

CABINET

Date of Meeting	Tuesday, 25 th September 2018
Report Subject	Medium Term Financial Strategy – Forecast 2019/20
Cabinet Member	Leader of the Council and Cabinet Member for Finance
Report Author	Corporate Finance Manager and Chief Executive
Type of Report	Strategic

EXECUTIVE SUMMARY

A previous report in April gave the first detailed overview of the financial forecast for 2019/20. At that stage the projected budget gap stood at £12.2m; this was reduced to £10.6m when taking account of the accounting policy change of the Minimum Revenue Provision (MRP) and the impact of the stepped annual increase in the charging cap for domiciliary care.

Two private Member Budget Workshops were held in July, and a further one earlier this month. At these sessions members were updated on the latest local financial forecast in the context of the national position.

This report provides an update on the financial forecast for 2019/20. This now shows a projected budget gap of £13.7m as summarised in Table 1. A summary of the pressures included in the current forecast for 2019/20 is shown in Table 2 of the report and paragraphs 1.04 -1.09 provide further detail.

In summary, the Council will need to identify efficiencies of £13.7m to balance the budget for 2019/20 with £13.1m needing to be on a recurring basis. The strategic budget solutions have been developed in the three areas of corporate, service and national solutions, as per the Medium Term Financial Strategy, as summarised in Table 3.

The Welsh Local Government Association is working with all 22 Councils in Wales to make the case to Welsh Government for an uplift in Revenue Support Grant to meet critical funding needs.

After taking into account efficiencies identified to date, and with an estimated hypothetical Council Tax increase of 4.5% for our needs, the Council would need a

minimum increase in its Revenue Support Grant of 3%. This would rise to an estimated 4% to be able to meet the anticipated shortfall in funding for the additional teacher pay and pension costs. These are minima and are subject to change.

The national and local budget timelines are detailed in paragraphs 1.13 and 1.14 of the report.

RECOMMENDATIONS

1	Members are asked to note the detail within the forecast and the range of solutions within scope, and to re-support the case to Welsh Government with the latest information.
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REPORT DETAILS

1.00	EXPLAINING THE MEDIUM TERM FINANCIAL STRATEGY – FORECAST 2019/20								
1.01	A report to Cabinet in April provided the first detailed overview of the financial forecast for 2019/20. At that stage the projected budget gap stood at £12.2m; this reduced to £10.6m when taking account of the accounting policy change of the Minimum Revenue Provision (MRP) and the impact of the stepped annual increase in the charging cap for domiciliary care.								
1.02	Since April, significant work has been undertaken to update the financial forecast taking into account current projected spending requirements. The forecast includes any new and emerging pressures, and refined pre-reported pressures.								
1.03	<p>Member Workshops were held on 13 and 23 July and a further one held on 18 September. At these sessions members were updated on latest local financial forecast in the context of the overall national position. This report provides a summary update on the financial forecast for 2019/20 which now shows a projected budget gap of £13.7m.</p> <p>Table 1 – Summary of projected gap</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: right;">£m</th> </tr> </thead> <tbody> <tr> <td>Revised Forecast</td> <td style="text-align: right;">15.4</td> </tr> <tr> <td>Impact of MRP, Domiciliary Care, MEAG</td> <td style="text-align: right;">(1.7)</td> </tr> <tr> <td>Projected budget gap 2019/20</td> <td style="text-align: right;">13.7</td> </tr> </tbody> </table> <p>Notes:</p> <ol style="list-style-type: none"> 1. MRP reflects a change in accounting policy for Minimum Revenue Provision 2. MEAG reflects a reduction in the estimated shortfall in funding for Minority Ethnic Achievement Grant 	£m		Revised Forecast	15.4	Impact of MRP, Domiciliary Care, MEAG	(1.7)	Projected budget gap 2019/20	13.7
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Projected budget gap 2019/20	13.7								
1.04	A summary of the pressures included in the current forecast for 2019/20 is shown in Table 2 below:-								

Table 2 – Summary of Pressures included in the Forecast

	£m
Workforce Pressures	3.3
Schools Pressures	1.2
Social Care Pressures	5.2
Repayment of Reserve from 2018/19	1.9
Other Pressures and Inflation	2.6
Corporate / Inflation	1.2
Projected Budget Gap	15.4

1.05 Workforce Costs and Pay

The national pay negotiations were still ongoing at the time of setting the budget for 2018/19 and an uplift of 1% was included in the budget. The outcome of the pay negotiations is now known.

The impact of the current pay award for non-schools employees over and above the 1% uplift is £1.084m which will need to be met from reserves on a temporary basis in the current financial year. However, the cumulative effect for 2019/20 increases to £3.251m when taking into account factors such as incremental progression.

1.06 Schools and Education

The impact of the non-teacher pay award for school based employees is estimated to be in the region of £1.2m and is included in the current forecast.

However, the impact of the recently announced teachers' pay award would add a further £1.9m to the forecast and is not included in the forecast as this should be a nationally-funded cost pressure.

The UK Government has recently announced that there will be some funding available to Wales to meet the costs of the teacher pay award in 2018/19 and 2019/20. It is estimated that this will only meet approximately half of the estimated costs.

In addition to this there is a likelihood that teacher pension employer contributions could rise significantly in 2019/20 which would further significantly impact on costs.

1.07 Social Services Demands

As previously reported, pressures for social care demands are included for social care commissioning, transition to adulthood, residential care (new placements due to increase in the capital limit introduced by Welsh Government) and the impact of the transfer of the Independent Living Fund in to the Revenue Support Grant.

The projected additional budget requirement for social services demands (including Out of County Placements) totals £5.2m.

1.08	<p>Repayment of Reserves from 2018/19</p> <p>When setting the budget for 2018/19 the Council agreed to utilise £1.945m from its Contingency Reserve and this will need to be replenished in the budget for 2019/20 to ensure that the core budget is sustainable.</p>																								
1.09	<p>Inflationary and Other Pressures</p> <p>Each year the Council is subject to numerous inflationary impacts for areas such as energy, fuel and national non-domestic rates. An initial amount of £1.2m was included in the forecast. A detailed review on inflation is now nearing conclusion and suggests that the amount required will be less than first forecast. Therefore this will be considered as a strategic budget solution.</p> <p>There are also a number of local pressures included in the forecast such as a potential uplift in the council tax reduction scheme and inflationary increases in Microsoft software licences. All pressures will be subject to member scrutiny as part of the budget process over the coming weeks.</p>																								
1.10	<p>In summary the Council will need to identify efficiencies of £13.7m to balance the budget for 2019/20, of which £13.1m will need to be on a recurring basis. The strategic budget solutions have been developed in the three areas of the Medium Term Financial Strategy as summarised in Table 3 below:</p> <p>Table 3 – Summary of Strategic Budget Solutions</p> <table border="1" data-bbox="300 1115 1402 1435"> <thead> <tr> <th data-bbox="300 1115 655 1182">Corporate</th> <th data-bbox="655 1115 1046 1182">Service Portfolio</th> <th data-bbox="1046 1115 1402 1182">National</th> </tr> </thead> <tbody> <tr> <td data-bbox="300 1182 655 1216">Use of reserves</td> <td data-bbox="655 1182 1046 1216">Future ADM's</td> <td data-bbox="1046 1182 1402 1216">RSG % Increase</td> </tr> <tr> <td data-bbox="300 1216 655 1249">Local Taxation</td> <td data-bbox="655 1216 1046 1249">Strategic service choices</td> <td data-bbox="1046 1216 1402 1249">Social Services funding</td> </tr> <tr> <td data-bbox="300 1249 655 1283">Workforce costs</td> <td data-bbox="655 1249 1046 1283">Income opportunities</td> <td data-bbox="1046 1249 1402 1283">Education funding</td> </tr> <tr> <td data-bbox="300 1283 655 1339">Workforce numbers</td> <td data-bbox="655 1283 1046 1339">Annualised % efficiencies</td> <td data-bbox="1046 1283 1402 1339">Teachers pay awards and pension increases</td> </tr> <tr> <td data-bbox="300 1339 655 1373">Organisational change</td> <td data-bbox="655 1339 1046 1373">Collaboration options</td> <td data-bbox="1046 1339 1402 1373">Joint funding with NHS</td> </tr> <tr> <td data-bbox="300 1373 655 1406">Service recharges</td> <td data-bbox="655 1373 1046 1406"></td> <td data-bbox="1046 1373 1402 1406"></td> </tr> <tr> <td data-bbox="300 1406 655 1435">Cost pressure reductions</td> <td data-bbox="655 1406 1046 1435"></td> <td data-bbox="1046 1406 1402 1435"></td> </tr> </tbody> </table>	Corporate	Service Portfolio	National	Use of reserves	Future ADM's	RSG % Increase	Local Taxation	Strategic service choices	Social Services funding	Workforce costs	Income opportunities	Education funding	Workforce numbers	Annualised % efficiencies	Teachers pay awards and pension increases	Organisational change	Collaboration options	Joint funding with NHS	Service recharges			Cost pressure reductions		
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1.11	<p>The solutions above illustrate the critical importance of the national solutions as it will not be possible to balance the budget locally without Government support.</p> <p>The Welsh Local Government Association is working with all 22 Councils in Wales to make the case to Welsh Government for an uplift in Revenue Support Grant to meet critical need.</p> <p>After taking into account efficiencies identified to date, and with an estimated hypothetical Council Tax increase of 4.5% for our needs, the Council would need a minimum increase in its Revenue Support Grant of 3%. This would rise to an estimated 4% to be able to meet the anticipated shortfall in funding for the additional teacher pay and pension costs.</p>																								
1.12	<p>Next Steps and Timetable</p>																								
1.13	<p>National Budget Timetable</p>																								

	<ul style="list-style-type: none"> - Provisional Welsh Local Government Settlement - 9 October - Final Settlement - 19 December - Chancellor's Autumn Statement – date to be announced -
1.14	<p>Local Budget Timetable</p> <p>Stage 1 : Corporate Solutions</p> <ul style="list-style-type: none"> - Corporate Resources and Cabinet – October - Council – November <p>Stage 2 : Service Portfolio Solutions</p> <ul style="list-style-type: none"> - Overview and Scrutiny workshops and formal meetings – October - Cabinet and Council – November/December - <p>Stage 3 : National Solutions</p> <ul style="list-style-type: none"> - Cabinet, Corporate Resources and Council – December/January <p>Final Budget Setting – Cabinet and Council – 19 February 2019</p>

2.00	RESOURCE IMPLICATIONS
2.01	As set out in the report.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	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.

4.00	RISK MANAGEMENT
4.01	All parts of the financial forecast are risk-assessed stage by stage.

5.00	APPENDICES
5.01	None.

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>Contact Officer: Gary Ferguson, Corporate Finance Manager Telephone: 01352 702271 E-mail: gary.ferguson@flintshire.gov.uk</p>

7.00	GLOSSARY OF TERMS
7.01	<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>