6.7% in 2017/18. This would cause an immediate operational budget pressure of £0.200m if introduced.
	<b>Transportation Costs</b>
1.32	Following on from one of the Council's main transport providers going into liquidation there is a risk that the cost of maintaining the local public and school bus services could require an additional £0.675m in a full year. Negotiations with Welsh Government over future funding, and reviews of routes and service frequency, continue.



	<b>Social Care Fees</b>
1.33	Negotiations are ongoing with external care providers on their annual fee increases for 2017/18. The recommended fee increases can be contained within the total provision within the draft budget.
1.34	Any amount remaining following the conclusion of this process will be set aside as a risk contingency to assist with managing the ongoing budget risks explained above.
	<b>Opinions of the Statutory Officers</b>
1.35	<b>Opinion of the Corporate Finance Manager</b>  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.
1.36	The 2017/18 budget has again been set within the context of the Medium Term Financial Strategy and continues to present a significant financial challenge for the Council. The Council's budget strategy for dealing with this has been clearly set out in detail for all stakeholders in previous budget reports and complemented by a series of member scrutiny sessions together with community engagement events across the County.
1.37	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.
1.38	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 relevant 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 2016/17 through the budget monitoring report. This ensures that members are able to have a better understanding of all reserves held by the Council.
1.39	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 challenged, with any reserves no longer required at the same level made available for corporate use.
1.40	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 2017/18 and the financial context within which the budget is being set. Inevitably in managing a budget of this scale across a large and diverse organisation variances will occur. However, I believe that the budget assumptions represent a measured and acceptable level of risk. 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 will ensure that budgets are managed effectively with prompt action taken to mitigate any impacts should variances occur.
1.41	Within the context described above, I recommend that the Council should maintain the level of general balances of £5.769M which will safeguard its position and also enable it to plan ahead to meet future financial challenges as set out in the Medium Term Financial Strategy. The Contingency Reserve (currently estimated to be £5.279M) also provides further assurance around the Council's ability to manage any in-year variances should they not be able to mitigate from other areas which the Council has successfully been able to do in recent years.
1.42	<p><b>Opinion of the Chief Executive</b></p> <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 and is a balanced approach to achieving an annual budget, as required by law and the principles of good governance, whilst protecting the improvement objectives and public service duties and obligations of the Council.</p>
1.43	As each year passes during a period of central government fiscal policy, a policy which necessitates annualised reductions in net public expenditure, then the challenge of setting an annual budget in this way becomes ever harder. The budget proposals for 2017/18 are not without risk. In addition several ongoing budget risks, caused by circumstances beyond the Council's control, are set out in the report. The Council has to be confident that these risks are understood and are manageable. An underlying organisational risk is that there is less financial flexibility to adjust to meet new cost pressures in year as (1) budgets are more precisely based on forecast need with smaller margins for flexibility and error and (2) the total quantum of funding available to the Council as a corporate body is smaller than in past years.
1.44	The Council has been advised previously that without national funding to meet proven costs, with the risks of further reductions in national budgets, and with the ongoing transfer of responsibilities from Governments to Local Government to fund ongoing responsibilities such as national pay awards and new responsibilities such as the Apprentice Tax Levy, then its budget might not be sustainable. Fair and sustainable funding at a national level will be the predominant risk facing the newly elected Council from May.

<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, senior officers and service teams, and external partners have been held in

	the development of the business plans, budget proposals and resilience assessments. A major public and workforce engagement exercise was also run in October – December.
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<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	All parts of the financial forecast, and all budget solutions, are risk assessed stage by stage. Services have already been assessed against the tests of efficiency, value for money and resilience with the assessments being reported to the Overview and Scrutiny Committees throughout July 2016.

<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 – Previous Years Growth / Items Dropping Out Appendix 2 – Transfers in / out of Settlement Appendix 3 – Inflation Appendix 4 – Pressures & Investments Appendix 5 – Specific Grants Appendix 6 – Summary of Council Fund Earmarked Reserves

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	Colin Everett, Chief Executive and Gary Ferguson, Corporate Finance Manager  <b>Contact Officer:</b> Gary Ferguson <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.  <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.  <b>Local Government Funding Formula:</b> 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).

**Standard Spending Assessment (SSA):** A notional calculation of what each council needs to spend to provide a standard level of service which is used as part of the formula for distributing Revenue Support Grant.

**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.

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

**Central Loan and Investment Account (CLIA):** 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.

**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.