

COUNTY COUNCIL

Date of Meeting	Tuesday, 10 th December 2019
Report Subject	Council Fund Revenue Budget 2020/21
Cabinet Member	Leader of the Council and Cabinet Member for Finance
Report Author	Chief Executive and Corporate Finance Manager
Type of Report	Strategic

EXECUTIVE SUMMARY

This report sets out (1) the latest local financial forecast for 2020/21 (2) the work to date to develop and agree local solutions to meet the projected 'gap' in the budget requirement for 2020/21 within the forecast (3) the arrangements for and expectations around the Welsh Government Budget and the Provisional Local Government Settlement which are due to be announced in tandem on 16th December (4) the remaining local options to achieve a legally balanced budget for 2020/21 alongside the Settlement and (5) the timetable to complete budget closure by March.

The report includes the following table:

- Table 1: Updated Financial Forecast 2020/21

RECOMMENDATIONS

1	That Council notes the updated forecast for 2020/21. The forecast includes the cost pressures which have been reviewed and endorsed by the respective Overview and Scrutiny Committees which have met thus far.
2	That Council notes the completed first stage of solutions to meet the budget requirement which total £8.164M. The specific service portfolio and corporate financing solutions have been reviewed and endorsed by the respective Overview and Scrutiny Committees which have met thus far (This first stage of solutions includes a provisional Council Tax rate of 5%. The level of Council Tax is a reserved matter for full Council and this will not be decided until the February meeting. The recommended level of Council Tax may vary depending on the budget requirement outstanding at the final stage of the budget.)

3	That Council notes the arrangements for the announcement of the Provisional Welsh Local Government Settlement.
4	That Council notes and accepts the limited range of local options which are available to reach a balanced budget alongside the outcome of the Settlement.
5	That Council notes the timetable for the closing stages of the annual budget setting process.

REPORT DETAILS

1.00	EXPLAINING THE FINANCIAL FORECAST																																				
1.01	<p>The Financial Forecast</p> <p>The forecast has been continuously revised to take into account (1) changes to the pressures included in the original April forecast and (2) new pressures which were not previously known or fully understood and calculated. The impact of the changes has been to increase the budget gap by £0.181M to £16.355M at December.</p>																																				
1.02	The latest forecast for 2020/21 as at December is shown in Table 1 below.																																				
1.03	<p>Table 1: Updated Financial Forecast 2020/21 (December)</p> <table border="1"> <thead> <tr> <th>Cost Pressure Groups: November Figures</th> <th>20/21</th> </tr> <tr> <th></th> <th>£M</th> </tr> </thead> <tbody> <tr> <td>Pay Inflation</td> <td>5.456</td> </tr> <tr> <td>Non-pay Inflation</td> <td>0.759</td> </tr> <tr> <td>Social Care Pressures</td> <td>5.574</td> </tr> <tr> <td>Education Pressures (non-pay)</td> <td>0.788</td> </tr> <tr> <td>Other Service Pressures</td> <td>1.376</td> </tr> <tr> <td>Repayment of Reserve from 2019/20</td> <td>2.221</td> </tr> <tr> <td></td> <td></td> </tr> <tr> <td>Total</td> <td>16.174</td> </tr> <tr> <td></td> <td></td> </tr> <tr> <td>Additional Fixed Cost Pressures</td> <td></td> </tr> <tr> <td></td> <td></td> </tr> <tr> <td>North Wales Fire and Rescue Levy (see 1.04 below)</td> <td>0.156</td> </tr> <tr> <td>Members Allowances (see 1.04 below)</td> <td>0.025</td> </tr> <tr> <td></td> <td></td> </tr> <tr> <td>Revised Total</td> <td>16.355</td> </tr> <tr> <td></td> <td></td> </tr> </tbody> </table>	Cost Pressure Groups: November Figures	20/21		£M	Pay Inflation	5.456	Non-pay Inflation	0.759	Social Care Pressures	5.574	Education Pressures (non-pay)	0.788	Other Service Pressures	1.376	Repayment of Reserve from 2019/20	2.221			Total	16.174			Additional Fixed Cost Pressures				North Wales Fire and Rescue Levy (see 1.04 below)	0.156	Members Allowances (see 1.04 below)	0.025			Revised Total	16.355		
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1.04	A breakdown of the cost pressures per service portfolio, and under corporate financing, has been reported to and reviewed by the respective Overview and Scrutiny Committees which have met thus far. There is no recommended change to the list of cost pressures (as at November) as a result of this Scrutiny review and the forecast makes full provision for																																				

	<p>them. Several additional known fixed cost pressures have been included since the Committee review began, as shown in Table 1 above. The North Wales Fire and Rescue Service is still to finalise its budget for 2020/21 and an estimated uplift in the levy contribution from the Council has been included in the forecast. The impact of the recommendation of the Independent Remuneration panel for Wales for an uplift on Member Allowances has also now been included. These adjustments give us a revised total to find of £16.355M.</p>
1.05	<p>The solutions available to the Council to balance the 2020/21 budget have been grouped as follows in the series of reports to Cabinet and the Overview and Scrutiny Committees: -</p> <ul style="list-style-type: none"> - National Funding - Portfolio Business Plans and Corporate Finance - Local Taxation and Income - Organisational Change
1.06	<p>Ahead of setting out these solutions it is possible to make a single reduction to the forecast budget requirement due to a national development. It is now Welsh Government practice to provide a specific grant to local government to fund a proportion of the annual teachers' pay award which takes effect each September. It is a calculable risk that a grant will be made towards the 7/12^{ths} of the 2020/21 financial year for which a pay award will be due, and in the base for the 2021/22 financial year and thereafter. Welsh Government is not due to determine the level of this annual pay award, and the way in which it is to be funded, until later in 2020. Our expectation is that Welsh Government should pay for the 2020/21 pay award in full. On this basis the forecast can be adjusted by £0.726M to a revised figure of £15.629M. Confirmation will be sought from Welsh Government on their pay-setting plans between now and the final stage of budget-setting.</p>
1.07	<p>National Funding</p> <p>In September the UK Government announced the outcome of its one-year spending review and set out its spending plans for 2020/21. The outcome is an increase of £593M revenue for the Welsh Government budget above the 2019/20 baseline – an increase of 2.3%. Analysis undertaken by the Welsh Local Government Association (WLGA) has identified that the cost pressures facing Councils across Wales in 2020/21 total £254M - rising to an estimated £739M by 2022/23. The case had been made that these cost pressures are met in full by Welsh Government from the additional funding announced through the UK Spending Review for Welsh Local Government to be sustainable.</p>
1.08	<p>Welsh Government is due to announce the Provisional Local Government Settlement for 2020/21 in tandem with its overall budget for Wales on Monday 16th December. Welsh Government has committed to make statements on the level of the key specific service grants for 2020/21 as part of this announcement. Many of these grants are critical to service continuity in areas including education, environment, social services and supported housing.</p>

1.09	<p>Portfolio Business Plan Efficiencies and Income</p> <p>The total efficiencies recommended from service portfolio plans for 2020/21 amount to £1.034M of which £0.270M will come from income. These have been reviewed in full by the Corporate Resources Overview and Scrutiny Committee and by three portfolio specific Overview and Scrutiny Committees which have met thus far, according to their terms of reference and remits. The Environment and Organisational Change Overview and Scrutiny Committees have not met at the time of writing this report. A summary of the feedback from the Overview and Scrutiny Committees is given at Appendix 1. The feedback from the Environment and Organisational Change Overview and Scrutiny Committees will be reported at this meeting.</p> <p>There is a significant risk to the achievement of the income target for post-16 education transport due to restrictions on fare charging for certain types of vehicles which the UK Government Department of Transport intends to impose. This is a recent development. This risk will be reported separately, and with more certainty, at the final stage of budget setting.</p>
1.10	<p>Corporate Finance Efficiencies</p> <p>Corporate finance efficiencies have been recommended in (1) a reduction in the provision for in-year employer pension contributions (£0.500M) and (2) a reduction in the provision for in-year price inflation (£0.250M). The initial contribution from corporate finance management totals £0.750M which, when combined with the service portfolio efficiencies, provides a first contribution of £1.784M to meet the budget gap. These efficiencies have been reviewed in full by the Corporate Resources Overview and Scrutiny Committee. A summary of the feedback from the Overview and Scrutiny Committees is given at Appendix 1.</p> <p>A second contribution can confidently be assumed to become available within the base budget provision for our future employer contributions to the Clwyd Pension Fund deficit as the triennial actuarial review comes to its completion. The actuarial review resets the employer contributions to be made to the pension fund for (1) its ongoing obligations to the pension entitlement of its membership base and (2) making up the historical deficit for the pension fund to reach a position of being fully funded i.e. a position where its total income matches its total current and future requirements to pay out contributions to its members. Once completed the financial implications of the actuarial review will be reported in full. A 'dividend' is expected on (2) the deficit contributions, due to the high investment return performance of the Clwyd Pension Fund over the past three years. This means that we now have an over-provision in our base budget and that this can be reduced. At this late stage of the review we are confident that a minimum of £2.0M can be taken out of the base budget and used to add as a contribution to the budget gap, taking the contribution from portfolios and corporate financing to £3.784M.</p>
1.11	<p>Local Taxation and Income</p> <p>For budget planning purposes a provisional Council Tax rate of 5% is being included in all of our calculations. The level of Council Tax is a</p>

	<p>reserved matter for full Council and this will not be decided until the February meeting. The recommended level of Council Tax required may vary depending on the budget requirement outstanding at the final stage of the budget. An increase at this level would yield an additional £4.380M in income net of a deduction for an increase in the Council Tax Reduction Scheme - Council Tax Benefits to be paid out. However, being able to contain Council Tax at the level will require 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. All agreed changes for 2020/21 have already been included in the service portfolio efficiencies and income total shown in 1.09 above.</p>
1.12	<p>Organisational Change</p> <p>Further options for change are under development under the second phase of Alternative Delivery Models (ADM) and Digital Strategy as two main programmes of work for the medium term. No immediate yield can be relied upon from this work for the 2020/21 financial year. These are medium-term programmes which will impact positively on the budget in 2021/22 at the earliest.</p>
1.13	<p>Budget Summary, Process and Timeline</p> <p>A combination of corporate finance portfolio efficiencies and income, the income derived from an indicative level of Council Tax increase, and the 'dividend' from the actuarial review of the Clwyd Pensions Fund summarised above would generate a significant contribution to the budget of £8.164M (subject to the issues and risks noted in the report).</p> <p>The only remaining local options which can be reviewed to build on this contribution, dependent on the outcome of the Welsh Government budget are (1) further review of the Clwyd Pension Fund employer contributions in liaison with the Fund Actuary e.g. rephasing the agreed strategy to reach a fully funded position over a longer period of years (2) sharing of schools cost pressures with schools themselves e.g. teachers' pay and removing budget uplifts included in the forecast e.g. inflation indexation – a fall-back position of which schools are aware (3) a limited set of other corporate finance provisions such as the Council Tax predicted yield and Single Person Discount recovery rates (4) a reduction in the provision for the uplift in commissioning fees for social care providers as annual negotiations continue and (5) a higher level of Council Tax than the working assumption of 5%.</p> <p>There is no scope for further service portfolio efficiencies for 2020/21, and the deadline has passed for requests for any further service review work in time for budget closure. Un-earmarked Council reserves are now at a low level, and no further contribution can be safely drawn down to assist with budget setting this year.</p>

	<p>Some of the above options would be high risk e.g. (2) and others would be dependent on the professional advice of third parties such as the pension fund actuary e.g. (1). The financial value range of the options (1) to (4) is £1.0-2.9M. Every 0.5% rise in Council Tax above 5.0% would yield a further net increase in income of £0.360M.</p> <p>An improved Settlement is expected for 2020/21. The big question is whether there will be a sufficient uplift on the current levels of funding for local government for Flintshire and other councils to be able to set safe and legally balanced budgets for next year. If not, the Council will have no option but to attempt to exploit the remaining options listed above including Council Tax and/or invite the Welsh Government to make a specific financial intervention to assist the Council.</p> <p>The impacts of the annual Formula Distribution changes are also of concern. Each year the distribution of the funding block for Welsh councils under the Local Government Funding Formula is adjusted to follow a set of annualised population and demographic changes. Under the latest distribution analysis, Flintshire is set to be a significant net loser. Discussions are continuing within the Welsh Local Government Association and Welsh Government to set a 'floor' – a way of capping the levels of loss to councils with a negative distribution impact - as in previous years. The risk here is that a proportion of the funds Flintshire will gain from an uplift in the Settlement could be deducted and redistributed elsewhere in Wales.</p>
1.14	<p>The timetable for the closing stages of the annual budget setting process is as follows: -</p> <p>16th December – Announcement of the Provisional Welsh Local Government Settlement</p> <p>7th January - National Assembly for Wales plenary debate on the 2020/21 Budget</p> <p>28th January Council Meeting - Review of the remaining local options to reach a balanced budget alongside a full analysis of the Provisional Settlement and its implications</p> <p>18th February Council Meeting – Final budget-setting decisions including final agreement on the level of Council Tax</p> <p>25th February – Announcement of the final Welsh Local Government settlement.</p> <p>27th February Council Meeting – Passing of the formal Council Tax resolution</p> <p>4th March - National Assembly for Wales passing of the final budget</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: none.</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. These risks will be fully explained and explored later in the budget setting process.												
3.02	<p>Ways of Working (Sustainable Development) Principles Impact</p> <table border="1"> <tr> <td>Long-term</td> <td>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</td> </tr> <tr> <td>Prevention</td> <td>As above</td> </tr> <tr> <td>Integration</td> <td>Neutral</td> </tr> <tr> <td>Collaboration</td> <td>Services continue to explore opportunities for collaboration with other services and external partners to support positive impacts</td> </tr> <tr> <td>Involvement</td> <td>Communication with Members, residents and other stakeholders throughout the budget process</td> </tr> </table> <p>Well-Being Goals Impact</p> <table border="1"> <tr> <td>Prosperous Wales</td> <td>Longer term funding settlements from Welsh Government that provide additional funding for Indexation, service demands and new legislation will aid sustainability and support a strong economy that encourage business investment in the region. The opposite will be true if settlements are inadequate.</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 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	Prosperous Wales	Longer term funding settlements from Welsh Government that provide additional funding for Indexation, service demands and new legislation will aid sustainability and support a strong economy that encourage business investment in the region. The opposite will be true if settlements are inadequate.
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	Resilient Wales	Continuation of services to support communities and social cohesion will have a positive impact. The opposite will be true if settlements are inadequate.
	Healthier Wales	An appropriate level of funding will ensure that communities are supported and will have a positive impact. The opposite will be true if settlements are inadequate.
	More equal Wales	A positive impact with greater parity of funding from Welsh Government for all Welsh Local Authorities. The opposite will be true if settlements are inadequate.
	Cohesive Wales	Appropriate level of funding will support services working alongside partners. The opposite will be true if settlements are inadequate.
	Vibrant Wales	As Healthier and Cohesive Wales above
	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, local schools, the workforce and trade unions is continuous. An interactive feature is about to be launched on the Council's website which shows how our budget works, the efficiencies we have made over the years and our budget situation, and how our resources are used.

5.00	APPENDICES
5.01	<p>Appendix 1: Summary of Feedback from the Overview and Scrutiny Committees</p> <p>Specific Reports for Overview and Scrutiny Committees –</p> <p>Corporate Resources OSC http://committeemeetings.flintshire.gov.uk/ieListDocuments.aspx?CId=141&MId=4506&Ver=4&LLL=0</p>

	<p>Social & Health Care OSC http://committeemeetings.flintshire.gov.uk/ieListDocuments.aspx?CId=150&MId=4588&Ver=4&LLL=0</p> <p>Education & Youth OSC http://committeemeetings.flintshire.gov.uk/ieListDocuments.aspx?CId=472&MId=4656&Ver=4&LLL=0</p> <p>Community & Enterprise OSC http://committeemeetings.flintshire.gov.uk/ieListDocuments.aspx?CId=471&MId=4655&Ver=4&LLL=0</p> <p>Organisational Change OSC http://committeemeetings.flintshire.gov.uk/ieListDocuments.aspx?CId=473&MId=4579&Ver=4&LLL=0</p> <p>Environment OSC http://committeemeetings.flintshire.gov.uk/ieListDocuments.aspx?CId=142&MId=4608&Ver=4&LLL=0</p>
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6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>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</p> <p>Medium Term Financial Strategy – Forecast 2020/21 – 2022/23 October 2019 Cabinet – http://committeemeetings.flintshire.gov.uk/ieListDocuments.aspx?CId=391&MId=4453&Ver=4&LLL=0</p>

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

8.00	GLOSSARY OF TERMS
8.01	<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 allocate according to local choice can be limited by guidelines set by Government.</p> <p>Specific Grants: An award of funding from a grant provider (e.g. Welsh Government) which must be used for a pre-defined purpose.</p> <p>Welsh Local Government Association: the representative body for unitary councils, fire and rescue authorities and national parks authorities in Wales.</p> <p>Financial Year: the period of 12 months commencing on 1 April.</p> <p>Local Government Funding Formula: The system through which the annual funding needs of each council is assessed at a national level and under which each council's Aggregate External Finance (AEF) is set. The revenue support grant is distributed according to that formula.</p> <p>Aggregate External Finance (AEF): The support for local revenue spending from the Welsh Government and is made up of formula grant including the revenue support grant and the distributable part of non-domestic rates.</p> <p>Provisional Local Government Settlement: The Provisional Settlement is the draft budget for local government published by the Welsh Government for consultation. The Final Local Government Settlement is set following the consultation.</p>