

CORPORATE RESOURCES OVERVIEW & SCRUTINY COMMITTEE

Date of Meeting	Thursday, 19 th October 2017
Report Subject	Financial Forecast and Stage One of the Budget 2018/19
Cabinet Member	Leader of the Council and Cabinet Member for Finance and Cabinet Member for Corporate Management and Assets
Report Author	Corporate Finance Manager, Chief Executive and Chief Officer (Governance)
Type of Report	Strategic

EXECUTIVE SUMMARY

This report sets out the current financial forecast for 2018/19. The forecast position shows a projected “gap” of £11.7m prior to any modelling for an increase in Council Tax and prior to the analysis of the newly announced Provisional Local Government Settlement.

The Council favours a staged approach to planning and approving the annual Council Fund budget.

In a series of member workshops over the summer, details of the forecast were given and a range of solutions to how the annual budget could be balanced were shared, based on the well-established strategy set out within the Medium Term Financial Strategy. Latterly, the budget options within each of the service portfolios were shared.

The emergent options for Corporate Services are set out within this report. The financial pressures are also set out.

The timeline for the budget setting process is also set out within the report.

A verbal analysis of the Provisional Local Government Settlement (announced on 10 October) will be given at the meeting.

RECOMMENDATIONS

1	That the Committee reviews and comments on the portfolio budget options.
2	That the Committee reviews and comments on the portfolio financial pressures.

REPORT DETAILS

1.00	MEDIUM TERM FINANCIAL STRATEGY FORECAST 2018/19												
1.01	<p>The Council has set a cycle of reviewing its Medium Term Financial Strategy (MTFS) on an annual basis.</p> <p>The report to Cabinet in July gave the first detailed overview of the financial forecast for 2018/19.</p>												
1.02	<p>The Financial Forecast</p> <p>The financial forecast has been revised to take into account decisions made as part of the 2017/18 budget, and updated with the latest information on pressures from service portfolios. The key variable within the forecast will be the Local Government Financial Settlement for 2018/19. A settlement at or similar to the 2017/18 financial baseline is used as the basis for calculating the forecast at the time of writing. The Provisional Settlement was announced on 10 October and is being analysed in detail. A full update will be given at the meeting. No modelling has been included for raised Council Tax levels at this stage.</p>												
1.03	The revised forecast for 2018/19 is shown in Table 1 below.												
1.04	<p>Table 1: Financial Forecast 2016/17-2018/19</p> <table border="1"> <thead> <tr> <th><u>Expenditure</u></th> <th>2018/19 £m</th> </tr> </thead> <tbody> <tr> <td>National Pressures</td> <td>1.0</td> </tr> <tr> <td>Local Pressures</td> <td>6.5</td> </tr> <tr> <td>Inflation</td> <td>2.9</td> </tr> <tr> <td>Workforce Pressures</td> <td><u>1.3</u></td> </tr> <tr> <td>Projected Gap</td> <td>11.7</td> </tr> </tbody> </table> <p>This table groups the pressures into National, Local, Inflation and Workforce pressures and further details which are specific to Central and Corporate and Corporate Services and are included in section 1.06.</p>	<u>Expenditure</u>	2018/19 £m	National Pressures	1.0	Local Pressures	6.5	Inflation	2.9	Workforce Pressures	<u>1.3</u>	Projected Gap	11.7
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1.05	<p>Emerging Pressures</p> <p>The previous Cabinet report also set out a number of emerging pressures and positive budget variations, which will impact on the 2018/19 budget.</p> <p>Within Corporate Services there are pressures which have emerged in year for County Hall parking – with a £0.080m reduced income target for parking permits following a reduction in the agreed charge per permit, and for the withdrawn Procurement Supplier registration fee charge at £0.116m. The latter was an innovative attempt to share with suppliers the cost of introducing greater automation in the ordering and invoicing process. A small annual charge was proposed for accessing enhanced functionality on the procurement system. Many suppliers were not co-operative and it became impracticable to run with the initiative.</p> <p>The Human Resources and Organisational Development portfolio has now</p>												

reached a stage where further budget reductions of any scale are not possible without compromising service resilience (refer to the accompanying resilience statement). An ambitious target was set for the business plan in the last round of planning; this target is no longer achievable with a shortfall in target of £0.242m. The budget forecast needs to be adjusted accordingly.

1.06

Specific Portfolio Pressures

Pressures included 18/19

Central & Corporate	£m
Apprentice Tax Levy (1)	0.699
Actuarial Review (2)	0.370
Auto Enrolment (3)	0.270
Minimum Revenue Provision (MRP)(4)	0.300
Insurance Premium Tax (5)	0.063
Workforce Pressures (6)	0.628
Repayment of Reserves (7)	1.646
Total Central Pressures	3.976
Corporate	£m
Software Maintenance Costs (8)	0.039
Procurement Solicitor (9)	0.036
Corporate Events (10)	0.052
Total Corporate Pressures	0.127

1. Recurrent cost of Levy which was met by reserves in 2017/18
2. Increase of 0.3% on future service element of Local Government Pension Scheme (LGPS)
3. Estimated impact of 2nd half of Auto enrolment which starts October 2017
4. Additional required for repayment in 2018/19
5. Anticipated increase in premium to 15%
6. Estimated impact of Incremental Increases agreed after completion of Single Status
7. Temporary use of reserve to balance the budget in 2017/19
8. Increased costs of software maintenance for Finance and ICT systems
9. Additional post to support procurement – joint funded element for Flintshire
10. New pressure to pay for public events that place additional cost on services

1.07	<p>Inflation</p> <p>The current forecast includes projections for increases in inflation:</p> <ul style="list-style-type: none"> • Pay – includes an increase of 1% on current budgets. Any increase above the 1% which might be negotiated at a national level would have a significant impact on the forecast funding “gap”; • Price inflation – included on a critical service need only basis with £0.170m set aside for specific pressures; • Food –includes an increase of 5% on current budgets due to latest indications from our suppliers; • Fuel –includes an increase of 5% on current budgets to reflect recent increases and current forecasts; and • Energy – includes increases in energy which range from 2% for fuel oil, to 11% for electricity, to 16% for street lighting. Gas is forecast to increase by 30% - confirmed by Crown Commercial services who procure the gas for us - due to increases in the network and transmission charges. <p>The Bank of England inflation report in May 2017 referred to gas prices remaining around 30% higher than a year ago and went on to say “moreover, UK energy companies have reported that they face rising costs associated with structural changes, such as the increased use of renewable energy sources. Since February, five major retail energy providers have announced increases in their electricity and gas prices”.</p> <p>Inflation provision is held centrally initially and allocated out according to need. The position on inflation remains unpredictable in the current economic and political climate, and is therefore kept under review.</p>
1.08	<p>Risks</p> <p>As noted in 1.07 above, pay inflation is included for an increase of 1% whilst national pay negotiations continue. Any increase above the 1% would have a significant impact on the current gap and would be unaffordable unless funded nationally.</p>
1.09	<p>Operating Model Efficiencies – Corporate Services</p> <p>The portfolio options for savings and efficiencies which are risk assessed as either ‘green’ or ‘amber’ are set out below.</p> <p>Details of these options are included in Appendix 2. This appendix should be read alongside the assessment of service resilience which is included at Appendix 1.</p> <p>There are minimal efficiencies to be achieved due to ongoing work to achieve those included in previous year’s business plans:</p> <p>Corporate Finance: an ambitious target of £0.675m was set form business planning efficiencies over the last three years. Implementation of the Collaborative Planning software and early structural changes have so far</p>

	<p>achieved in the region of £0.400m, and work is continuing on phase two of this review including further roll out of the self-serve software to achieve the remaining efficiencies. An independent review of the service endorsed this approach and confirmed that following implementation the finance service would be in line with a modern best practice operating model.</p> <p>Human Resources and Organisational Design: have achieved a significant reduction in the number of staff, for example within employment services - the headcount has reduced to 14.10 FTE from 30.5 FTE since 2013. An ambitious target of business planning efficiencies was set over the last 3 years with £0.458m identified as a potential target. Whilst it has been possible to achieve part of that efficiency, the service is now at its optimal level - validated as part of the independent review in 2016 which described our service as “an optimal industry model being both lean and low cost” with the business partner model recognised as good practice and seen as being at the minimum sustainable level to support the organisation.</p> <p>Governance Portfolio: has achieved efficiencies of £1.7m over the last 5 years across all services - Democratic Services, Internal Audit, Information Communications and Technology (ICT) services and Legal Services. Significant savings have been achieved in Democratic Services (35.2% of influenceable spend) and ICT (45% of influenceable spend). Each service will reach or exceed the efficiency target set for it with the majority of savings) having already been delivered in previous years. Once all the planned savings have been delivered each service will be operating in accordance with modern leading practice as recommended by an independent review in 2016.</p> <p>For 2018/19 a single saving of £0.010m is proposed:</p> <ul style="list-style-type: none"> Records management – efficiency of £0.010m by reduction in the amount of records in storage.
1.10	The resilience statement and operating models for the Community and Enterprise portfolio are attached to this report as Appendices 3 and 4. Members of this Committee are asked to consider the Customer Services part of these which fall under the remit of its Terms of Reference.

2.00	BUDGET PROCESS AND TIMELINE 2018-19
2.01	Stage One service portfolio proposals are being presented to Overview and Scrutiny Committees throughout October for review.
2.02	The Provisional Settlement for Local Government in Wales was announced on 10 October 2017. The Final Settlement is expected later in the calendar year and will follow the Chancellor of the Exchequer’s budget statement which is due to be made on 22 November.
2.03	Stage Two (secondary options) will be considered between December and February, with Stage Three (budget finalisation and approval) taking place in February and March 2018.

2.04	Council meetings have been diarised in December, January, February and March.
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3.00	RESOURCE IMPLICATIONS
3.01	The resource implications of setting the annual budget are significant. The Medium Term Financial Strategy will continue to carry many risks. Careful risk assessment in planning and decision-making will continue to be a central feature of planning.

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. The strategic approach advocated for the MTFs builds on the current approach which had majority member and public support in planning the previous two annual budgets.

5.00	RISK MANAGEMENT
5.01	All parts of the financial forecast and all budget solutions, are risk assessed stage by stage. An overall risk assessment and risk management statement will be produced both for the revised MTFs and the draft annual budget for 2018/19.

6.00	APPENDICES
6.01	Appendix 1 – Corporate Services Resilience Statement Appendix 2 – Corporate Services Operating Model Appendix 3 – Community and Enterprise Resilience Statement Appendix 4 – Community and Enterprise Operating Model

7.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
7.01	None. Contact Officers: Colin Everett and Gary Ferguson Telephone: 01352 702101 E-mail: gary.ferguson@flintshire.gov.uk

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 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>Office of Budget Responsibility: created in 2010 to provide independent and authoritative analysis of the UK public finances.</p> <p>Institute of Fiscal Studies: formed in 1969 and established as an independent research institute with the principal aim of informing public debate on economics in order to promote the development of effective fiscal policy.</p> <p>Independent Commission on Local Government Finance in Wales: established to examine how local government funding can be made more sustainable with a view to providing specific recommendations for improvement and reform.</p> <p>Welsh Local Government Association: the representative body for unitary councils, fire and rescue authorities and national parks authorities in Wales.</p>