

**CABINET**

Date of Meeting	Tuesday, 22 nd October 2019
Report Subject	Medium Term Financial Strategy and Budget 2020/21
Cabinet Member	Cabinet Member for Finance
Report Author	Corporate Finance Manager and Chief Executive
Type of Report	Strategic

EXECUTIVE SUMMARY

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

At the Council budget meeting on 19 February a high level overview of the range of potential pressures was presented. At that time the forecast for 2020/21 was £9.5m with the overall “gap” for the three year period forecast to be £26m. The 2020/21 “gap” increased to £9.8m due to the additional use of reserves in balancing the budget for 2019/20 at the final stage.

A second revision to the initial forecast was presented to Cabinet in April which set out the most up to date position at that time based on current intelligence. At that stage the high level projection, based on known issues and excluding national funding scenarios, showed that the potential budget gap had risen to £13.3m for 2020/21.

Over the summer, the forecast has been revised to take into account the latest intelligence on pay and other pressures which has led to an increase in the budget gap to £16.2m for 2020/21, which is a further increase of £2.9m.

A summary of the forecast and changes to the position previously reported is set out in this report.

The report provides an update on the national position as it stands at the moment together with the Councils’ high level strategy to meet the forecast gap and highlights the risks associated with this, in particular around the requirement to ensure that settlements from Welsh Government include additional allocations to the formula to meet the costs of increased pay and pensions, demand led services and new legislative requirements.

It is essential that adequate funding is provided by Welsh Government from the additional funding announced in the UK Spending Review. In the absence of this additional funding the Council will be at significant risk of not being able to set a safe and legal balanced budget.

RECOMMENDATIONS

1	Members are asked to note the changes to the forecast.
---	--

REPORT DETAILS

1.00	EXPLAINING THE MEDIUM TERM FINANCIAL STRATEGY – FORECAST 2020/21 – 2022/23
1.01	<p>The Council has set a cycle of reviewing its Medium Term Financial Strategy (MTFS) on an annual basis.</p> <p>This report provides an update on the position reported in April on the financial forecast for 2020/21 and reflects the latest intelligence, together with a high level forecast for the following two years up to 2022/23. This will provide members with the opportunity to consider the financial position and the strategic solutions to meet the budget gap.</p>
1.02	In April the financial forecast for 2020/21 based on known issues at that time and excluding national funding scenarios showed a potential budget gap of £13.3m for 2020/21.
	The National Position
1.03	In early September, the UK Government delivered the outcome of its one year spending review which set out its spending plans for 2020/21. The announcement advised of an increase of £593m for the Welsh Government budget above the 2019/20 baseline which represents a 2.3% increase.
1.04	Analysis undertaken by the Welsh Local Government Association (WLGA) has identified that the amount of cost pressures facing Councils across Wales in 2020/21 totals £254m rising to around £739m by 2022/23. It is essential that these cost pressures are met by Welsh Government from the additional funding announced through the UK Spending Review.
1.05	Further detail is emerging regarding the national position on funding of the teachers' pay award and the teachers' pension employer contribution. Welsh Government have advised that 85% of the teachers' pension costs is built into the baseline budget currently though teachers' pay is not. Confirmation of how this and the additional funding announced through the UK spending review will impact on the settlement for 2020/21 is still awaited.

1.06	It has recently been announced that the draft Welsh Budget will be considered on 19 November which means that the Provisional Settlement for Local Government will be available around the 26 November. The Final Welsh Government Budget is expected to be approved on 4 February 2020 resulting in a final position for Local Government being made available on 11 February.
	Revisions to the Forecast
1.07	Over the summer, the forecast has been revised to take into account 1) changes to the pressures included in the April forecast and 2) New pressures which were not previously included. The total impact of the changes has increased the budget gap by £2.854m to £16.174m for 2020/21.
	<u>Changes to the pressures in the April Forecast</u>
1.08	Schools – Non-Teacher – Increase of £0.048m The estimated costs of the non-teacher pay award for 2020/21 have been refined to reflect actual September pay costs.
1.09	Teachers Pay Award – Increase of £0.400m The teacher pay award of 2.75% was confirmed over the summer compared with the 2% that was previously included in the forecast. This has the impact of increasing the total cost pressure for teachers pay to £2.4m. Work at a national level by the WLGA has set out the case for Welsh Government to fully fund this cost pressure as well as other nationally set pay awards. However, if these costs are not fully funded then there may be a requirement for schools to share these increased costs. This would have the effect of reducing the forecast by £1.2m if agreed on a 50:50 basis.
1.10	Out of County Placements – Increase of £1.344m The previous forecast included a cost pressure of £1.156m which was broadly based on the number of clients at the time of setting the budget for 2019/20. The in-year revenue monitoring position for 2019/20 has identified an increasing demand on the service due to additional placements and increased complexity. A report on this issue was considered by Corporate Resources and Scrutiny Committee in September who accepted that scope for mitigation in the short term was very limited. Therefore, the estimated cost pressure has been revised to £2.5m. This is a national issue and part of the WLGA case to Welsh Government to fully fund pressures for increased service demand.
1.11	Education and Youth – Increase of £0.080m The previous forecast included assumptions around the new requirements for Additional Learning Needs (ALN) Reforms which was anticipated to commence from September 2020. A recent government announcement

	<p>has put the anticipated start date back to September 2021 hence moving the pressure from 2020/21 to 2021/22. This has reduced this cost pressure by £0.116m in 2020/21 but has increased it for future years. However, an additional pressure has been identified for one to one support by schools to support the implementation of Additional Learning Needs which has increased the initial pressure of £0.200m to £0.400m. There have been minor changes to the other pressures for demography and the ALN exclusions pressure.</p>
1.12	<p>ICT Schools connectivity/LFN – Pressure removed (£0.050m)</p> <p>The previous forecast included a cost pressure for the above which has now been removed due to mitigation identified by the service area.</p>
1.13	<p>Total increases to existing cost pressures - £1.822m</p>
	<p><u>New Pressures included in the October Forecast</u></p>
1.14	<p>Additional Pay inflation - Aura/Newydd – £0.091m</p> <p>The increase brings the assumed pay award to 2% which is consistent to the pay award assumed for all council staff.</p>
1.15	<p>Pension Officer Post - £0.040m</p> <p>A requirement for an additional post to work within employment services as the direct contact for pensions has been identified.</p>
1.16	<p>Social Services Specific Grant shortfall – £0.283m</p> <p>At the time of setting the 2019/20 budget the Council received notification of additional specific funding for Social Services. The estimated amount included in the budget was £2.225m, however the actual amount received in 2019/20 is £1.942m. Therefore, the shortfall of £0.283m has now been included in the forecast.</p>
1.17	<p>Additional borrowing costs for 21st Century Schools - £0.039m</p> <p>The pressure relates to the revenue costs associated with borrowing for the capital programme for Ysgol Brynford and Ysgol Croes Atti which were approved by Cabinet in September 2019.</p>
1.18	<p>Temporary Accommodation - £0.040m</p> <p>The pressure relates to a previous efficiency based on a 5% reduction in the temporary accommodation budget which was dependant on a new model for emergency bed provision which has not been agreed. The remaining service is grant funded and therefore there is no further scope for achieving this efficiency.</p>

1.19	<p>Review of Financial Assessments - £0.030m</p> <p>The pressure is the remainder of previous efficiencies from within the financial assessments team of £0.080m of which £0.050m have been achieved. There is no scope for further efficiencies within the team.</p>
1.20	<p>Foster Carers Discounts Scheme - £0.092m</p> <p>A new Council Tax discount scheme for local authority foster carers is being implemented from April 2020 to provide a more competitive package in terms of allowances and benefits. The aim is to help retain and grow the number of local foster carers and reduce the need for private foster carers which may bring savings in the future.</p>
1.21	<p>Enforcement Officer - £0.041m</p> <p>This additional post is required due to the withdrawal of committal as a recovery tool due to a change in Welsh Government policy on Council Tax collection. This increases the risk to the Council of non-payment and has led to this increased requirement.</p>
1.22	<p>Growth Deal Contribution - £0.050m</p> <p>The Council is one of the six partners of the North Wales Regional Growth Deal which is working to secure funding to support infrastructure development, skills and employment and business growth. The pressure is the annual contribution that the Council will need to make to the partnership from 2020/21.</p>
1.23	<p>Unachieved Efficiency against income target - £0.100m</p> <p>In previous years the Council has set a target for the achievement of additional income from fees and charges of which £0.150m is still to be achieved. Further work is ongoing to maximise income but the current position indicates that there will be an unachieved amount of £0.100m in 2020/21. Any additional income generated over and above this target will be able to be put forward as additional efficiencies towards the budget gap.</p>
1.24	<p>Unachieved Efficiency for Workforce costs - £0.100m.</p> <p>The 2019/20 budget included an efficiency for further workforce cost reduction efficiencies from review of eligibility for Essential Car Users, reduction in mileage budgets and from the introduction of a salary sacrifice scheme for Additional Voluntary Contributions (AVC's) to the pension scheme. It is now projected that £0.150m will be achieved and that there will be a shortfall of £0.100m in 2020/21.</p>
1.25	<p>Citrix Licencing Pressure - £0.126m</p> <p>The pressure is due to a 6% increase in the Citrix licencing costs from 2020/21.</p>

1.26	Total new Cost Pressures - £1.032m																																								
1.27	<p>The revised summary over the three year period is shown below in Table 2</p> <table border="1"> <thead> <tr> <th>Cost Pressure Group</th> <th>20/21</th> <th>21/22</th> <th>21/23</th> </tr> <tr> <td></td> <th>£m</th> <th>£m</th> <th>£m</th> </tr> </thead> <tbody> <tr> <td>Pay Inflation</td> <td>5.456</td> <td>3.942</td> <td>3.629</td> </tr> <tr> <td>Non Pay Inflation</td> <td>0.759</td> <td>0.759</td> <td>0.759</td> </tr> <tr> <td>Social Care Pressures</td> <td>5.574</td> <td>2.657</td> <td>2.433</td> </tr> <tr> <td>Education Pressures (non-pay)</td> <td>0.788</td> <td>1.073</td> <td>(0.093)</td> </tr> <tr> <td>Other Service Pressures</td> <td>1.376</td> <td>0.339</td> <td>0.412</td> </tr> <tr> <td>Repayment of Reserve from 2019/20</td> <td>2.221</td> <td>0.000</td> <td>0.000</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Total</td> <td>16.174</td> <td>8.770</td> <td>7.140</td> </tr> </tbody> </table>	Cost Pressure Group	20/21	21/22	21/23		£m	£m	£m	Pay Inflation	5.456	3.942	3.629	Non Pay Inflation	0.759	0.759	0.759	Social Care Pressures	5.574	2.657	2.433	Education Pressures (non-pay)	0.788	1.073	(0.093)	Other Service Pressures	1.376	0.339	0.412	Repayment of Reserve from 2019/20	2.221	0.000	0.000					Total	16.174	8.770	7.140
Cost Pressure Group	20/21	21/22	21/23																																						
	£m	£m	£m																																						
Pay Inflation	5.456	3.942	3.629																																						
Non Pay Inflation	0.759	0.759	0.759																																						
Social Care Pressures	5.574	2.657	2.433																																						
Education Pressures (non-pay)	0.788	1.073	(0.093)																																						
Other Service Pressures	1.376	0.339	0.412																																						
Repayment of Reserve from 2019/20	2.221	0.000	0.000																																						
Total	16.174	8.770	7.140																																						
	Strategic Solutions																																								
1.28	<p>The solutions available for 2020/21 can be split into four quartiles:</p> <ul style="list-style-type: none"> - Portfolio Business Plans and Corporate Finance - National - Local Taxation and Income - Organisational Change 																																								
	<p>Portfolio Business Plans and Corporate Finance</p> <p>Portfolio Business Plan Efficiencies</p> <p>Portfolio Business Plan efficiencies were shared at a Member Workshop in July. The total efficiencies for 2020/21 amount to £1.034m (of which £0.270m relates to income) as summarised in below.</p>																																								

1.29	<p>Table 3. Portfolio Business Plan Efficiencies</p> <table border="1"> <thead> <tr> <th data-bbox="320 159 1193 197">Portfolio</th> <th data-bbox="1201 159 1372 197">£m</th> </tr> </thead> <tbody> <tr> <td colspan="2" data-bbox="320 197 1372 235"><u>Previous Decisions</u></td> </tr> <tr> <td data-bbox="320 235 1193 273"></td> <td data-bbox="1201 235 1372 273"></td> </tr> <tr> <td data-bbox="320 273 1193 311">Corporate</td> <td data-bbox="1201 273 1372 311">0.000</td> </tr> <tr> <td data-bbox="320 311 1193 349">Social Services</td> <td data-bbox="1201 311 1372 349">0.240</td> </tr> <tr> <td data-bbox="320 349 1193 387">Education & Youth</td> <td data-bbox="1201 349 1372 387">0.014</td> </tr> <tr> <td data-bbox="320 387 1193 425">Streetscene & Transportation</td> <td data-bbox="1201 387 1372 425">0.240</td> </tr> <tr> <td data-bbox="320 425 1193 463">Planning & Environment</td> <td data-bbox="1201 425 1372 463">0.091</td> </tr> <tr> <td data-bbox="320 463 1193 501">Housing & Assets</td> <td data-bbox="1201 463 1372 501">0.000</td> </tr> <tr> <td data-bbox="320 501 1193 539"></td> <td data-bbox="1201 501 1372 539"></td> </tr> <tr> <td data-bbox="320 539 1193 577">Sub Total - Existing</td> <td data-bbox="1201 539 1372 577">0.585</td> </tr> <tr> <td data-bbox="320 577 1193 616"></td> <td data-bbox="1201 577 1372 616"></td> </tr> <tr> <td colspan="2" data-bbox="320 616 1372 654"><u>New Decision*</u></td> </tr> <tr> <td data-bbox="320 654 1193 692"></td> <td data-bbox="1201 654 1372 692"></td> </tr> <tr> <td data-bbox="320 692 1193 730">Education and Youth</td> <td data-bbox="1201 692 1372 730">0.449</td> </tr> <tr> <td data-bbox="320 730 1193 768"></td> <td data-bbox="1201 730 1372 768"></td> </tr> <tr> <td data-bbox="320 768 1193 806">Total Business Plan Efficiencies</td> <td data-bbox="1201 768 1372 806">1.034</td> </tr> <tr> <td data-bbox="320 806 1193 844"></td> <td data-bbox="1201 806 1372 844"></td> </tr> </tbody> </table> <p data-bbox="320 882 1372 952">*The efficiency under “New Decision” refers to the review of Post 16 transport which was approved at Cabinet on 18th June 2019.</p>	Portfolio	£m	<u>Previous Decisions</u>				Corporate	0.000	Social Services	0.240	Education & Youth	0.014	Streetscene & Transportation	0.240	Planning & Environment	0.091	Housing & Assets	0.000			Sub Total - Existing	0.585			<u>New Decision*</u>				Education and Youth	0.449			Total Business Plan Efficiencies	1.034		
Portfolio	£m																																				
<u>Previous Decisions</u>																																					
Corporate	0.000																																				
Social Services	0.240																																				
Education & Youth	0.014																																				
Streetscene & Transportation	0.240																																				
Planning & Environment	0.091																																				
Housing & Assets	0.000																																				
Sub Total - Existing	0.585																																				
<u>New Decision*</u>																																					
Education and Youth	0.449																																				
Total Business Plan Efficiencies	1.034																																				
1.30	Corporate Finance Efficiencies - £0.750m																																				
1.31	<p>Employer Pension Contributions – efficiency of £0.500m</p> <p>The finalised 2018/19 outturn position shows a £1.000m underspend of which £0.600m was released to help balance the 2019/20 budget. This is a volatile budget that will need to be carefully monitored throughout the year but based on last year and early indications this year there could be a further variance in the region of £0.500m due to an increase in contributions partly as a result of higher than anticipated pay awards.</p>																																				
1.32	<p>Inflation Review – Reduction of £0.250m</p> <p>A review has been undertaken on the level of inflation required in 2020/21. The current MTFs assumes the same level of provision as 2019/20 (£0.759m including schools) which includes electricity, gas, fuel, water, street lighting, NNDR and a small element of price inflation for software licenses. The review has concluded that there is an efficiency of £0.250m available based on current intelligence.</p>																																				
1.33	<p>Actuarial Review</p> <p>The triennial actuarial review is nearing completion and detailed analysis is being undertaken on various scenarios. Once complete the financial implications will be reported to members and considered as part of the overall budget process.</p>																																				

1.34	<p>Other areas under review Planning Fee Income</p> <p>Welsh Government are in the process of considering the increase of planning fees by 20%. If this is approved this could generate additional income in 2020/21. This is still subject to Ministerial approval so will be kept under review.</p> <p>Single Person Discount A review of Council Tax payers in Flintshire who claim single occupancy discount will be undertaken later in the year which is projected to bring in additional income in 2020/21.</p>
1.35	<p>Total Portfolio Business Plans and Corporate Finance Options – £1.784m.</p>
1.36	<p>National Funding</p> <p>The work of the Councils own Cross Party Working Group complements the WLGA strategy aimed at ensuring adequate funding for Local Authorities in Wales, specifically calling for Welsh Government to fund Councils for:</p> <ol style="list-style-type: none"> 1) All workforce related costs such as pay and pensions, much of which is outside of the Council's control 2) Appropriate levels of investment to fund high needs high cost services to reflect increasing complexity of care and support needs 3) New responsibilities – all new legislative duties such as Additional Learner Needs <p>It is essential that adequate funding is provided by Welsh Government from the additional funding announced in the UK Spending Review. In the absence of this additional funding the Council will be at significant risk of not being able to set a safe and legal balanced budget.</p>
1.37	<p>Local Taxation and Income</p> <p>The level of Council Tax increase will be modelled on a range of different scenarios as part of ongoing strategy with consideration of Welsh Government assumptions once known. If Council Tax were to increase in line with current assumptions of 6.5%, that would yield an additional £5.4m net of the impact on the Council Tax reduction scheme.</p> <p>The Council aims is to keep any increase in Council Tax to a maximum of 5% which would yield an additional £4.3m, however this would need to be subject to a much improved settlement from Welsh Government.</p> <p>The Council is continuing to review its current fees and charges with the aim to reach full cost recovery for as many services as possible. A number of opportunities for new income generating activities are being considered which may provide additional income in the future. These will be reported and included as efficiencies once approved.</p>

1.38	<p>Organisational Change</p> <p>Further options to be considered include the second phase of Alternative Delivery Models (ADM) and Digital Strategy as two main programmes of work for the medium term where no immediate yield is being relied upon for 2020/21.</p>
1.39	<p>Timeline</p> <p>It has recently been announced that the draft Welsh Budget will be considered on 19 November which means that the Provisional Settlement for Local Government will be available around the 26 November. The Final Welsh Government Budget is expected to be approved on 4 February 2020 resulting in a final position for Local Government being made available on 11 February.</p>

2.00	RESOURCE IMPLICATIONS
2.01	<p>Revenue: The Revenue implications for the 2020/21 budget are set out in the report</p> <p>Capital: there are no implications for the approved capital programme for either the current financial year or for future financial years – the capital programme for 2020/21 onwards will be subject to a separate report</p> <p>Human Resources: The implications for additional capacity or for any changes to current workforce structures or roles are set out in the report</p>

3.00	IMPACT ASSESSMENT AND RISK MANAGEMENT			
3.01	In the absence of adequate funding being provided by Welsh Government there is a significant risk that the Council will not be able to meet its statutory obligation to set a balanced budget for 2020/21.			
3.02	The Welsh Government Finance Sub Group are considering changes in the distribution of funding which could lead to a reduction in the level of funding in the region of £0.700m for the Council although details of this are not yet confirmed.			
3.03	The on-going risk of reductions in specific grant funding remains though at this stage there is no firm intelligence on possible reductions for 2020/21.			
3.04	<p>Ways of Working (Sustainable Development) Principles Impact</p> <table border="1" data-bbox="320 1839 1383 2098"> <tr> <td data-bbox="320 1839 746 2098">Long-term</td> <td data-bbox="754 1839 1383 2098">Negative – the absence of longer term funding settlements from Welsh Government means that sustainable support for service delivery is challenging for the longer term. Sustainable funding from Welsh Government that provides additional funding for Indexation, Service</td> </tr> </table>		Long-term	Negative – the absence of longer term funding settlements from Welsh Government means that sustainable support for service delivery is challenging for the longer term. Sustainable funding from Welsh Government that provides additional funding for Indexation, Service
Long-term	Negative – the absence of longer term funding settlements from Welsh Government means that sustainable support for service delivery is challenging for the longer term. Sustainable funding from Welsh Government that provides additional funding for Indexation, Service			

	demands and new legislation will provide a positive and sustainable position for the Council in the longer term
Prevention	As above
Integration	Neutral
Collaboration	Services continue to explore opportunities for collaboration with other services and external partners to support positive impacts
Involvement	Communication with Members, residents and other stakeholders throughout the budget process
Well-being Goals Impact	
Prosperous Wales	Longer term funding settlements from Welsh Government that provide additional funding for Indexation, Service demands and new legislation will provide sustainability and support a strong economy that encourage business investment in the region
Resilient Wales	Continuation of services to support communities and encourage social cohesion will have a positive impact
Healthier Wales	An appropriate level of funding will ensure that communities are supported and will have a positive impact
More equal Wales	A positive impact with greater parity of funding from Welsh Government for all Welsh Local Authorities
Cohesive Wales	Appropriate level of funding will support services working alongside Health and other partners
Vibrant Wales	Support for communities to promote Flintshire as an area
Globally responsible Wales	Neutral

4.00	CONSULTATIONS REQUIRED/CARRIED OUT
4.01	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.

5.00	APPENDICES
5.01	None

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Medium Term Financial Strategy – Forecast 2020/21 – 2022/23 April 2019 Cabinet - http://committeemeetings.flintshire.gov.uk/ieListDocuments.aspx?CId=391&MId=4252&Ver=4&LLL=0

7.00	CONTACT OFFICER DETAILS
7.01	Contact Officer: Gary Ferguson, Corporate Finance Manager Telephone: 01352 702271 E-mail: gary.ferguson@flintshire.gov.uk

8.00	GLOSSARY OF TERMS
	<p>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.</p> <p>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.</p> <p>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.</p> <p>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</p>

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.