

## CABINET

<b>Date of Meeting</b>	Tuesday, 13 <sup>th</sup> July 2021
<b>Report Subject</b>	Medium Term Financial Strategy and Budget 2022/23
<b>Cabinet Member</b>	Cabinet Member for Finance, 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 our 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. Our forecast for the 2022/23 financial year has been updated in detail and will be presented to the Committee at this meeting.

The updated forecast shows that we are likely to have a minimum budget requirement of an additional £16.750m of revenue resources for 2022/23. How this estimate is built up will be explained in full at the meeting.

This is the first stage of developing our budget for 2022/23. During September and October, the Overview and Scrutiny Committees will be invited to review the cost pressures, and the opportunities for cost control and efficiency, under their respective terms of reference.

Once this work is complete, the Council will be in a strong position to communicate to Governments, local partners and stakeholders and the public how a legal, safe and balanced budget might be achieved for 2022/23 and what will be required for national funding through Revenue Support Grant (RSG). Engagement is already taking place with the new Welsh Government through the Welsh Local Government Association (WLGA) and separately.

Members will be acutely aware that whilst we can always identify some cost savings and efficiencies as part of our annual budget setting process, there are no cost savings of scale remaining following a decade of under-funding of local government.

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 quality standards and/or fail to meet our statutory duties.

The Council has also taken a stance that annual rises in Council Tax should not exceed 5%. This figure should be treated as a maximum and not an entitlement to raise local income. Council Tax is at risk of becoming unaffordable for an increasing minority, and this Council believes that the responsibility for full and fair funding for local government needs to sit with Governments and not local taxpayers.

Therefore, the Local Government Settlement for 2022/23 – set and funded by Welsh Government – will need to be sufficient.

## RECOMMENDATIONS

1	To receive and note the additional budget requirement and receive feedback from Corporate Resources Overview and Scrutiny Committee.
2	To refer the cost pressures to the Overview and Scrutiny Committees in September/October for review.
3	To note the solutions available to meet the cost pressures, and re-set the funding strategy for 2022/23.

## REPORT DETAILS

<b>1.00</b>	<b>EXPLAINING THE MEDIUM TERM FINANCIAL STRATEGY FORECAST 2022/23 AND ANNUAL BUDGET</b>
1.01	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.
1.02	The MTFS forecasts the resources the Council will need to meet our 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. Our forecast for the 2022/23 financial year has been updated in detail and will be presented to the Committee at this meeting. It takes into account economic market factors e.g. commodity price inflation, the national position on public sector pay, the costs of employment functions e.g.

	pensions, new or changing functions required of local government through legislation e.g. flood prevention, demands on services e.g. adult and children's social services, organisational change e.g. digital, and our policy aspirations e.g. anti-poverty.
1.03	The forecast shows that we are likely to have a minimum budget requirement of an additional £16.750m of revenue resources for 2022/23. The estimate has been built up in great detail and every cost pressure has been reviewed and challenged at a senior level. All cost pressures are supported by an explanatory method statement. The principal cost pressures are for pay awards, and for increasing and changing service demands within the two portfolios of Education and Youth and Social Services. The impact of the disruption caused to services and the loss of income caused by the ongoing pandemic/endemic situation is built into these estimates
1.04	How this estimate is built up will be explained in full at the meeting. Full details will be presented to the Overview and Scrutiny Committees in September and October for review, challenge and assurance.
1.05	This is the first stage of developing our budget for 2022/23. During September and October the Overview and Scrutiny Committees will be invited to review the costs pressures, and the opportunities for cost control and efficiency under their respective terms of reference. This will give us the opportunity to set a draft budget requirement for 2022/23 in November to coincide with the Autumn Statement of the Chancellor of the Exchequer and the Provisional (draft) Welsh Local Government Settlement of Welsh Government. There is a risk that both of these key announcements might be delayed as national fiscal decision-making is made even more complex by the economic uncertainties caused by the ongoing pandemic/endemic.
1.06	Members will be acutely aware that whilst we can always identify some cost savings and efficiencies as part of our annual budget setting process, there are no cost savings of scale remaining following a decade of under-funding of local government. 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 we will fail to meet our quality standards and/or we will fail to meet our statutory duties. The impacts of budget reduction options have been risk-assessed year on year. Any options which Committees would recommend we explore as a contribution to the budget will be risk-assessed using this method. Our target for annual budget efficiencies for 2022/23 cannot realistically go above £2.0m.
1.07	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. The annual review of the policy is to be presented to Cabinet later this month. There is no more scope for generating additional income or new income streams for 2022/23 over and above this report.
1.08	The Council has also taken a stance that annual rises in Council Tax should not exceed 5%. This figure should be treated as a maximum and not an entitlement to raise local income. Council Tax is at risk of becoming unaffordable for an increasing minority, and the responsibility for full and

	fair funding for local government needs to sit with Governments and not local taxpayers.
1.09	Therefore, the Local Government Settlement for 2022/23 – set and funded by Welsh Government – will need to be sufficient. The Settlement for 2021/22 gave local authorities in Wales an average uplift of 3.7%. Flintshire was on the average.
1.10	Taking into account all of the above cost estimates, budget options, and limiting factors an uplift in the Settlement of a minimum 4.5% is likely to be required if the Council is to be able to set a legal, safe and balanced budget for 2022/23. Welsh Government and the WLGA will be put on early notice of this requirement.

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	<p><b>Revenue:</b> the revenue implications for the 2022/23 budget are set out in the report.</p> <p><b>Capital:</b> the borrowing needs for the capital programme are built into the revenue estimates for 2022/23.</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 additional funding for Indexation, Service demands and new legislation will provide a positive and sustainable position for the Council in the longer term.</td> </tr> <tr> <td>Prevention</td> <td>As above</td> </tr> <tr> <td>Integration</td> <td>Neutral Impact</td> </tr> <tr> <td>Collaboration</td> <td>Services continue to explore opportunities for collaboration with other services and external partners to support positive impacts.</td> </tr> <tr> <td>Involvement</td> <td>Communication with Members, residents and other stakeholders throughout the budget process.</td> </tr> </table> <p><b>Well-Being Goals Impact</b></p>	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 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.
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Prevention	As above										
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Involvement	Communication with Members, residents and other stakeholders throughout the budget process.										

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	Consultation has taken place with Portfolio Management Teams and the Chief Officer Team, the Finance Team, Cabinet Members, Group Leaders and Members. The next steps for the engagement of the Overview and Scrutiny Committees are set out in this report.

<b>5.00</b>	<b>APPENDICES</b>
5.01	None.

<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>Capital:</b> Expenditure on the acquisition of <b>non-current assets</b> or expenditure which extends the useful life of an existing asset.</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> <p><b>Financial Year:</b> the period of 12 months commencing on 1 April.</p> <p><b>Local Government Funding Formula:</b> 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.</p>

**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.