

## CABINET

<b>Date of Meeting</b>	Tuesday, 18 <sup>th</sup> July 2023
<b>Report Subject</b>	Medium Term Financial Strategy and Budget 2024/25
<b>Cabinet Member</b>	Cabinet Member for Finance, Inclusion, Resilient Communities including Social Value and Procurement
<b>Report Author</b>	Corporate Finance Manager and Chief Executive
<b>Type of Report</b>	Strategic

### EXECUTIVE SUMMARY

The Council reviews and updates the Medium Term Financial Strategy (MTFS) annually, and in advance of planning the annual budget for the following financial year. The MTFS forecasts the resources the Council will need to meet its ever-changing cost base for the years ahead. Refining our forecast is the first step in planning our budget requirement for the following financial year.

As part of budget setting for 2023/24 an initial additional budget requirement of £16.987m was projected for 2024/25 which was based on broad assumptions for pay, social care commissioning and other known pressures at that time.

Our forecast for the 2024/25 financial year has been updated to take into account the latest national position on public sector pay, the estimated impact of changes to service demand and the ongoing impacts of inflation. The revised forecast shows that, at this early stage, we are likely to have an additional budget requirement of £32.222m for 2024/25.

Appendix A shows the detail of all the cost pressures for 2024/25 as well as early indications of pressures for 2025/26 and 2026/27.

This is the first stage of developing our budget for 2024/25.

The main purpose of this report is to set out in detail the forecast cost pressures for 2024/25 and a workshop has been scheduled for 31 July to enable members to have a better understanding of the financial position and to contribute to a developing budget strategy.

As part of the 2023/24 local government settlement we were given indicative funding figures for 2024/25 which was an increase of 3.1%. This only equates to an uplift of around £7.8m for the Council.

The Council clearly has a major budget challenge for the financial year 2024/25 if there is no movement in the indicative uplift. 3.1% is far below the level required to meet current service demand and inflationary impacts – most of which are outside of the Council’s control.

A detailed budget strategy needs to be developed with urgency in parallel to contributing to national discussions on the financial outlook across Wales including any options available to increase the overall quantum available for local government.

## RECOMMENDATIONS

1	To receive the update on the additional budget requirement for the 2024/25 financial year.
2	To agree the process and timeline for budget setting for 2024/25.

## REPORT DETAILS

<b>1.00</b>	<b>EXPLAINING THE MEDIUM TERM FINANCIAL STRATEGY FORECAST FOR 2024/25</b>
1.01	The Council reviews and updates its Medium Term Financial Strategy (MTFS) annually, and in advance of planning the annual budget for the following financial year.
1.02	<p>The MTFS forecasts the resources the Council will need to meet its ever changing cost base for the years ahead. Refining our forecast is the first stage in planning our budget requirement for the following financial year.</p> <p>Our forecast for the 2024/25 financial year has been updated and takes into account the latest national position on public sector pay, the estimated impact of changes to service demand and the ongoing impacts of inflation.</p> <p>The forecast will need to be kept under close review and updated as appropriate throughout the year.</p>
1.03	The updated forecast shows that, at this early stage we are likely to have an additional budget requirement of £32.222m as summarised in the table below

**Table 1: Summary of Cost Pressures 2024/25**

<b>Summary of Pressures</b>	<b>£m</b>
Prior Year Decisions / Approvals	0.986
Legislative/Unavoidable Indexation	2.260
National Funding Requirement (Pay Awards)	14.506
Social Care	7.022
Education & Youth	0.461
Out of County Placements	0.500
Planning, Environment & Economy	0.191
Housing & Communities	2.518
Streetscene & Transportation	2.684
Governance	0.694
Corporate	0.401
<b>Total Pressures</b>	<b>32.222</b>

Some cost pressures are still under review due to constantly changing service demands and therefore there is likely to be some refinement to figures over the summer.

1.04 The main purpose of this report is to set out in detail the forecast cost pressures for 2024/25. A workshop has been scheduled for 31 July to enable members to have a better understanding of the financial position and to contribute to a developing budget strategy.

1.05 **Explaining the Cost Pressures**

All estimated cost pressures are included in Appendix A with further background provided below:

1.06 Prior Year Decisions/Approvals

Some of the cost pressures have been subject to previously approved decisions. These include borrowing requirements for the 21<sup>st</sup> Century Schools Programme and the annual inflationary uplift in the Minimum Revenue Provision (MRP).

1.07 Impact of National Pay Awards

NJC (Green Book)

The latest pay offer for NJC (Green Book) employees for the current year (2023/24) has been rejected and Trade Union Members are currently being balloted for potential industrial action. The offer made is at a similar level to that awarded in 2022/23 with an increase on each scale point of £1,925.

This equates to more than the 5% included in the 2023/24 budget. The amount of the final award in excess of the 5% will need to be funded from reserves in the current financial year. It will also have the impact of increasing the budget requirement for 2024/25.

The estimated impact of the current pay offer is an additional £2.727m which is included in the forecast but may be subject to change.

The assumptions for the 2024/25 pay award has been increased to 5% from the 3.5% previously included in the forecast.

### Teacher Pay

Assumptions for teachers' pay calculations are in line with current awards by the Minister for Education and Welsh Language. They are an increase of 6.5% from September 2022 and an increase of 5% in September 2023. These have not been accepted by all teaching unions and a formal dispute is on-going.

The 2023/24 budget contained funding for a 5% pay award for Teachers from September 2022. The Minister has increased the pay award to 8%, with 1.5% being a non-consolidated payment, leaving a recurring element of 6.5% which is now included in the forecast.

Grant funding has been made available by Welsh Government to fully fund the additional September 2022 pay award in financial years 2022/23 and 2023/24 (over and above the 5% originally awarded).

Funding from 2024/25 onwards is still uncertain and the additional annual cost to the council for the shortfall of £1.118m has been included in the forecast. However, it is expected that Welsh Government will provide additional funding in the Revenue Support Grant to cover the shortfall in Council's budgets.

### Pay Modelling

No figures are currently included for any impact of the pay modelling review which is needed to try and address the difficulties currently being experienced in recruitment and retention. It is due to be completed later this year.

## 1.08 Impact of Inflation / Indexation

The forecast includes estimated increases in costs for services such as the coroner service, Independent Remuneration Panel for Wales (IRPW) award for councillors, North Wales Fire and Rescue Authority (NWFRA) as well as anticipated inflationary increases for service contracts with external bodies.

There are no new cost pressures included at this stage for utility and fuel costs although these remain subject to high volatility. These will be kept under review throughout the current financial year, and the forecast will be updated accordingly as further information becomes available.

	<u>Portfolio Cost Pressures</u>
1.09	<p><u>Social Care</u></p> <p>The impact of inflation and increases in service demands continues to be challenging. The cost pressures identified to date include transition to adulthood, social care commissioning costs, children’s group homes and additional revenue costs for Croes Atti residential home.</p> <p>Additional costs for increased homecare capacity, special guardianship orders and the outcome of the social work pay review are also included within the forecast.</p> <p><u>Education and Youth</u></p> <p>The forecast includes pressures from school improvement and inclusion and progression services. Both services are struggling to cope within existing budgets with the needs, demands and complexity of service requirements from children and young people which have all increased following the pandemic. Increased budgets are necessary to continue to deliver safe and acceptable levels of service.</p> <p>There is a need to enhance the level of support provided to schools with safeguarding and child protection issues. Following an Estyn inspection at Plas Derwen Pupil Referral Unit, there is a need to review the management arrangements of the specialist foundation learning provision and the provision of education to the growing numbers and needs of pupils educated other than at school (EOTAS).</p> <p>An additional pressure has also been included to fund the revenue costs of increasing the capacity at our specialist schools, which are currently full, using capital grant from Welsh Government.</p> <p><u>Streetscene and Transportation</u></p> <p>The forecast reflects an estimate for the significant increase anticipated in the cost of the fleet renewal contract, which is due to be concluded in quarters 3-4 of this financial year.</p> <p>The Workplace Recycling Regulations are expected to come into force in April 2024, which will require Local Authorities to undertake additional services that are likely to result in additional revenue costs. Further details are awaited from Welsh Government including information on the potential to charge for this service, which may enable us to mitigate the pressure. Capital funding may be provided by Welsh Government for new equipment and/or infrastructure, but this has not yet been confirmed.</p> <p>There are some essential additional posts included due to the need to increase capacity and resilience to ensure that the portfolio can meet its statutory responsibilities for both waste and fleet services.</p>

	<p><u>Housing and Communities</u></p> <p>The forecast includes an inflationary uplift on the Council Tax Reduction Scheme (CTRS) to reflect the impact of an annual increase in council tax.</p> <p>There has been a significant growth in numbers presenting as homeless and needing to be accommodated within temporary accommodation. This has created an emerging pressure in the current financial year with further growth anticipated. An initial pressure of £2m has been included in the forecast for 2024/25 to reflect this significant growth although this will need to be kept under close review as the position evolves throughout this financial year.</p> <p><u>Out of County Placements</u></p> <p>Increased demand on the service is continuing and a cost pressure of £0.500m is included which will be kept under review throughout the 2023/24 financial year.</p> <p><u>Digital / Information Technology</u></p> <p>Pressures have been included for an increase in unavoidable licence costs and improvements to cyber security which is needed for the Council to obtain the Cyber Essential Plus accreditation, which is regarded as the minimum level of security for a public sector organisation.</p>
	<p><b>Other Known Risks</b></p>
<p>1.10</p>	<p><b>Homelessness</b></p> <p>As referenced earlier in the report the demands on the service are substantial. Whilst an initial pressure of £2m has been included in the current forecast the potential for demand to be higher is plausible and that risk will be kept under close review throughout the year.</p>
<p>1.11</p>	<p><b>Social Care</b></p> <p>There are a number of risks within the service that need to be kept under review, such as on-going recruitment and retention challenges, new statutory responsibilities and the impact of inflationary increases and match funding for projects such as the Regional Integration Fund (RIF).</p> <p>On-going support from existing grants is an area on which the service depends, so the continuation of these is critical. Any reduction would pose a risk to service delivery.</p>
<p>1.12</p>	<p><b>Streetscene and Transportation</b></p> <p>The review of the Waste Strategy is likely to impact on future costs of the service in relation to the ongoing risk of potential infraction fines for failing to achieve the statutory recycling targets in 2022-2023 (estimated to be in the region of £470k).</p> <p>There is also a risk that the continuation of the Sustainable Waste Management Grant may be stopped or reduced. This is a revenue grant</p>

	<p>provided by Welsh Government to support the provision of re-use and recycling services, as well as preventing waste. Any reduction of this grant from the current level could impact on further revisions to the forecast.</p> <p>Welsh Government is making £46m available to support the Bus Emergency Scheme and the Bus Transition Fund to ensure that the majority of the current services will be protected across Wales for the whole financial year 2023-2024. However, the funding arrangements beyond March 2024 are currently unknown. This could have an adverse impact on the transport network due to the uncertainty of funding by transport providers and consequential impact on home to school transport services, so will need to be kept under review.</p>
1.13	<p><b>Education and Youth</b></p> <p>An increase in the cost of employer teachers' pension contributions is anticipated from April 2024 and could potentially be significant. There are no specific indications of the likely scale of any increase at this stage, although it is expected that the increase will be fully funded by UK Government.</p> <p>Increases in demand and complexity for Additional Learning Needs, Specialist Provision and EOTAS is currently being funded by additional Welsh Government grant. There are a number of risks relating to the continuation of grant funding into 2024/25 which will need to be kept under review.</p> <p>Further work will be undertaken on demography and the impact of any changes due to school modernisation on the revenue costs for schools.</p>
	<p><b>Funding Solutions</b></p>
1.14	<p>The 2023/24 local government settlement provided an updated indicative figure for 2024/25 of 3.1% which equates to an uplift of around £7.8m for the Council.</p> <p>The indicative allocation is welcome. However, this is at a much lower level than previous years so will present significant challenges and will increase the requirement for budget contributions from other sources.</p>
1.15	<p>Members will be aware that whilst we are able to identify some cost savings and efficiencies as part of our annual budget setting process, there are no cost savings of any scale remaining following a decade of underfunding of local government.</p> <p>In previous years the Council has rightly stood on the principle that it will not reduce the budget for any service to the point where the service is unsafe, or to do so would mean we would fail to meet our statutory duties or our quality standards. The impacts of budget reduction options have been risk-assessed year on year.</p> <p>Any future options which councillors recommend we explore as a contribution to the budget will need to be risk assessed on this basis.</p>
1.16	<p>The Council has adopted a comprehensive policy for fees and charges for chargeable services. By applying this policy, we have balanced cost recovery of service provision with affordability and fairness for the payer.</p>

	<p>The annual review of the policy is also included on this agenda and shows an estimated contribution of £0.310m to the 2024/25 budget. There is no more scope for generating additional income or new income streams for 2024/25 over and above this report.</p>																		
1.17	<p>It is too early to make an assumption on council tax levels for 2024/25 as this will be largely dependent on how successful the Council is in identifying portfolio and corporate efficiencies. As in previous years council tax levels will be a key consideration in the final stage of the budget process.</p>																		
1.18	<p><b>Summary and Conclusions</b></p> <p>The Council clearly has a major budget challenge for the financial year 2024/25 if there is no movement in the indicative uplift in the settlement of 3.1%. This is significantly below the level required to meet current service demand and inflationary impacts – most of which are outside of the Council’s control.</p> <p>A detailed budget strategy needs to be developed with urgency in parallel to contributing to national discussions on the financial outlook across Wales, including any options available to increase the overall quantum available for local government.</p> <p>Regular updates will be provided to members in conjunction with the budget timeline detailed in the report.</p>																		
1.19	<p>An outline of the budget timeline is set out in the table below:</p> <p><b>Table 2: Budget Timeline</b></p> <table border="1"> <thead> <tr> <th>Date</th> <th>Event</th> </tr> </thead> <tbody> <tr> <td>July 2023</td> <td>Report to Cabinet and Corporate Resources Overview and Scrutiny Committee - Initial additional budget requirement 2024/25</td> </tr> <tr> <td>31 July 2023</td> <td>1<sup>st</sup> Member Workshop</td> </tr> <tr> <td>September 2023</td> <td>Report to Cabinet and Corporate Resources Overview and Scrutiny Committee - Updated additional budget requirement and emerging budget solutions</td> </tr> <tr> <td>September/October 2023</td> <td>2<sup>nd</sup> Member Workshop</td> </tr> <tr> <td>October/November 2023</td> <td>Overview &amp; Scrutiny Committees</td> </tr> <tr> <td>December 2023</td> <td>Report to Cabinet and Corporate Resources Overview and Scrutiny Committee - Budget Update</td> </tr> <tr> <td>December 2023</td> <td>WG Draft Budget/Provisional Settlement</td> </tr> <tr> <td>January 2024</td> <td>Report to Cabinet and Corporate Resources Overview and Scrutiny</td> </tr> </tbody> </table>	Date	Event	July 2023	Report to Cabinet and Corporate Resources Overview and Scrutiny Committee - Initial additional budget requirement 2024/25	31 July 2023	1 <sup>st</sup> Member Workshop	September 2023	Report to Cabinet and Corporate Resources Overview and Scrutiny Committee - Updated additional budget requirement and emerging budget solutions	September/October 2023	2 <sup>nd</sup> Member Workshop	October/November 2023	Overview & Scrutiny Committees	December 2023	Report to Cabinet and Corporate Resources Overview and Scrutiny Committee - Budget Update	December 2023	WG Draft Budget/Provisional Settlement	January 2024	Report to Cabinet and Corporate Resources Overview and Scrutiny
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		Committee - Proposed budget requirement and solutions
	February 2024	Report to Cabinet and Council - Final Budget Proposals
	March 2024	WG Final Budget/Settlement

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	<p><b>Revenue:</b> the revenue implications for the 2024/25 budget are set out in the report.</p> <p><b>Capital:</b> there are no new implications for the approved capital programme for either the current financial year or for future financial years – the capital programme will be subject to a separate report.</p> <p><b>Human Resources:</b> there are some potential implications for additional capacity as set out in the report.</p>

<b>3.00</b>	<b>IMPACT ASSESSMENT AND RISK MANAGEMENT</b>		
3.01	<p><b>Ways of Working (Sustainable Development) Principles Impact</b></p> <table border="1"> <tr> <td>Long-term</td> <td>Negative – the absence of longer-term funding settlements from Welsh Government means that sustainable support for service delivery is challenging for the longer term. Sustainable funding from Welsh Government that provides</td> </tr> </table>	Long-term	Negative – the absence of longer-term funding settlements from Welsh Government means that sustainable support for service delivery is challenging for the longer term. Sustainable funding from Welsh Government that provides
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		additional funding for Indexation, Service demands and new legislation will provide a positive and sustainable position for the Council in the longer term.
	Prevention	As above
	Integration	Neutral Impact
	Collaboration	Services continue to explore opportunities for collaboration with other services and external partners to support positive impacts.
	Involvement	Communication with Members, residents and other stakeholders throughout the budget process.
<b>Well-Being Goals Impact</b>		
	Prosperous Wales	Longer term funding settlements from Welsh Government that provide additional funding for indexation, service demands and new legislation will aid sustainability and support a strong economy that encourage business investment in the region. The opposite will be true if settlements are inadequate.
	Resilient Wales	Continuation of services to support communities and social cohesion will have a positive impact. The opposite will be true if settlements are inadequate.
	Healthier Wales	An appropriate level of funding will ensure that communities are supported and will have a positive impact. The opposite will be true if settlements are inadequate.
	More equal Wales	A positive impact with greater parity of funding from Welsh Government for all Welsh Local Authorities. The opposite will be true if settlements are inadequate.
	Cohesive Wales	Appropriate level of funding will support services working alongside partners. The opposite will be true if settlements are inadequate.
	Vibrant Wales	As Healthier and Cohesive Wales above
	Globally responsible Wales	Neutral impact.

<b>4.00</b>	<b>CONSULTATIONS REQUIRED/CARRIED OUT</b>
4.01	The Forecast for 2024/25 – 2026/27 will be considered by Overview and Scrutiny Committees during September and October.

	Member Workshops will be held in July and in September/October 2023.
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<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix A. MTFs Forecast 2024/25 – 2026/27.

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	None.

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

<b>8.00</b>	<b>GLOSSARY OF TERMS</b>
8.01	<p><b>Medium Term Financial Strategy (MTFS):</b> 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><b>Revenue:</b> 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><b>Budget:</b> 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><b>Revenue Support Grant:</b> 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><b>Specific Grants:</b> An award of funding from a grant provider (e.g. Welsh Government) which must be used for a pre-defined purpose.</p> <p><b>Welsh Local Government Association:</b> the representative body for unitary councils, fire and rescue authorities and national parks authorities in Wales.</p>

**Financial Year:** the period of 12 months commencing on 1 April.

**Local Government Funding Formula:** The system through which the annual funding needs of each council is assessed at a national level and under which each council's Aggregate External Finance (AEF) is set. The revenue support grant is distributed according to that formula.

**Aggregate External Finance (AEF):** The support for local revenue spending from the Welsh Government and is made up of formula grant including the revenue support grant and the distributable part of non-domestic rates.

**Provisional Local Government Settlement:** The Provisional Settlement is the draft budget for local government published by the Welsh Government for consultation. The Final Local Government Settlement is set following the consultation.

**Funding Floor:** a guaranteed level of funding for councils who come under the all-Wales average change in the annual Settlement. A floor has been a feature of the Settlement for many years.