

Medium Term Financial Strategy

Part 2 - September 2015

Meeting the Financial Challenge



2015 - 2018

Introduction

The second part of the Medium Term Financial Strategy (MTFS) sets out how the Council plans to meet the challenge of the financial forecast set out in the first part of the strategy.

In the first part of the MTFS we illustrated a forecast for the resources the Council will have available for the three year period 2015/16-2017/18. This forecast is based on the latest and most reliable available intelligence.

This second part of the MTFS builds on the work of recent years for the Council to be a modern, cost-efficient and high performing organisation providing resilient local public services which can be sustained in future years in the face of considerable funding pressures.

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1. Sizing the Challenge

Councils are highly dependent on annual grant funding from Government to resource the local services we provide to local communities. As set out in Part 1 of the Strategy *Forecasting the Challenge* our resources are being reduced, year on year, through big reductions in these grants. The Council also has to meet cost pressures such as inflation and the demands of local people for services, with less money at our disposal. We forecast a 'gap' of £52.8m in the resources of the Council over the three year period 2015/16-2017/18. A forecast is simply a type of prediction. Whilst based on the latest and most reliable available intelligence a forecast cannot be guaranteed to work out as assumed, and the actual funding position for the Council could become better or worse over time.

Part 1 of the Strategy *Forecasting the Challenge* forecasts a cumulative and real impact reduction in resources available to the Council of £52.8m over the three year period. As Part 1 says "our resources are being reduced year on year, through big reductions in the grants we depend on from Government. We also then have to meet cost pressures, such as inflation, with less money at our disposal. Inflation, rises in demand for critical services, and the cost of legal obligations placed upon us, such as pensions reform, all place a strain on our reducing budget".

In the 'annual settlement' where Government decides how much funding to set aside for local government, provision was once made for inflation and other pressures with councils being funded to meet them. This is no longer the case with councils now facing a double pressure of an actual reduction in their annual grant on the

one side, and no financial protection for the extra things they have to fund on the other.

This is why the annual targets for budget reductions, or funding 'gaps' to be bridged, come out so high.

For Flintshire the annual 'gaps' as set out in Table 1 are £18.3m for 2015/16, £20.8m for 2016/17 and £13.7m for 2017/18.

A cumulative funding gap of over £50m against a net budget of around £250m is challenge enough for any council. The challenge is made both more complicated and more daunting by two factors - the unpredictability of specific levels of funding for local government, and the number of years for which the public sector will have to endure repeat and compounding reductions in Government grant.

The unpredictability comes from the absence of a medium term Government plan which sets out, with a reasonable level of certainty, the resources which will be allocated for local government and, in turn, to each individual council. In *A Shared Commitment: Local Government and the Spending Review* published in June 2015 the Local Government Association (LGA) calls for adequate and fair funding for the public services. The LGA and the Welsh Local Government Association (WLGA) have long been pressing for medium term financial settlements which would allow councils to plan ahead. Likewise, the Independent



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
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

Commission on Local Government Finance in Financing English Devolution has called for the new UK Government to ‘commit to full and clear multi-year settlements to enable effective long-term planning for local authorities and other public sector services’. In the absence of Government taking a lead with resilient longer-term planning how can councils be expected to ‘plan ahead and make better-informed decisions’ in strategic planning as suggested by the Wales Audit Office in its publication *Meeting the Financial Challenges Facing Local Government in Wales?*

The daunting challenge comes from the fiscal plans of the UK Government to rebalance national debt as a key feature of its economic policy. The repeated annual reductions in national public spending can be expected to continue for the remainder of the decade based on Government policy and the evaluation of its impacts by reputable commenters such as the Institute for Fiscal Studies. Local Government in England has not had the protection of relative shielding from public spending cuts as have some other public services, such as the NHS, a development which is now being mirrored in Wales with local government being given less priority.

As explored in Chapter 4 local government in Wales has a higher dependence on Government grant than its peer group in England. This exposes councils in Wales to a greater level of threat of resource reduction in the absence of parallel

freedoms and flexibilities such as the retention of additional National Non Domestic Rate (NNDR) or ‘business rates’ income through successful strategies for promoting local business growth.

The accuracy of the forecast set out for Flintshire will be determined by a number of factors. Government decisions on funding, trends in inflation, national employment policy and pay trends, and pressures on services through demographic change and Government policy, will all come into the mix.

The forecast set out in Part 1 of the MTFs will be regularly reviewed and updated for Council plans to be reviewed and re-set.



2. Flintshire: An Efficient and Innovative Council

All public sector organisations should be expected to be efficient, channelling as much of their resources as possible into services to local communities, and keeping their overhead and administrative costs to a minimum. Equally, all organisations should be innovative in finding new solutions to protect and develop their services with fewer and fewer resources. Flintshire prides itself on being an efficient and innovative council. Whilst there is always more that can be done, we have done much already. As each year of finding efficiencies to bridge the budget gap passes by the scope to find new efficiencies narrows. It is important that we demonstrate to our communities, Government, our regulators and ourselves, what we have done and what we plan to do to indeed be efficient and innovative.

Councils are, by law, required to set a balanced budget for each financial year and cannot 'carry' ongoing and unfunded deficits. Flintshire has a successful track record of prudent financial planning whilst meeting its legal obligations, and of having its annual accounts passed by its external auditors, year on year, without qualification.

For many years councils have had to find annual efficiencies and savings to balance up their budgets. In recent years the scale of the annual efficiency and savings targets required have risen to levels which have taken councils into uncharted territory.

Flintshire has achieved close to £60m of efficiencies and savings in the mainstream or 'Council Fund' expenditure over the past eight financial years from 2008/09 to now. In earlier years these budget

changes were often made to reinvest money from one service in another to support the priorities the Council saw as important. In more recent years budget changes have been made to fund the annual budget 'gap' caused by the national reductions in local government finance described in Chapter 1. The fact that the last two financial years of 2014/15 and 2015/16 account for nearly £25m or 42% of this total figure, shows how the funding position for Flintshire is deteriorating.

It is helpful to avoid using jargon in presenting this picture of Flintshire's recent history. When public organisations use the term efficiency they actually mean a number of budgeting changes which, taken together, fall under this generic term. In our case the term combines the following:-

- Reducing the overall costs of individual services through reviewing the way they are organised and making them more efficient as business operations
- Smarter procurement or 'buying' and 'contracting'
- Reducing basic costs in the way the organisation works for example its processing systems
- Reducing senior management and administration costs
- Reducing the size and cost of the workforce
- Raising more income through fees and charges for services



Table 2 - Council Annual Efficiency Targets 2008/09 - 2015/16

Year	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Budget	226.419	233.335	240.408	239.896	241.203	258.825	253.718	249.979
Target £	5.654	3.803	6.151	8.920	4.716	5.331	11.950	12.874
Target %	2.50	1.63	2.56	3.72	1.95	2.06	4.70	5.15

Throughout the document we use the term efficiencies and savings to mean all of these things brought together under one easy to use heading.

If a tax payer were to say 'prove to me that the Council is efficient' then a good answer would involve showing the volume and quality of a service against the amount of money spent on it. To take the answer further the respondent would show how well the council was performing in this 'value for money' assessment against comparable councils providing the same types of services. Therefore, it is important to show how well Flintshire is performing, not just how cost efficient it might be to live up to the 'tag' of being an 'efficient and innovative council'.

Comparators of our performance in our peer group of local councils are used in Chapter 3 where we explore how well funded the council actually is.

In this Chapter we demonstrate how cost efficient the council is against the benchmark of having to achieve increasingly large targets of efficiencies and savings to bridge the annual funding 'gap' through being innovative.

In recent years the Council has been highly innovative. The following are some big examples of this:-

- Reducing senior management posts and their support by nearly 50%
- Reducing 'middle' management by between 25-30%
- Reducing administration and clerical positions by over 40%
- All services being on track to achieve 30% cost reduction targets (except education and social care)
- Large scale voluntary redundancy programmes for non-teaching employees.

- Reduction in non-school based employees of 6% over the past 12 months alone
- Sharing buildings by co-locating with partners including North Wales Police, Job Centre Plus and Coleg Cambria
- Reducing office accommodation by 16% through smarter ways of working
- Procuring or bulk buying with other councils to get a better deal e.g. computer hardware
- Integrating services with other councils in the region to share costs e.g. education
- Trading with other councils in services to share costs e.g. Occupational Health
- Stopping trading in services where the market performs better, for example trade waste
- Inviting local communities to take on treasured local buildings and facilities through 'community asset transfer'
- Moving a number of services away from direct Council provision and into new 'alternative delivery models' and reducing their level of public 'subsidy' as a result

Recent ground breaking work shows how the Council is being innovative to do things differently. These include setting up a new wholly Council owned Trading Company "New Homes" to help provide homes for local people; the SHARP programme (Strategic Housing and Regeneration Programme) to build new Council and affordable housing; switching social services for adults with mental health issues and learning disabilities to a new social enterprise, called "Double Click", to protect them for the future.

The opportunities for such innovations are diminishing; the opportunities to save money are diminishing with them.

3. Flintshire: A Low Funded Council

Councils in Wales are funded by Welsh Government through a mechanism called the Local Government Funding Formula. Within this formula a calculation or benchmark of what each council needs called the Standard Spending Assessment (SSA) is included. The SSA is based on factors including demography, population change and deprivation. Whilst being a theoretical calculation the SSA is significant in determining how much of the share of public funds set aside for local government in Wales comes to Flintshire. For Flintshire some 65% of our annual funding comes from Welsh Government through the formula. The Local Government Funding formula is complex and theoretical. Whilst it can be argued that the formula distributes the available funds fairly across twenty-two local authorities according to need, the formula was not designed for a situation where the total amount of funding being pass-ported through it was in sharp decline.



The formula works on theoretical indices of need; it does not take into account the cost base of services as provided in each county in real life. Counties like Flintshire will have needs which are not sufficiently recognised in a technical formula which makes no provision for flexibility and exceptions.

Flintshire, for example, is a semi-rural county with a number of equally sized county towns where communities need localised services. The Council therefore has to manage a network of dispersed services for example schools, leisure centres, libraries and household recycling centres. The point will come when the amount counties receive through the formula is simply insufficient to maintain services in a way which is similar to current configurations. This means that local services will face major upheaval as the current pattern cannot be maintained. The cost of running a secondary school efficiently from one council to the next, or that of a principal leisure centre, is

similar regardless of factors such as rurality and deprivation. The amount of Government grant we are now receiving is no longer sufficient to maintain local services to the levels to which local communities are accustomed. So for councils with low funding it becomes a question of how many schools or leisure centres a council can afford to keep open and run, and not one of how efficient they can be one by one.

Flintshire has come 19th out of the 22 councils for the amount of Government funding it receives through the formula per head of population in each of the last two years. The Wales Audit Office (WAO) noted in its most recent Annual Improvement Report that in 2014/15 gross expenditure in Flintshire was £2,064 per head, lower than in 2011/12, whilst the average across Wales had risen from £2,250 to £2,312 per head for the same period. WAO calculated that our gross expenditure had fallen by some 7% over the past three years against a Welsh average of 3%. This analysis demonstrates that Flintshire is a low funded council through the formula. With such low funding the scope for making savings and efficiencies, whilst trying to maintain services in ways which support and serve local communities, is very constrained.

To explore and demonstrate whether Flintshire is indeed a low funded council we engaged The

Chartered Institute of Finance and Accountancy (CIPFA) to provide advice. CIPFA tested the presumption that Flintshire is 'a low funded council in Wales with less flexibility and capability to find sufficient efficiencies under the current funding system and formula'. The work was conducted using existing data sets and information and with no new empirical research. The work looked at spend and performance in education and social services as the two main areas of council spending, and also in highways as a third area as one of the priorities of the Council and one of keen public interest.

The report of CIPFA concludes that 'based on the research that we have carried out using nationally published data sets we can form a number of tentative conclusions. We can conclude that:-

- Flintshire is a low spending authority on both Social Care and Education;
- Flintshire achieves a relatively high level of performance on both of these services despite the low level of expenditure;
- Flintshire spends at an above average level on highways;
- Flintshire achieves the highest level of performance in Wales on the performance measure of roads in poor condition.'

The report goes on to recognise that Flintshire has a comparatively lower percentage of elderly people amongst the local population as a demographic, and a lower percentage of children in 'care'. It also recognises that the County has comparatively lower levels of deprivation under the Wales Index

of Multiple Deprivation (WIMD). The report also notes that the County has a large volume of daily road traffic compared to other Welsh counties.

The CIPFA analysis demonstrates that Flintshire is a low funded and a high performing council in its two principal service areas, and is both a higher spender and a higher performer than the average in highways.

CIPFA then go on to note that from the Council's own statistics on demand 'there appears to be:-

- a declining birth rate that could lead to a lower demand for school places, although this could also have an adverse effect on unit costs and the funding formula;
- an increasing demand for services for the elderly;
- a deteriorating condition of the highways and footpaths network due to lower spending under the County's preventative approach to maintenance.'

It should be added to the above that Flintshire has experienced unprecedented rises in levels of demand for Children's Services in the past two years and has had to make extra investment in this highly sensitive area of social services to cope.

In confirming that Flintshire has 'a low Standard Spending Assessment (SSA) due to the demand statistics in the calculation formula and a low level of Aggregate External Finance (AEF)' the independent analysis highlights that Flintshire receives lower funding under the current system. Why does this matter? If education and social care account for two thirds of the Council's expenditure, and we already spend relatively lowly on them - on spend per pupil in schools and on spend per head of the adult population for social care - then there is inevitably limited scope to be more cost efficient. Given that Flintshire performs highly in both service areas then any significant reduction in spend will directly impact on performance to the detriment to pupils and students, and local people in need of care support. Whilst there may appear to be scope for a reduction in spend on highways maintenance, any such reduction will impact on the quality of local roads people use. Flintshire roads may be the best maintained in Wales but the condition of our roads is declining.



The CIPFA report concludes as follows. 'Overall, we may conclude that, although the County has a low level of funding and expenditure, it is able to achieve a generally high level of performance. The low level of funding appears to be due to a low level of demand for services which is reflected in the SSA calculation. Where demand for a service is high, in the case of Transport, the County is a higher spender and is able to achieve the highest level of performance. This may lead to the conclusion that with additional funding and a higher level of expenditure the County could increase its current level of performance in other services. However, the spending on highways looks set to fall under the County's preventative approach to maintenance.

Notwithstanding this conclusion we have been made aware of a number of local factors that impact on the County's ability to deliver services and which have little or no impact on the funding formula. Although we have not attempted to verify or quantify the impact as part of this review the key points to consider include:-

- the County has a large business base impacting, for example, on infrastructure investment and

planning and public protection services and this is not included in the funding formula;

- the formula makes no recognition of historic and current patterns of local provision according to community need and county conurbations;
- the County's geographical positioning with England, in the context of its highway infrastructure and *Gateway to Wales* position leads to high volumes of traffic both in and out of the County.'

The CIPFA report closes with the final critical point that 'the County's Medium Term Financial Strategy does not at this stage show a balanced position and the fact that it is making a national case for funding relief could be interpreted as suggesting that the County has reached the stage where it is no longer viable'.

This stark conclusion to the analysis does point to the risk of the Council being financially unsustainable as a unit under the current funding formula on which we rely for close to three quarters of our funding. This underpins the rationale for our three part strategy.

How We Perform

In 2014/15 Flintshire achieved better than the Welsh average in 62% of the national performance indicators councils use and was in the top three performers in 20% of these indicators

Our highlights:

- the highest number of young people engaged in education, employment or training for the last 3 years
- educational attainment - GCSE level for first language English or Welsh - ranked as top for the last 3 years
- consistently high school attendance - 1st or 2nd position over the past 3 years
- care plans for Social Services clients been produced on time; the top performer for 2 years
- the best condition of roads for the last 3 years

The National Public Survey shows that the Council is ranked 2nd in Wales for providing good quality services according to the views of residents.

4. Flintshire: Our Funding Strategy

The Council funding strategy has three parts - service reform, corporate financial stewardship and working with Welsh Government. The first two parts are based on local reform and choice. The third is based on choice and decision-making by and within Welsh Government. The three parts are inter-dependent. For the strategy to succeed, progress will need to be made in each of the three parts.

As has been demonstrated in Chapter 2 Flintshire is an efficient and innovative council. As has been demonstrated in Chapter 3 Flintshire is a low funded council. Taken together these chapters show that as a council with a relatively low resource base we have few opportunities left for bridging the funding 'gap' through local innovation, without resorting to further and deeper service reforms, cuts and even closures of a scale unprecedented in North East Wales.

The three part strategy is based on the reality that councils and other public bodies are part of a wider system of public sector funding. Whilst councils should be expected and be challenged to be efficient and innovative, and make local choices to reduce their costs to contribute to making best use of public funding as part of the UK 'austerity programme', they cannot act alone and governments need to share in the responsibility.

In a funding system where councils in Wales depend on Government grant for up to 75% of their annual revenue funding for mainstream council services, with a sizeable proportion of it ring-fenced for specific services through the specific grants system, their capacity to act flexibly with their resources is constrained. In Part 1 of the MTFS we explain how national changes introduced by government, whether at a UK or Wales level, for example social policies or new legislation, can bring in new financial pressures on councils as the providers of services direct to the public. If governments desire social or legal change then they have a duty to carefully consider the resourcing consequences; otherwise, the budgets for existing local services will inevitably be placed under increasing strain.

Under part one of the funding strategy the Council takes responsibility for continuing to reform and modernise local services through its three year service 'portfolio' business plans. All services and corporate support services, with the exception of education and social care, have 30% cost reduction targets to achieve. Under part two the Council takes responsibility for the prudent use of corporate finances for example absorbing the costs of inflation, raising income, and managing workforce costs. Under part three we set out realistic expectations of Welsh Government as our principal funder.



4a. Funding Strategy Part 1: Service Reform

Council services are organised into portfolios or groups. Year on year each chief officer, who leads a portfolio, is asked to find efficiencies and savings to help balance the total Council budget. These savings are found through bigger actions such as making changes to how services are organised and delivered to local communities, through to smaller actions such as cutting out unnecessary expenditure and wastage. More recently this work has broadened into more challenging work such as reducing service provision, charging for services, and reducing the size of the workforce. All services, other than Education and Social Services, have been given a target of reducing their costs by at least 30% over this three year period. The total savings target services are working to is £28.2m over the three year period.

Council Service Portfolios

The Council has grouped its services into eight portfolios for the purpose of organisation and management. In doing this the organisation went through a major upheaval in 2015 to introduce a new operating model - or way of working - with a streamlined and closer working team of chief officers. Each chief officer is responsible for one of the portfolios. A major task for each of the new chief officers has been to develop a three year business plan for their group of services for the period 2015/16-2017/18.

Portfolio Business Planning

The new business plans for each service portfolio take the Council to levels of challenge and planning which are unprecedented. Services have always worked to business plans. The motivation for this new approach was twofold: to make significant reductions in operating costs in response to the financial challenge of major reductions in

Government grant income to the Council, and to modernise and improve the organisation to new levels of ambition and excellence.

The new business plans fundamentally review:-

- the purpose, priorities and the performance of the service group
- the costs of the services both in themselves and compared to other councils
- income levels and the potential for income growth
- the management and administrative structures and costs of the services
- the service model and whether an alternative model would be a better option for the future
- the future sizing and allocation of budgets based on the above

The business plans have to balance the achievement of Council priorities, for example those set out in the Improvement Plan, and the duties to meet statutory, contractual and other obligations, in addition to presenting options for saving money. The plans do take the Council into examination of whether some services are core business or even needed at all, whether we should do things differently, whether we are achieving value for money in providing quality at reasonable cost, and how customers should be expected to contribute through paying fees and charges.



Table 3 - Business Plan Efficiency Targets 2015/16 - 2017/18

Portfolio	2015/16 £m	2016/17 £m	2017/18 £m
Planning and Environment	0.941	0.422	0.255
Streetscene and Transportation	2.570	2.590	3.405
Social Care	2.068	0.788	1.984
Education and Youth	1.459	0.382	1.520
Community and Enterprise	1.565	1.209	0.787
People and Resources	0.385	0.385	0.730
Governance	0.248	0.315	0.725
Organisational Change	1.306	1.272	0.902
Business Plan Efficiency Totals	10.541	7.363	10.308

Setting Budget Targets

All service portfolios have been set a 'working' target of achieving a 30% efficiency in their total budget allocation over the three year period to 2017/18 as a contribution to the Council's total funding 'gap'. There are two exceptions – Education and Social Care.

Referring back to Chapter 2 and the Council's track record in achieving some £46.5m efficiencies and savings in the seven years leading up to the introduction of the new style business plans, it needs to be recognised that some services have already achieved significant savings in past years. Where this has been the case, the scope for achieving further efficiencies for this next three year period will inevitably be less.

The 30% is set defined as a 'working' target as a guide to stimulate challenging thinking and review. For some services achieving a full 30% might not be possible, for others it may be possible to exceed the target. The setting of working targets for each portfolio does not prevent the Council from setting priorities across the portfolios according to its overall aims. In other words the Council may choose to lower or raise the target for a given portfolio according to how it wishes to prioritise certain important services above others. This is why the chief officers work as a collective

to advise councillors, as the decision-makers, under our corporate operating model.

Education and Social Care are expected to achieve efficiencies and savings too but not to the same extent. Both are highly regulated services, which are demand-led, and where much of the expenditure is essential to meet our statutory obligations.

Over 80% of the budgets for the Education and Youth portfolio are delegated to schools. Whilst schools are expected to contribute a 30% efficiency target is unrealistic. The amount to be invested in schools as a group through the Schools Funding Formula is explored in Chapter 4b. The core part of the 'local education authority' where specialist management and support services for schools are held back within the Council, and where other services such as the Youth Service sit, have also been set a 30% efficiency target.

The large majority of the Social Care budget is spent on providing or buying care and support services for vulnerable people based on the assessment of their needs. The costs of providing residential care for the elderly, and other vulnerable groups, accounts for over a third of its budget alone. The demands on social care are growing year on year, through an aging and changing society with more complex

recognised needs, a trend which further limits the potential to make budget reductions.

Education and Social Care account for just under two thirds of the Council's net budget - so the limitations on being able to save money in these two big service areas in turn limits the capacity of the whole Council to make savings to bridge the projected budget 'gap'.

For 2015-16 the combined total of the efficiencies and savings from the business plans is £10.541m. This total is built into the annual budget. Whilst the Council has a good track record in achieving planned efficiency targets within the financial year for which they have been set, there will inevitably be a 'failure rate' as circumstances change or plans cannot be realised. In 2014/15 the Council was successful in achieving 87% of the efficiencies it had set out at the beginning of the financial year. Detail on the levels of confidence in achieving the pre-set efficiencies is reported monthly in our in-year budget monitoring reports. Where efficiencies are not achieved, as planned, other solutions must be found to balance up the annual budget by the close of the financial year.

The planned business plan efficiency and saving targets set for 2015/16, the outline proposals under consideration for 2016/17, and the long-list options for 2017/18 are summarised, by portfolio, in Table 3. These plans are far reaching and challenging.

The Council has long been a positive collaborator, working with other councils and partners in the region to work together to share costs and people in the provision of services such as social services, education, waste and corporate services. The Council has identified new opportunities to save more money by working with neighbouring councils which would protect our investment in front-line services. These opportunities can only be seized upon by joint agreement. With the debate on a possible reorganisation of local government running, there is uncertainty and anxiety amongst councils. This is contributing to limiting the regional ambition for more collaboration, and the Council is unable to progress some of its own ideas for extended collaboration.

Managing the Business Plans and their impacts

The action required to first develop and test out budget options ready for recommendation, and then to follow through and implement them once agreed, is complex and time-consuming. To do this the Council has set up a number of 'programme boards' which bring together senior officers and Cabinet members.

Budget options are tested out for acceptability and operability. In other words are we prepared to take them and would the public be prepared to work with us? Are they feasible and capable of being implemented successfully? Each option is 'risk-assessed' against these two tests. We also separate out those options which are internal to the organisation and should have low or no impact on the public and the people who use the service, such as reductions in management positions and changes to operating systems, from those which would have an impact, such as changing the location of a service or its opening hours, closing a facility or introducing or changing a charge for a service. In these latter types of cases we have to work out what prior notice is needed, whether there should be a specific consultation before making a decision, and whether we need to run an impact assessment or a specific Equality Impact Assessment because one or more recognised groups in society may be affected disproportionately. In the case of some services there are specified statutory notice and consultation procedures which must be followed. The Council is also mindful that it will need to gauge the cumulative impacts of service changes within and across communities as change plans become more challenging and the status quo is no longer.

Protecting Local Services

All of this work goes on in an effort to protect services from deep cuts and big closures. If the Council is exposed to budget cuts of a scale which it cannot manage through its existing plans and strategies, many services will no longer be able to be protected. These will include schools budgets, day care services, residential care homes, roads maintenance, local bus services, and leisure centres.

4b. Funding Strategy Part 2: Corporate Financial Stewardship

The Council takes a whole-organisation approach to setting its annual and long-term budgets and in deciding how to make budget changes to meet changing circumstances. Over and above how we set priorities which determine where we deploy our resources, and how we support service portfolios in changing what they do through their individual business plans as set out in Chapter 4a, there are some big questions of financial decision-making and stewardship which can only be dealt with at a corporate or whole-council level as they impact across the board. These questions include how far we give service portfolios additional funds to meet the costs of annual inflation, how we support centrally any additional employment costs which we are obliged to meet such as annual pay awards, and what we expect of services to recover their costs from service users in charging for what they do.

Managing Inflation

In Part 1 of the MTFS we set out how inflation impacts on the Council and how we forecast what rates of inflation we could expect. Councils are exposed to three types of inflation: pay, price and non-standard price inflation. Despite a national trend of inflation being at its lowest level for some years, councils are still exposed to pay inflation of around 1% per annum and some price inflation, particularly non-standard inflation for food, energy and fuel whose price trends are unpredictable and volatile. We also face some unavoidable cost inflation increases, for example in benefit payments and the costs of purchasing care home places, which have their own annual cost-based increases which go unaffected by national inflation trends.



Our financial forecast makes assumptions about inflation rates and trends to allow prudent forward budget planning. In deciding how much to set aside in our budgets to cushion the organisation from inflation we make a risk assessment. In recent years we have set some corporate funding aside to meet inflation in part, and have expected services to absorb a proportion of inflation in their on-going budget management by being cost-efficient.

Due to national trends currently working in our favour we plan, based on our risk assessment, to allow £1m less than we would ordinarily have done in 2015/16 to meet inflationary uplifts in our costs. In this way we are absorbing £1m of our budget 'gap' into our budget planning as a form of operational risk.

Reducing Corporate Overhead Costs

There are a number of corporate costs and income sources which sit at the heart of the organisation where provision has to be set aside to meet variations in budget provision from one year to the next. One example, covered in the above section

on inflation would be nationally agreed 'cost of living' annual pay awards for employees.

Based on recent patterns of the employer contributions needed to meet our obligations to the Clwyd Pension Fund, of which the Council is a member - set against the forecasted annual contributions required of Flintshire following the last three yearly Actuarial Review - we can prudently estimate to have to provide £0.9m less than the £1.747m contribution first expected for 2015/16 and into 2016/17. This reduction is largely due to the managed reductions in the Council's workforce on which the total amount due is calculated. The partial offset of this pressure is due to deliberate action by the Council to reduce the size of the workforce.

Following the completion of the Single Person Discount Review for those receiving a discount of Council Tax through living alone as an adult, there is an expected increase in income in the Council Tax Collection Fund of over £100k. This increase in income, to help reduce the budget 'gap', is due to deliberate action by the Council to maximise its Council Tax collection as a high performing collections authority.

Schools Funding Formula

Education is the Council's biggest set of services at £83m, with the large majority of those funds being delegated to our 80+ secondary and primary schools.

This delegated funded is passed out to schools according to our Schools Funding Formula. This formula, which was reviewed and then updated from 2015, takes into account factors such as pupil numbers, specific pupil needs and school buildings size and condition in setting out how

much funding each individual school will receive each year.

The Council has given schools relative protection from funding cuts in recent years partly because this has been Welsh Government policy, and more so because remaining a high performing local education authority is a top priority of the Council.

The additional cost pressures coming through for the schools community for 2016/17 total £3.490m which would mean a 4% increase on 2015/16 funding. There are a number of options and choices for handling this challenge. Schools will have to make their contribution to the budget 'gap' and cannot be exempt, noting that any decision other than to fund the pressures in full will come with risks. The Council is planning to meet 1% of the pressures only for 2016/17, an option which would contribute around £2.5m to bridging the total funding 'gap'.

Local Taxation

The Council has had a policy of containing annual rises in Council Tax in recent years. This has been based on the view that Council Tax levels should be as affordable as possible with the organisation finding efficiencies internally first before asking the public to pay more to help with the funding 'gap'.

Between 2008/09 and 2015/16 the average annual Council Tax rise has been 3.2% with the highest being 3.75% in 2015/16 and the lowest 2.9% in 2013/14. Other councils have had different policies.

Council Tax makes up only 22% of the Council's total income. As our Government grant funding reduces more pressure is placed on councils to find more local income including through taxation. Council Tax in Wales is generally lower than in England. Whilst councils in England have had a special Government subsidy to keep Council Taxes rises low, Welsh councils have not.

The Government grant councils in Wales receive is distributed according to the Local Government Formula as explained in Chapter 3. Within this formula a calculation or benchmark of what each council needs called the Standard Spending Assessment (SSA) is included. The SSA is based on factors including demography, population



Table 4 - Corporate Finance Efficiency Proposals 2015/16

Subject	Proposal	Efficiency/Growth £m
Inflation Management	Part absorption of inflation risk	1.0
Corporate Overheads	Selective reduction in provisions	1.0
Schools Funding Formula	Controlled schools investment	2.5
Local Taxation	Enhanced Council Tax increases	0-1.8
Local Income	increases in charging	0.5
Totals		5-6.8

change and deprivation. Whilst being a theoretical calculation the SSA is significant in determining how much of the share of public funds set aside for local government in Wales comes to Flintshire.

The SSA for Flintshire for 2015/16 was set at £251.806m. The Council's planned net Council Fund expenditure for this year is £249.979m, leaving a gap of £1.827m. The only way the Council can bridge that gap to reach its notional spending level, given that no additional Government grant will be made available, would be to increase Council Tax. Collecting additional Council Tax of £1.827M would mean an additional Council Tax rise of around 3.5%. The Council has already assumed a Council Tax rise of 3% in its budget planning for 2016/17 based on its annual average rise in recent years. The Council would have the option of reaching the current SSA over a two year period by setting Council Tax rises of 4.75% or, given the extreme financial situation, applying a single year increase of 6.5%. The Welsh Government has a guiding policy of councils staying within 5% annual Council Tax rises although this has not been tested.

Local Income

Flintshire as a County Council has limited scope for raising income as a non-metropolitan council with a modest portfolio of land and assets generating commercial income.

The Council makes charges for some services within the bounds of legality and Government

policy, and within the limits of affordability and acceptability to customers and communities.

The service portfolio business plans, set out in Chapter 5, already include compound income sources built up from previous years and, in some cases, new income generation initiatives for example in planning fees. As part of a more challenging corporate strategy for cost recovery through fees and charges the Council will be seeking to raise a further £0.5m of income in 2016/17 onwards by reviewing current fee levels.

The total reduction in corporate costs which could be achieved for 2016/17 based on the above proposals is at a minimum of £5m as summarised in Table 4.

4c. Funding Strategy Part 3:

Working with Welsh Government

Councils are heavily reliant on Government for grant to fund what they do. For Flintshire some 65% of our annual funding comes through the Revenue Support Grant awarded annually by Welsh Government. Whilst councils are independent statutory public bodies with their own elected councillors, free mind, and right to choose their priorities based on local need and local opinion, they are also a form of ‘agent’ of government in implementing its social policy and legislation as directed. Local government and national governments are part of the same system of national governance of the public services. Governments must therefore share in the responsibility to fund the ‘agents of delivery’ of their social, economic and environmental policies and legislative reforms properly and fairly. In Chapters 4a and 4b we have set out the Council’s contribution to managing with less in a tough fiscal environment. In this Chapter we set out our expectations of Welsh Government as the custodian of public finances in a devolved Wales.

In this Chapter we explore five areas where there is a legitimate case for Welsh Government to come to the support of the Council to fund cost pressures which have either been passed on to the Council through national decisions or meet its own critical social policy priorities.

Under each of the areas we set out the principle which underpins the case, the detail of the case, and the risks to the Council and local services if Welsh Government did not meet our case and provide support and relief.

Extension of the Welfare State

The principle here is that councils should not be subsidising the welfare state through local resources. Instead, the State should be fully funding its own universal benefits policies. The Council currently pays out benefits to local Council Tax payers who have an exemption from paying Council Tax in full. This is done under the Council Tax Reduction Scheme (CTRS).

The problem is the funding the Council receives from Welsh Government to make these payments is ‘frozen’, and we are not recompensed for the

annual uplift in demand-led benefits costs we have to meet. By 2016/17 the Council will have to make up a gap of £625k in the CTRS scheme as a consequence. The risks are that the scheme becomes unsustainable; Council Tax has to be raised to cross-subsidise benefits to recipients; the Council may have to withdraw from the national Welsh scheme.

Public Sector Employment

The principle at stake here is that public sector should employ people with fair reward and rights. Local government as a large employer, with many low earning workers, should be properly funded to meet wage and pension costs and be given parity of esteem with the NHS, civil service and others in national funding for workforce costs. Welsh Government is committed to supporting uplifts in annual base pay for public sector workers (with enhanced uplifts in lower pay scales) to give proper reward and to avoid workers being in a position of pay poverty. This commitment should be recognised in national budgeting priorities, or it cannot be afforded. It is not a sustainable position to expect councils to meet annual inflationary workforce costs at a time of reducing resources.

Diverting existing funds away from maintaining 'front-line' services to meet employment costs will be difficult to justify to the public. Local government should be given parity with the NHS and the civil service where provision is made for funding workforce costs and, in addition, achievement of the Living Wage at the lower end of pay scales.

In 2016/17 the Council will have to absorb wage inflation of £1.690m from the nationally negotiated cost of living pay award. The risks are Councils will have to increasingly review terms and conditions of employment on the one hand to pay for annual cost of living pay awards on the other which is a contradictory position for employers and trade unions; relatively low pay in the local government sector will be perpetuated; councils will have to face difficult choices between maintaining pay and terms of conditions of employment, and public service provision; councils may opt out of national negotiating machinery; impacts on employer-trade unions relationships and workforce morale; possible industrial action, whether local or national.

Health and Social Care as a Single System Needing Full Funding

Insufficient investment is made in the primary and community care sectors where quality of life and preventing dependency on secondary and acute care is achieved. Social care is part of a connected system of care and should have parity of esteem with investment choices in the use of the national budget. There is ample research and operational evidence that the social care sector is facing a funding crisis. At a time when the UK and Welsh Governments are increasing investment in the National Health Service (NHS) equal priority should be given to the social care sector.

Two specific examples of chronic funding pressures on the Council where national relief is sought follow.

Demand-led pressures on specialist social care services:

transition from childhood to adulthood for high dependency clients. The costs of high-cost placements for small cohorts of clients, in this

case 14, can have a disproportionate effect on the total social care budget. We are facing a budget pressure of £923k just for these cases, a figure equal to 1/60th of the total social care budget. Special provision should be made in recognition of the need to protect specialist services for the most vulnerable. Parity should be given to the primary care needs of clients falling under the responsibility of social services alongside those falling under the responsibility of health boards in national funding. The risks of not acting are the diversion of resources away from other social care services to meet the cost of such high dependency cases and their entitlement; aggregated funding impacts will make the current social care system, with growing demand, unsustainable.

Inflationary pressures on care placements and high cost specialist placements:

given rising demand for services and reducing budgets the pressure on service supply will be intense. Raised care standards and entitlements are two of the factors which cause market inflation as investment needs to be made here to meet social policy aspiration. We face a budget pressure of keeping up with market costs of £948k. Parity should again be given to the primary care needs of clients falling under the responsibility of social services alongside those falling under the responsibility of health boards in national funding. The risks here are that faced with increasing demand the supply of service becomes an unsustainable model; the adequacy of care might be compromised with a lower volume/quality of care being provided; councils may be at risk of commissioning sub-standard care; cost pressures will compress the terms and conditions of employment of the sector.

Educational Entitlement and Attainment

We believe that if school age education is to continue to be treated as a national social policy priority it should have parity of esteem with investment choices in the use of the national budget. The Council faces a bill for additional costs for Teacher Pensions of £1.364m, due to national reforms in employer pensions over which it has had no say.

The national agreement to increase the employer contributions to pension funds for the teaching workforce could fall on either the local council, as the local education authority, the local governing bodies of the employing schools, or a combination depending on local choice. 'Pass-porting' of the cost to local school governing bodies would place a new strain on schools delegated budgets and would be likely to reduce the ability of schools to employ their current cohort of teachers which, in turn, would affect teacher-pupil ratios and ultimately school standards and pupil attainment.

The Teachers' Pension Scheme is unfunded unlike the core local government pension scheme. Parity should be given to the treatment of the Teachers' Pension Scheme alongside the other unfunded schemes such as the NHS and civil service i.e. the responsibility for making good pension fund deficit positions should be borne by Government and not intermediate employers such as councils. Schools may be placed in an untenable financial position with new cost burdens of employment.

The big risk is that the council will have to reduce investment in services including education to meet additional costs of employment in the teaching sector.

Financial Freedom to Recover Costs to Make Services Sustainable

An important principle of local democracy is that councils should have the freedom to set local policy to recover costs through charging to help make services - within bounds of reasonableness on the affordability of charges with added protection for those most vulnerable to poverty.

There are several service areas where the Council is constrained in recovering costs from clients, who can afford to pay, by Welsh Government policy.

Domiciliary Home Care: recharging for Home Care provision used to be discretionary until the introduction of the First Steps policy in 2010 and has not been reviewed since, with charging limited to £60 per week from 2015. Income recovery falls well below the costs of

provision and the Council is losing out on income of £0.945m which could help sustain social services under huge pressure.

The charging cap makes no recognition of ability and willingness to pay. The previous charging system with higher charges linked to cost of provision was generally accepted and was a workable one. There are increasing demands from those able to pay who have switched from private provision to public provision to benefit from the heavy subsidy. Given an ageing population with increasing demands this model of service is unsustainable. As part of a fair and equitable local charging policy there is no justification for continuing with this policy.

The risks of perpetuating this system are faced with increasing demand the supply of service becomes an unsustainable model; an income generating opportunity is lost; the adequacy of care might be compromised with a lower volume/quality of care being provided e.g. short visits with limited social contact for the client; councils may be at risk of commissioning sub-standard care; cost pressures will compress the terms and conditions of employment of the sector e.g. travel time reimbursement, salary levels; the non-justification for a heavily subsidised service for those available to pay becomes ethically challenged by others under the Council's income strategy.

Minor Home Adaptations: Charging for adaptations less than £3k in value which fall outside of the mean-tested charging system would allow partial cost recovery to subsidise the service. As part of a fair and equitable local charging policy there is no justification for charging exemptions for this service. The Council could recover income of £100k per year to subsidise the service if it could charge. The risks in the future are that the service is not adequately funded to meet demand; funds have to be diverted away from other services to subsidise adaptations; the non-justification for a free service for those available to pay becomes ethically challenged by others under the Council's income strategy.

Blue Badge Scheme: A modest charge for Blue Badge issue is justifiable and would be comparable to England (£10 per issue)

and Scotland (£20 per issue). As part of a fair and equitable local charging policy there is no justification for charging exemptions for this service. The Council could raise income of £33.5k to subsidise services.

Support and relief from Welsh Government in these policy areas would make a major positive

impact on the Council's budget planning as set out in Table 5 below. The costs shown for Employer, Social Care Funding and Education are examples of the pressures for which support is needed. This is not an exhaustive list and other cost pressures could be included.

Table 5 - Funding Pressures for National Support and Relief

Subject	Proposal	Funding £m
Welfare State	Full cost funding of the Council Tax Benefits Scheme	0.625
Employer	Funding of nationally agreed pay awards	1.690
Social Care Funding	Funding Health and Social Care as a single system with parity	1.871
Education	Funding nationally agreed employment costs for schools to protect spending delegated to schools	1.364
Freedom to Charge	Removing the charging caps for a number of services such as domiciliary care and returning to a system of fuller cost recovery from clients (with protection for those least able to pay)	1.078
Totals		6.628

5. Conclusions and Way Forward

Flintshire is in uncharted territory in having to manage budget cuts of this scale. So is Welsh Government. If councils are to see a way through these challenging times - with local services on which communities depend staying in tact - then close working is needed between councils and government for common purpose.

Flintshire is shown to be a low funded council. It is also shown to be a solid performer in the standards to which it provides local services, with excellence in key services such as education and social care.

Flintshire is being recognised nationally as a council which is being innovative in finding new solutions to make its services both cost efficient and resilient, and sustainable for the future.

A fundamental point is that the scale and the pace of the escalating annual budget cuts does not allow time for innovation. Our local programme for working with communities to transfer community assets to community ownership, and our local programme to create Alternative Delivery Models (ADMs) for selected services, whilst being well advanced, both need time and space to come to fruition. So do our business plans for the ongoing modernisation of services. If our plans are not given time, and are rushed into change, then key services will be put at serious risk.

Like all counties Flintshire is shaped by its history and its make-up of communities. We have set out the challenges of managing Flintshire as a dispersed county which has a number of proud and independent principal county towns. The Council tries to support and protect each county town by ensuring that their communities have local services and amenities which can be readily accessed. We will no longer be able to maintain our networks of local services without some relief from the relentless budget cuts.

The list of services which will be exposed to major cuts if our strategy does not enjoy universal support is a long one:-

- a significant reduction in the budgets given to local schools
- withdrawal of social services such as day care
- closure or sale of residential care homes
- closure of the welfare rights service
- cuts in support for the local voluntary sector
- a major cut in maintenance expenditure for roads
- cuts in winter maintenance road gritting service to the bare minimum
- closure of leisure centres
- closure of community buildings
- cuts in countryside and coastal management services
- less frequent household waste collection services
- closure of local house recycling centres
- withdrawal of all bus subsidies which support the less commercial local bus routes
- withdrawal of our grant to Theatre Clwyd
- reduced transport provision for learners to and from schools and colleges
- closure of the business support service and no future support for tourism
- closure of the ecology and biodiversity functions
- reduced maintenance standards for our rights of way network
- reduced support for the Clwydian Range Area of Outstanding Natural Beauty
- withdrawal of our financial support for Greenfield Valley

Councils in Wales are heavily dependent on government grant to fund what they do. More so in Wales than in England. This is why, within our three part strategy, we call for greater freedoms for the Council to be able to be entrepreneurial. If Wales is to be exposed to 'English style cuts' then

councils in Wales need to be given English style powers and freedoms to be able to adapt.

The Council is playing its part and has identified around two thirds of the funding target needed for 2016/17. As a mature and responsible Council we will work with Welsh Government to find joint solutions. Local government needs to be given support with social care and health being jointly funded as a top priority.

This Strategy inevitably concentrates on 2016/17 as the next budget year we need to plan for. Equally, we have an eye on 2017/18 and subsequent budget years in planning ahead in a responsible and sustainable way.

Flintshire is at a 'tipping point'. A reorganisation of local government, still some years off, is not in itself a solution to the financial challenge. Neither is more talk of making efficiencies in 'back office' costs. The decisions to be made by the Council, by the UK Government and by Welsh Government in the coming months will define the future for local public services.

We call on local communities to stand up for their local services by working with us whether this is:-

- in being understanding and being patient with the changes we plan to make
- coming forward and working with us on transferring services to community models or
- in speaking up so that those who have decision-making power in their hands hear their voice.