

Medium Term Financial Strategy

Part 1 - September 2015
Forecasting the Challenge



2015 - 2018

Introduction

This Medium Term Financial Strategy (MTFS) is comprised of two parts. The first part the Medium Term Financial Strategy (MTFS) forecasts the resources the Council is likely to have over the next three years. In Part 2 of the MTFS *Meeting the Financial Challenge* the Council sets out plans and solutions for managing with reducing resources over this three year period.

Our resources are being reduced, year on year, through big reductions in the grants we depend on from Government. We then also have to meet cost pressures, such as inflation, with less money at our disposal. Inflation, rises in demand for critical services, such as social care, and the cost of legal obligations placed on us, such as pensions reform, all place a strain on our reducing budget.

A summary of the forecasting position for 2015/16 - 2017/18 is set out below.

Table 1 - Summary of forecasting position 2015 - 2018

Expenditure	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
National Pressures	0.9	0.4	0.3	1.6
Local Pressures	6.2	2.5	1.2	9.9
Inflation	4.1	4.1	4.3	12.5
Workforce Pressures	2.5	9.4	3.7	15.6
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Income				
Reduction in Revenue Support Grant (3.5%)	6.6	6.5	6.3	19.4
Council Tax Increase (3%)	(2.0)	(2.1)	(2.1)	(6.2)
Projected Gap	18.3	20.8	13.7	52.8

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1. National Pressures

These are financial pressures which are driven nationally and are beyond the control of the Council. They may come about from policy directions or new legislation from either UK Government or Welsh Government, where powers are increasingly devolved. These pressures are expected to be met by councils without extra funds being set aside by Government.

Council Tax Reduction Scheme

The Council Tax Reduction Scheme (CTRS) was introduced in 2013/14 by Welsh Government to provide financial assistance to help some residents pay their Council Tax. CTRS replaced the previous Council Tax benefit system. Welsh Government funding for the scheme does not increase year on year and therefore the annual increase in Council Tax 'benefits' payments we pay out is a pressure on the Council's budget. Over the medium term, this will cost the Council an estimated £0.952m.

Discretionary Housing Payments

Changes to the Government's Welfare Reform Programme have had a financial impact on some households. Discretionary Housing Payments (DHP) offer temporary support to people in difficulty. Over the last three years the Council has 'topped up' the DHP funds provided by Welsh Government to help the most vulnerable. In 2014/15 this cost the Council £0.053m. In 2015/16 there will be a reduction of £0.067m in the amount of funding the Council receives for DHP. The Council will be under pressure to make up any difference.



Impacts of Legislation and Case Law

New legislation such as the Social Services Bill, and Deprivation of Liberty Safeguards Case Law (DoLS), can affect the way services are to be provided and people's rights. Councils have to manage the financial impact of changes in the law as part of their budget often without any additional support from Government. Within the 2015/16 budget a pressure of £0.290m has had to be met for DoLS.

Independent Living Fund

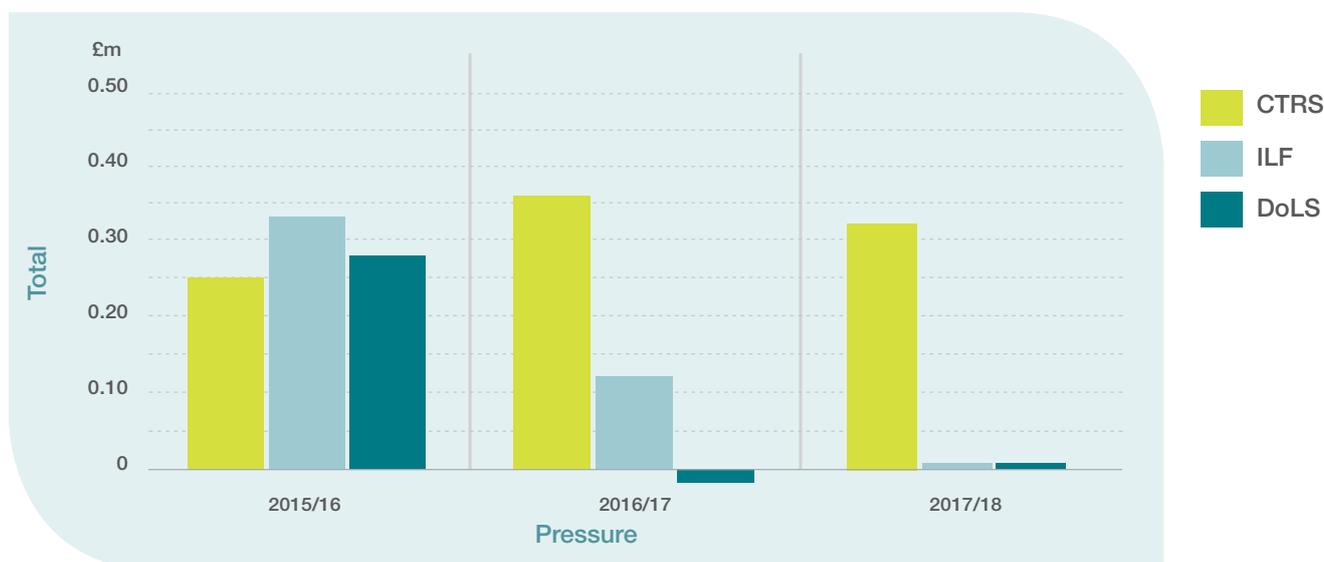
The Independent Living Fund (ILF) provides financial support to disabled people with significant care needs to help them live independently at home or in the community. The UK Government announced that the fund will close from June 2015 with the responsibility for financial support to be transferred to local authorities. The cost pressure for Flintshire County Council is estimated to be £0.338m in 2015/16 with an additional pressure of £0.112m in 2016/17. Welsh Government have recently said that there may be some financial support to help Councils with the transition. At this stage we do not know what help we will receive, if any.

Reductions in Specific Grants

The Council relies on numerous specific grants which the Welsh Government allocate to directly fund services such as Education and Waste Management.

In recent financial years there have been some big reductions in these grants. The Council sometimes has to make up the difference for services to continue.

Table 2 - Specific Non Workforce National Pressures



Late notification of specific grant allocations by Welsh Government make financial planning challenging.

The risks to services from reductions in specific grants include:

- **Sustainable Waste Management Grant** - previous reductions in this grant had created a cumulative cost pressure of £0.308m by 2014/15. A further reduction in the grant for 2015/16 has been confirmed at £0.100m giving a total reduction to date of £0.408m.
- **Supporting People Grant** - there has been a sustained reduction in this grant since 2009/10 of £1.6m.
- **Education Improvement Grant** - Big changes to the education grant system from April 2015 have resulted in 11 grants being amalgamated into a single grant called Education Improvement Grant. The effect of these changes in 2015/16 is a reduction of 9.85% or £0.509m. From 2016/17 Welsh Government are planning to introduce a funding formula for this grant. The impacts of this next phase of change are unknown.
- **Post 16 Education Grant** - This grant was reduced in 2015/16 by 2.5% or £0.149m. Intelligence from Welsh Government suggests a further 5% cut in 2016/17.

The total impact of just the grant reductions shown above comes to £2.7m. Future grant reductions are unconfirmed at this stage and subject to change.

Workforce Costs

There are significant new workforce costs from national changes to Local Government and Teacher Pensions Schemes. These are covered in Section 4 - Workforce.

The total impact of known national pressures is £1.6m

2. Local Pressures

Local pressures come about from demands for services and other local circumstances. They are not funded by Government grant with the cost falling on the Council.

Current Local Pressures

Social Services:

Transition to Adulthood

Each year a number of clients are expected to have ongoing social care needs as they transfer from children's services and become adults. The cost of care packages for each client is based on a careful assessment of their future care needs. In 2015/16 and 2016/17 the number of young clients transferring to Adult Social Care will be 16 and 14 respectively. This has led to a budget pressure of £1.239m in 2015/16, £0.923m in 2016/17 and £0.640m in 2017/18. We have a duty to meet their needs.

Extra Care

There will be annual revenue costs from the running of the new Extra Care Scheme in Flint which will become operational in 2017.

School Modernisation

This pressure is an estimate of the service 'exit' costs of teaching and other employees leaving our service as we change school provision and open the new Post 16 hub at Coleg Cambria, Deeside.

Landfill Tax

An increase in the rate per tonne we pay to take waste to landfill is an additional pressure. There is a statutory requirement to dispose of our waste. The Council is diverting as much waste as possible from landfill through increasing recycling and other forms of disposal.

Making Workforce Efficiencies

As part of the budget for 2015/16, a pressure was included to cover our changing savings targets for reducing the workforce set as part of the 2014/15 budget. Future workforce efficiencies are now being built into our business planning process. There are also cost pressures through releasing employees through redundancy and early retirement.

Prudential Borrowing

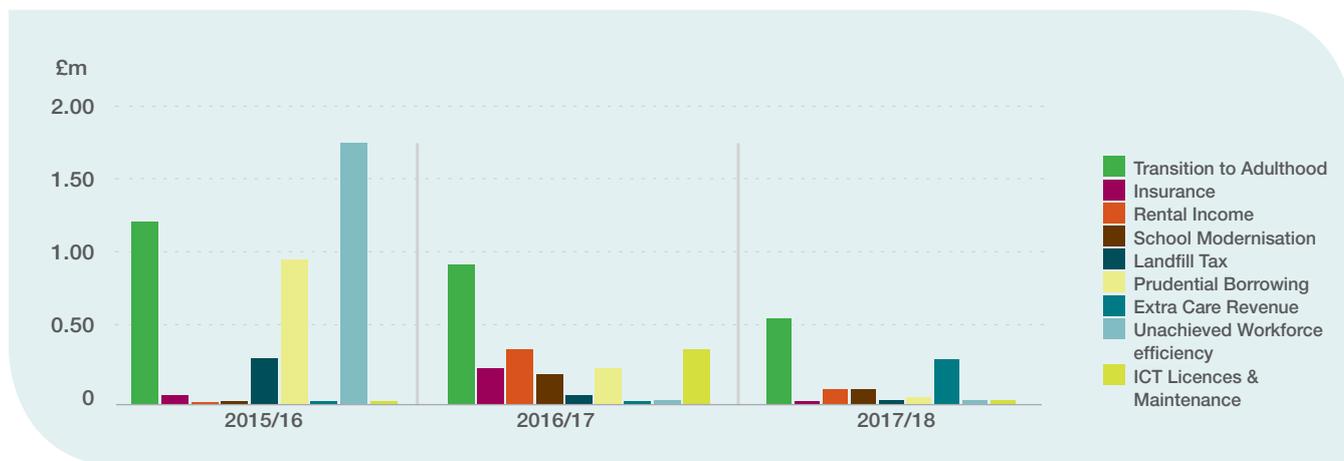
The Council has built up borrowing over the years to fund capital schemes. A review of our Central Loans and Investment Account will reprofile our borrowing. This ongoing review may create efficiencies or pressures. The Council is planning to increase its borrowing to pay for new capital schemes such as improving school buildings.

Internal Insurance Fund

The Council provides insurance cover for the risks it faces through a combination of purchased external insurance and self-insurance through our internal insurance fund. The adequacy of the internal fund has been assessed by our insurance brokers. There is a need to increase the funds to meet our risks.



Table 3 - Specific Non Workforce Local Pressures



September 2015

Information Technology

There is a new recurring pressure from our Microsoft Enterprise Licence agreement at an annual cost of £0.350m per annum from 2016/17. A further emerging pressure for software maintenance is for the iTrent (Human Resources) system from 2016/17.

Workforce Costs

There are significant new workforce costs from the introduction of the Local Single Status Agreement and the actuarial review of the Clwyd Pension Fund. These are covered in Section 4 - Workforce.

Emerging Local Pressures

Municipal Mutual Insurance

Municipal Mutual Insurance (MMI) was the main insurer of the public sector prior to it closing its insurance business in 1992. A scheme is in place for any liabilities still outstanding from historic insurance with MMI. Any increase in claims arising from that period could impact on the levy to be paid by the Council.

Contaminated Land Strategy

The Council has a responsibility to ensure there is no public risk from former landfill sites. There is a need for the Council to assess if there is any need for remedial work on these sites.

Waste Management

The Council is exposed to risks including fluctuations in recycling income from sales of waste recyclates in the open market.

Economy

The Council is exposed to the risk of decreases in the income it relies on from fees and charges in services such as leisure and planning. These fluctuations can depend on the health of the economy.

The total impact of major local pressures is £9.9m

3. Inflation

Inflation is the rate at which the prices for goods and services are expected to rise. The inflation costs a council has to meet are not the same as those that households face. Even at times of low Retail Price Index (RPI) inflation councils can have big inflationary pressures. Flintshire County Council builds inflation into its annual budgets based on the latest market intelligence. Overall, income budgets include a 3% increase to meet inflation. This is based on recent trends in inflation. Within the annual funding 'settlement' the Council receives from Welsh Government no provision is made for inflation. This means that the Council has to find a way of meeting the costs of annual inflation from within its reducing resources.

Types of Inflation

Pay

Provision for nationally agreed pay awards is based on the latest information from our national negotiating bodies. Over the last three years pay inflation has been assumed at 1%, and included in the budget at this level until confirmation of each annual agreements has been received.

Prices

The current forecast for price inflation includes a 2% increase over all expenditure budgets, apart from what we call Non Standard Inflation. Budgets which are not exposed to normal price inflation, such as Benefits, are excluded.

Over the last three years, service managers have had to absorb price inflation within their budgets, without any increase. Extra provision has only been made where there is an exceptional case. In 2015/16 this extra provision totalled £0.421m for exceptions such as increases in care fees where we commission residential care home places.

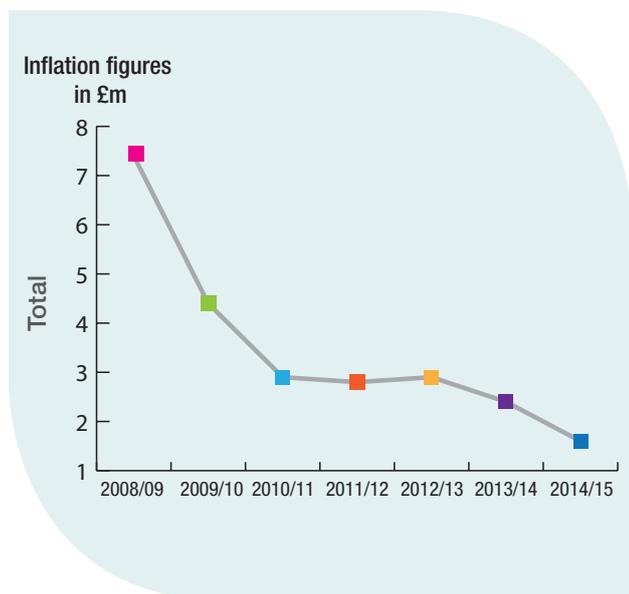
Non Standard Inflation

Non Standard Inflation provision is set aside to support services which are exposed to higher than normal annual inflationary pressures in buying fuel, energy and food supplies.

In recent years these rates of inflation have been volatile, for example, in the energy sector due to rising oil prices. More provision for inflation has been made in these areas in the last two financial

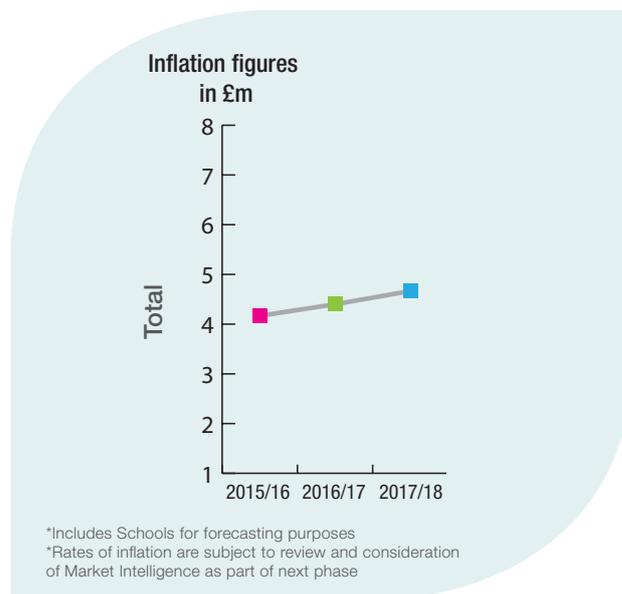


Table 4 - Historical Budgeted Inflation



Trend of inflation built into annual budgets.

Table 5 - Forecast within MTFS



Rates of inflation change over time and are under constant review by the Council.

years, (energy at 8%, fuel at 11.2% and food at 5.8%).

As part of the 2015/16 budget strategy the need to set aside any provision for Non Standard Inflation was reviewed. Specific market intelligence on energy (from Crown Commercial Services, UES Energy) shows that overall prices for gas and electricity were predicted to stay stable in 2015/16.

Market intelligence within the food markets (from Tuco Ltd, Procurement Partner) shows that some food groups may be subject to an increase of between 0.5% and 3%. Inflation on food was considered to be the area of greatest risk in 2015/16. Therefore an allocation of £0.064m was held within the budget.

The inflation risks and costs of energy, fuel and food are subject to many economic and other factors beyond our control. Market intelligence

will be used with quarterly updates to help make this as accurate a forecast as possible.

Inflation on Income

In recent years income budgets have included a 3% increase to reflect the need to raise prices in line with costs. See Section 5 - Income.

The total amount of inflation forecast is £12.5m

4. Workforce

By far the biggest cost of managing a Council of our size is the cost of employing our workforce. Flintshire both employs people to provide services direct to communities and to customers, and commissions or contracts out other services. Where we commission or contract the Council is not the employer. We also employ people to provide essential internal support services such as Finance and Human Resources.

The costs of employing our workforce are rising due to a combination of national and local pressures including annual pay rises, pensions reform, and the Single Status Agreement.

Flintshire employs around 7,140 people in 8,206 roles. The total annual ‘wage bill’ in 2014/15 was in the region of £178m. The ‘wage bill’ is made up of salaries, employer pension contributions, employer national insurance contributions, and allowances and expenses.

The costs of employing people are rising. The costs pressures can be grouped as:-

- ‘cost of living’ pay rises
- low pay protection costs
- local pay settlements
- pensions

‘Costs of Living’ Pay Rises

Workers expect to receive an annual pay rise for their earnings to keep pace with inflation. These are commonly known as ‘cost of living’ pay awards and are negotiated nationally between representatives of the local government employers and the trade unions.



Following a period of imposed pay ‘freezes’, annual pay awards are again being granted by agreement. Annual pay awards are running at between 1-2% for most local government workers.

The cumulative impact of national pay awards for 2015/16-2017/18 is shown in Table 6.

Table 6 - Pay Awards Impact

2015/16 £m	2016/17 £m	2017/18 £m	Total £m
1.804	1.690	1.707	5.201

Low Pay Protection Costs

Workers are protected from being low paid through the setting of a national minimum wage. The lowest levels of pay in local government are above the national minimum wage. The minimum wage is £6.50 per hour rising to £6.70 per hour on 1 October 2015. Flintshire’s lowest hourly pay rate is currently £7.189 per hour. Whilst there are no immediate pay pressures here for the Council as it meets its legal obligations, this might change over time.

There is pressure from Trade Unions, some political parties and lobby groups for employers to adopt the Living Wage. The Living Wage is argued to be a more realistic amount for people to live on and is set at a higher rate than the Minimum Wage at £6.50 per hour. Whilst Flintshire has gone some way to preventing low pay and has implemented a pay structure where the lowest pay grade ‘tops out’ near to the Living Wage, we have not as an employer set it as a minimum. If we were to do so this would present a new cost pressure. Just under 1,300 employees (including relief workers) are currently paid beneath the Living Wage.

Local Pay Settlements

Local authorities have obligations to ensure that they pay all employees fairly with equality of treatment for women and men. These obligations come from important national agreements and the equal pay legislation. Reviewing local pay arrangements to ensure that there is equality of treatment is a complex and time-consuming exercise. Like many other local authorities Flintshire has now reached a Single Status Agreement to achieve this. Under our Agreement we have introduced a new pay and grading model. Single Status Agreements have in every single case around the country added cost to the ‘wage bill’. Whilst some employees will gain on pay, some will stay the same, and some will lose on pay, a significant majority will have to gain or stay the same to successfully achieve agreement through negotiations between employer and trade unions and then through a workforce ballot. Therefore, there will be a total increase in pay costs across the board under these types of Agreements.

Some years ago the Welsh Government made extra provision in the base financial settlement for local government to support the costs of introducing Single Status Agreements in the knowledge that they would inflate workforce costs. Whilst providing this support was a visionary step towards ending unequal pay between women and men, the provision set aside was not enough to meet the inflationary impact in full. Councils have to make up the shortfall themselves.

Flintshire’s Single Status Agreement was introduced in 2014. The inflationary impacts for the first two years have been ‘buffered’ or cancelled out through the use of financial reserves. The Agreement will impact on the budget from June 2016. The annual cost of the wage bill will rise for several years as some employees who have entered a new pay grade work their way up through the annual pay increments until they reach the top of their grade. At this point the wage bill will ‘peak’.

The impacts of the Single Status Agreement are shown in table 7 below. The impacts shown are net of the annual

Table 7 - Single Status Impact

2015/16	2016/17	2017/18	Total
£m	£m	£m	£m
0.000	3.774	1.726	5.500



provision with the national financial settlement of £4.3m. The forecasted impacts reported to Council in October 2013, when adopting the Single Status Agreement, were greater; they have been significantly reduced through the ongoing programme of reducing the scale of the workforce through voluntary redundancies and retirements.

Local Government Pension Scheme

Local government employees (other than teachers, police and firefighters) are entitled to be members of the local government pension scheme. The pension scheme is a funded one where both employers and employees contribute to the costs of building their ‘pension pot’ for their eventual retirement. The monies are invested into the Clwyd Pension Fund for capital gain and income to pay pension liabilities both now and into the future.

Public service pension schemes are being reformed to help financial sustainability. For the local government pension scheme the new CARE (Career Average) scheme replaced the final salary scheme from 1st April 2014. At a national level the Government have reviewed how the pension provision is shared more fairly between employees and scheme employers, if costs continue to increase. This may result in a change to employee contributions or scheme benefits in the future.

The employer contribution for the Council is set by the Fund Actuary every three years. The last actuarial valuation date was 31 March 2013 which provided both future service cost contributions and deficit payments for 2014/15, 2015/16 and 2016/17. The future Flintshire rate

is a percentage of pensionable pay and will vary. At the last actuarial valuation the employer contribution rate was set as 12.2% (2014/15), 13.2% (2015/16) and 13.9% (2016/17),

At the last Actuarial Valuation the Council had a pension deficit of £197m. The Council has a deficit recovery plan of 19 years and the agreed payments are £9.185m (2014/15), £9.490m (2015/16) and £9.985m (2016/17).

The pension contributions to be made to the Clwyd Pension Fund by Flintshire as an employer were in the region of £10.2m.

For the third and final year of this MTFs it is more difficult to estimate pension costs. Despite strong asset returns on investments of +16% in 2014/15, the funding level of the Fund has fallen by 5%. The Council's deficit has therefore increased. This is due to lower than estimated long term interest rates. The Actuary of the Clwyd Pension Fund will undertake a funding review this year which may assist all employers in the Fund with their future financial plans, ahead of the next Actuarial Valuation.

Pensions Performance: the most recent actuarial review in 2013/14 reset employer contributions for the period 2014/15 - 2016/17. The inflationary impacts are shown in table 8 below.

Pensions Reform: a number of recent pensions reforms are causing inflationary pressure. Under a change called the Single Pension Scheme local government pension schemes will no longer qualify

for a rebate for national insurance contributions made towards the additional State Pension known as the Second Pension. This change will increase National Insurance employer contributions by 3.4% from April 2016. The inflationary impacts are shown in table 8 below. Employee national insurance contributions will also increase.

Under a change called Automatic Enrolment, access to pension provision in a qualifying pension scheme had to be made available to all new employees from 1 October 2012. For all existing employees who had previously deferred entry or opted out of the Clwyd Pension Fund, a transitional period to October 2017 applies. At this time, any remaining employees would be automatically enrolled into the Clwyd Pension Fund. This will be at a cost to the Council. It is not expected that all employees with deferred Fund entry will choose to stay in the Pension Fund at 2017, but a proportion will. The predicted inflationary impacts are also shown in table 8 below.

Teachers' Pension Scheme

The Teachers' Pension Scheme is a central government controlled Public Service Pension Scheme that, unlike the LGPS, is unfunded. The contributions are set by Central Government. Under pensions reform the employer contributions for teachers' pensions are to be increased from 2016. The inflationary impacts are also shown in table 8 below.

Table 8 - Cost of Pensions to the Council as the Employer

Pressure	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Actuarial Review	1.747	1.504	1.300	4.551
Single Pension Scheme	0	2.787	0	2.787
Auto Enrolment	0	0	0.625	0.625
Teachers' Pension Increase	0	1.364	0	1.364
Total	1.747	5.655	1.925	9.327

The total amount of workforce pressures is £15.6m (excluding inflation)

5. Income

The Council is funded from two main sources - the Revenue Support Grant and Council Tax. The Revenue Support Grant (RSG) awarded by Welsh Government makes up 65% of the total income of the Council with Council Tax contributing 22%. The remainder is made up from specific government grants and income from fees and charges. RSG is reducing year on year. UK Government fiscal plans show a continuation of reductions in the medium term. Setting Council Tax is a continual challenge in the current financial situation. Other income generating opportunities can be constrained by Welsh Government controls and economic factors. It can be difficult to balance increased charges to recover costs, with affordability and collectability from clients and customers.

Revenue Support Grant (RSG)

The Council received a reduction in its RSG of 3.4% in 2015/16 equal to £6.6m. Welsh Government has not given any firm indication of the level of RSG funding for future years. Continuing reductions are expected and we are assuming reductions in RSG of 3.5% per year for the next two years in this strategy.

Over the medium term of this forecast this could mean a total £19.4m reduction in RSG funding.

Section 1 - National Pressures highlights the significant reductions in specific grants which are added to the reduction in RSG in arriving at a complete forecast for this three year period.



Council Tax and Business Rates

The Council collects the Council Tax from local residents and the 'Business Rates' from local businesses.

The level of Council Tax is set annually and is paid by local residents to help finance the Council's overall budget (£60m in 2015/16).

The Council collects the local 'business rates' on behalf of Welsh Government. This is then paid into a national pool and redistributed to councils as part of the annual financial settlement. The Council expects to collect in the region of £63m in 2015/16. Of the collected amount the Council only retains £51m with the rest going into the national funding system.

As part of the budget for 2015/16 the Council agreed to set the increase on Council Tax at 3.75%. This is at a higher level than the 3% set in previous budget years. This extra rise was needed due to the challenging financial position faced by the Council as set out in this strategy.

The level of Council Tax for future years will be a democratic decision of the Council. For the purposes of this plan an annual increase of 3% has been built in for 2016/17 and for 2017/18. This would provide an additional £2.1m of income per year. In setting the Council Tax the Council has to balance the financial needs of the organisation to maintain its services with the affordability of Council Tax for local residents.

Fees and Charges

In 2014/15 the Council generated £25m from fees and charges. The Council is developing a more wide ranging Income Strategy to help increase overall income to cope with the financial challenges it is facing. This work builds on earlier work to develop a single and consistent fees and charges policy with transparency in the setting of its fees and charges.

Existing fees and charges are, wherever possible, increased annually by 3% to meet the costs of inflation. However there are restrictions on the levels of income councils can charge for some services e.g. homecare services.

The budget strategy for 2015/16 was based on fundamental three year business plan reviews across all Council service portfolios. Within these plans were proposals for increasing income including:-

- maximisation of external funding
- increase in joint funding from Health
- Public Protection fee increases to reflect cost
- review of car parking charges
- increased charging for some services

These reviews led to an increase in budgeted income across portfolios of £2.3m in 2015/16.

For 2016/17 and 2017/18, the Council will need to develop its income policy and identify new opportunities for income to help bridge the gap from the reduction in national funding.

Income Dependency

The Council is dependent on being able to generate income to fund some of its core services. For example, Leisure Services relies on £6m from income, mainly from its customers, whilst Facilities Services (Cleaning and Catering) relies on £3m from external income. In Catering the strategy for fees and charges needs to consider the impact of charging to avoid turning customers away.

Constraints on Charging Policy

In recent years, Welsh Government have introduced measures such as the First Steps Improvement Package which introduced a then cap of £50 per week on the amount that Local Authorities could charge for Domiciliary Care. This led to a loss of income to Flintshire County Council of £0.426m in 2011/12 and has limited the Council's ability to increase income for future years.

Reviews of these national constraints are needed to give councils the freedom to recover more income to subsidise some of the services it provides.

The impact of reductions in Revenue Support Grant is £19.4m offset by increase in Council Tax income of £6.2m

6. Total Impacts

The total impact of known national pressures is £1.6m

The total impact of major local pressures is £9.9m

The total amount of inflation forecast is £12.5m

The total amount of workforce pressures is £15.6m (excluding inflation)

The impact of reductions in Revenue Support Grant is £19.4m offset by increase in Council Tax income of £6.2m

Total impact is £ 52.8m