

**CABINET**

<b>Date of Meeting</b>	Tuesday 16 <sup>th</sup> January 2024
<b>Report Subject</b>	Medium Term Financial Strategy and Budget 2024/25 – Welsh Local Government Provisional Settlement
<b>Cabinet Member</b>	Cabinet Member for Finance, Inclusion, Resilient Communities including Social Value and Procurement for Finance, Inclusion, Resilient Communities including Social Value & Procurement
<b>Report Author</b>	Corporate Finance Manager and Chief Executive
<b>Type of Report</b>	Strategic

**EXECUTIVE SUMMARY**

In December, Cabinet and Corporate Resources Overview and Scrutiny Committee received an update to the additional budget requirement for the 2024/25 financial year, which at that stage stood at £33.187m. The report identified potential funding solutions of £22.097m leaving an amount remaining at that time of £11.090m.

The purpose of this report is to provide an update on the key headlines and financial impacts of the Welsh Local Government Provisional settlement and to update on the work being undertaken on the range of budget solutions available to the Council to set a legal and balanced budget in February.

The Welsh Local Government Provisional Settlement was announced on 20 December 2023 as planned with responses to the consultation on the settlement invited by the deadline of 2 February 2024. A summary of the key headlines are set out in the report and have the effect of increasing the 'budget gap' to £12.946m.

The Provisional Welsh Local Government Settlement for Flintshire is extremely disappointing and presents an increased challenge to an already very difficult financial position.

Detailed final budget proposals now need to be prepared for member consideration and scrutiny and specific proposals will be considered by relevant Overview and Scrutiny Committees from February.

Arrangements are also being made to provide an opportunity for members to consider the overall budget proposals in advance of the Overview and Scrutiny meetings.

## RECOMMENDATIONS

1	That Cabinet notes the financial implications of the Welsh Provisional Local Government Settlement and the remaining work which needs to be completed prior to agreeing a set of recommendations for Council to set a legal and balanced budget on 20 February (which will be subject to prior consideration and comment by Overview and Scrutiny Committees).
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## REPORT DETAILS

<b>1.00</b>	<b>EXPLAINING THE COUNCIL FUND REVENUE BUDGET 2024/25</b>
1.01	In July, Cabinet and Corporate Resources Overview and Scrutiny Committee were advised of an additional budget requirement for the 2024/25 financial year of £32.222m. This was revised upwards to £32.386m in September and the cost pressures and cost reductions options to date were referred to relevant Overview and Scrutiny Committees in October. Feedback from all sessions was reported back to Corporate Resources Overview and Scrutiny Committee on 16 November.
1.02	In December, Cabinet and Corporate Resources Overview and Scrutiny Committee received a further update to the additional budget requirement for the 2024/25 financial year, which at that stage stood at £33.187m. The report identified potential funding solutions of £22.097m leaving an amount remaining at that time of £11.090m.
1.03	The purpose of this report is to provide an update on the key headlines and financial impacts of the Welsh Local Government Provisional Settlement and to update on the work being undertaken on the range of budget solutions available to the Council to set a legal and balanced budget in February.

<b>2.00</b>	<b>THE WELSH LOCAL GOVERNMENT PROVISIONAL SETTLEMENT</b>
2.01	The Welsh Local Government Provisional Settlement was announced on 20 December as planned with responses to the consultation on the settlement invited by the deadline of 2 February. A summary of the key headlines is set out below.
2.02	<b>Standard Spending Assessment (SSA)</b>  The provisional Standard Spending Assessment (SSA) for 2024/25 is £361.297m which is an increase of 3.6% (£12.497m) on the SSA for 2023/24 of £348.800m.

2.03	<p><b>Aggregate External Finance (AEF)</b></p> <p>The provisional Aggregate External Finance (AEF) for 2024/25 is £257.555m which, when compared to the adjusted 2023/24 AEF figure of £251.959m represents an <i>increase</i> of 2.2% (£5.596m) (All Wales average is an <i>increase</i> of 3.1 % with Local Authority increases ranging from 2% to 4.7%).</p> <p>The percentage increase for the Council is the third lowest in Wales.</p> <p>The provisional AEF represents a cash uplift of £5.560m (2.2%) over the 2023/24 AEF of £251.995m.</p>
2.04	<p><b>Transfers In/Out of the Settlement</b></p> <p>There are no transfers into or out of the settlement for the Council.</p>
2.05	<p><b>Funding Per Capita</b></p> <p>The Aggregate External Finance allocation provides an amount of £1,658 per capita compared to the Welsh average of £1,817 which places Flintshire 20th out of the 22 Welsh Councils (also 20th in 2023/2024)</p>
2.06	<p><b>Additional Funding (Floor)</b></p> <p>Additional funding of £1.3m is included in the settlement to ensure that no authority will receive less than a 2% increase. Two authorities have benefitted from this.</p>
2.07	<p><b>Specific Grants</b></p> <p>Some details have been included for specific grants on an all-Wales basis which are being worked through in detail.</p> <p>However, an initial review of grants at an all-Wales level indicates that there will be a reduction in the Social Care Workforce Grant of around 22% (£45m to £35m) and a reduction in the Homelessness No One Left Out Approach Grant of 33% (£15m to £10m).</p> <p>The Sustainable Waste Management Grant is still to be confirmed.</p>
2.08	<p><b>Non-Domestic Rates (NDR) multiplier</b></p> <p>The provisional settlement refers to an increase in the Non-Domestic Rates (NDR) multiplier for 2024/25.</p> <p>The NDR multiplier has remained unchanged at the same level since 2020/21, but the provisional settlement signals that it will increase in 2024/25 by 5%.</p>

	<p>It had been anticipated that the multiplier would remain frozen at the current rate as it has been in England. This change will result in an increased cost of around £0.131m for Council Buildings.</p> <p>This is in addition to the additional cost of £0.131m arising from a reduction of transitional relief for ratepayers following the UK-wide revaluation exercise, which took effect on 1 April 2023.</p> <p>A second unexpected announcement was the reduction in Retail Rate Relief from 75% to 40%. This once again is a diversion from the scheme in England where the rate is to be maintained as a 75% discount.</p>
2.09	<p><b>Pay Awards</b></p> <p>The Ministers Statement makes it clear that Local Authority budget planning must accommodate the impact of all pay settlements for Teacher and Non-Teacher pay awards. There is no additionality for the recurring impact of the increased Teacher Pay Award (Sep 2022) which had previously been stated by Welsh Government (£1.152m).</p>
2.10	<p><b>Teacher Pensions</b></p> <p>Reference is made to the increase in employer teacher pension costs from April 2024. It is confirmed that the additional cost is expected to be funded by UK Government and that assurances are being sought by Welsh Government. This is in line with our current assumptions as the additional cost is not included within the additional budget requirement calculation (refer also to para 2.19).</p>
2.11	<p><b>Indicative Allocations for future years</b></p> <p>The Settlement does not refer to any indicative allocations for future years, unlike previously, where Welsh Government set out an indicative three-year settlement which assisted local authorities in their future budget planning.</p>
	<p><b>IMPACT OF THE SETTLEMENT ON THE BUDGET 2024/25</b></p>
2.12	<p>As set out earlier in the report an additional budget requirement of £33.187m was reported in December together with potential funding solutions of £22.097m – leaving an amount remaining at that stage of £11.090m</p> <p>However, the funding solutions assumed an uplift of £7.285m from Welsh Government AEF (based on an Indicative 3.1% adjusted for known data changes at the time).</p> <p>The AEF uplift confirmed in the settlement of £5.560m is £1.725m lower which has the effect of increasing the amount remaining to £12.815m (from £11.090m) – this further increases to £12.946m when taking into account the increase in NDR multiplier (estimated at £0.131m).</p> <p>Changes to specific funding streams such as Social Care Workforce Grant and Homelessness Grants may also negatively impact on the overall position and the details of these are being worked through.</p>
	<p><b>ONGOING RISKS TO THE ADDITIONAL BUDGET REQUIREMENT</b></p>

2.13	A number of ongoing risks have been reported previously which will potentially impact on the additional budget requirement and further detail is set out below:
2.14	<p><b>Funding for Pay Awards</b></p> <p>It is now clear that the allocation provided for 2024/25 will need to cover in full the impacts of all pay awards (Teacher and Non-Teacher).</p> <p>Predicting pay awards that are nationally agreed in the current economic climate is particularly challenging. However, as was the case this year any agreed pay award in excess of the Council's budgeted provision will result in a reduction of our limited reserves in-year and also impact on the following year with the requirement to include such increases in our budget on a recurring basis.</p> <p>The current assumed increase, for planning purposes, of 5% will be kept under review prior to final budget setting in February.</p>
2.15	<p><b>Homelessness</b></p> <p>The Council is continuing to experience high and increasing demand for temporary accommodation in order to meet its statutory obligations to accommodate families and persons that present themselves as homeless which is expected to continue.</p> <p>The latest budget monitoring position is forecasting a net overspend of £2.7m and the indication of the reduction in the Homelessness No One Left Out Approach Grant of 33% (£15m to £10m), will further impact on the pressure the Council is likely to face in 2024/25.</p> <p>The impact of this together with the increasing demand for this service are currently being assessed and this remains a significant risk which will need to be considered as part of final budget setting.</p>
2.16	<p><b>Out of County Placements</b></p> <p>The position on Out of County placements remains an ongoing risk and the projected overspend in the current financial year is now £1.526m. An amount of £0.500m is included in the current forecast which will need to continue to be kept under close review and risk assessed as part of final budget setting.</p>
2.17	<p><b>Social Care</b></p> <p>Risks remain within the service such as on-going recruitment and retention challenges, new statutory responsibilities, the impact of inflationary increases as well as match funding for projects such as the Regional Integration Fund (RIF).</p> <p>The reduction in the Social Care Workforce Grant is very concerning as it supports the delivery of front-line services and the risk remains around other grants, the detail of which is being worked through.</p>

2.18	<p><b>Streetscene and Transportation</b></p> <p>The review of the Waste Strategy remains a risk due to the potential impact on future costs of the service in relation to the ongoing risk of potential infraction fines for failing to achieve Welsh Government's statutory recycling targets in 2022-2023 (estimated to be in the region of £470k).</p> <p>The risk that the Sustainable Waste Management Grant (SWMG) may cease or reduce is still a concern. The SWMG is a revenue grant of £0.742m provided by Welsh Government to support the provision of re-use and recycling services, as well as preventing waste. The Provisional Settlement gives no indication of the level of this grant for 2024/25 with it to be confirmed at a later date by Welsh Government.</p> <p>The funding arrangements for the Bus Emergency Scheme (BES) and the Bus Transition Fund (BTF) is also still unknown beyond March 2024 so will need to be kept under close review. These have previously been funded by Welsh Government.</p>
2.19	<p><b>Education and Youth</b></p> <p>Confirmation has been received that employer teacher pension contributions will increase by 5% from April 2024. A high-level estimate is that this will lead to a pressure of £3m for schools. The provisional settlement states that this is expected to be met by UK Government and that assurances are being sought by Welsh Government</p> <p>Increases in demand and complexity for Additional Learning Needs, Specialist Provision and Education Other Than at School (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 and this will be considered as we work through the detail of the provisional settlement.</p> <p>Further work is being undertaken on demography and the impact of any changes on revenue costs due to the school modernisation programme.</p>
	<b>BUDGET SOLUTIONS</b>
2.20	The options available to the Council to meet its significant additional budget requirement is summarised in the following paragraphs.
2.21	<p><b>Government Funding - Aggregate External Finance (AEF)</b></p> <p>The Provisional Settlement has advised of an additional £5.560m and this is not expected to change significantly at the Final Settlement stage.</p>
2.22	<b>Efficiencies / Cost Reductions – Portfolios</b>

	<p>As reported in the December report all portfolios have been revisiting their cost base with a view to achieving further budget reductions and the outcome of this work is currently being finalised and risk assessed in detail.</p> <p>Details of the potential cost reductions will be shared as soon as this work is completed and will need to be considered by the relevant scrutiny committees in early February in advance of the Cabinet and Council meetings on 20 February.</p>
2.23	<p><b>Council Tax</b></p> <p>The scale of the additional budget requirement due to increases in service demand and persistent higher inflation means that it is inevitable that a further increase will need to be considered as part of final budget setting. This is in line with the position in many councils across Wales and is reflective of fiscal analysis presented at a recent presentation to the Council by the Welsh Local Government Association.</p> <p>Each further increase of 1% in Council Tax (net of the impact on the Council Tax Reduction Scheme) would provide an additional £0.882m towards the gap.</p>
2.24	<p><b>Schools Budget</b></p> <p>The delegated schools budget has been protected in recent years.</p> <p>However, as the Council's largest budget it is inevitable that consideration will need to be given to a reduction in the 2024/25 financial year.</p> <p>School budgets benefitted from a net uplift of £5.761m in 2023/24 after taking into account increases for pay, energy, free school meals, demography, offset by a 3% reduction and agreed savings on National Insurance and Pension Contributions.</p> <p>The current additional budget requirement for 2024/25 includes total cost pressures of £9.049m for school budgets for pay awards and other identified pressures.</p> <p>Each further 1% reduction on the school's budget would equate to £1.091m off the cumulative cost pressures currently included.</p>
2.25	<p><b>Social Care – Commissioning Costs</b></p> <p>Social Care budgets have also been protected in recent years and commissioning costs increased above average across North Wales for the current financial year.</p> <p>An increase at similar levels is not sustainable due to the Council only receiving an increase of 2.2% in its annual Welsh Government settlement.</p> <p>Therefore, the Council will need to provide a much more prudent uplift in 2024/25 which will be subject to negotiation with care providers over the coming weeks.</p>

2.26	<p><b>Strategic Programme of Transformation</b></p> <p>Work has commenced on planning and delivering a strategic programme of service transformation to ensure that the Council is developing cost reductions over the next five years to protect its ongoing future financial position and ensure it is further prepared for inevitable and potentially more significant budget reductions from 2025/26 onwards.</p> <p>Due to the scale and complexity of this work, the intention is for these workstreams to provide financial support and a degree of stability from 2025/26 onwards so will not assist with the immediate budget challenge for 2024/25.</p> <p>As noted earlier the provisional settlement does not give an indicative settlement figure for 2025/26 onwards but indications from the Wales Institute of FISCAL studies are that future settlement will be less than 1% or even potentially cash flat - therefore it is important that work on this programme is identified as a high priority for the Council in 2024/25.</p>								
2.27	<p><b>Summary and Conclusions</b></p> <p>The provisional local government settlement for Flintshire is extremely disappointing and presents an increased challenge to an already very difficult financial position.</p> <p>Representations will continue to be made for a better settlement alongside all Welsh Councils through the Welsh Local Government Association (WLGA), and a formal response to the provisional settlement will be submitted in advance of the deadline by the Council.</p> <p>At this stage the amount remaining to be found to reach a legal and balanced budget has increased to around £13m with a number of risks and impacts of specific grant reductions remaining which could increase this figure still further.</p> <p>Detailed final budget proposals now need to be prepared for member consideration and scrutiny, and specific proposals will be considered by relevant Overview and Scrutiny Committees from February.</p> <p>Arrangements are also being made to provide an opportunity for members to consider the overall budget proposals in advance of the Overview and Scrutiny meetings.</p>								
2.28	<p><b>Budget Timeline</b></p> <table border="1" data-bbox="320 1776 1385 1928"> <thead> <tr> <th data-bbox="320 1776 703 1809">Date</th> <th data-bbox="703 1776 1385 1809">Event</th> </tr> </thead> <tbody> <tr> <td data-bbox="320 1809 703 1850">1 – 9 February</td> <td data-bbox="703 1809 1385 1850">Specific Overview and Scrutiny Meetings</td> </tr> <tr> <td data-bbox="320 1850 703 1890">20 February 2024</td> <td data-bbox="703 1850 1385 1890">Cabinet and Council – Budget Setting</td> </tr> <tr> <td data-bbox="320 1890 703 1928">March 2024</td> <td data-bbox="703 1890 1385 1928">Welsh Government Final Budget/Settlement</td> </tr> </tbody> </table>	Date	Event	1 – 9 February	Specific Overview and Scrutiny Meetings	20 February 2024	Cabinet and Council – Budget Setting	March 2024	Welsh Government Final Budget/Settlement
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<b>3.00</b>	<b>RESOURCE IMPLICATIONS</b>
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3.01	
3.01	<p><b>Revenue:</b> the revenue implications for the 2024/25 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 2024/25.</p>

4.00	<b>IMPACT ASSESSMENT AND RISK MANAGEMENT</b>
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4.01	<b>Ways of Working (Sustainable Development) Principles Impact</b>	
	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.
	<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 encourages 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>5.00</b>	<b>CONSULTATIONS REQUIRED/CARRIED OUT</b>
5.01	Chief Officer Team, the Finance Team, Cabinet Members, Group Leaders and Scrutiny Committees. Workforce conferences have been held for employees.

<b>6.00</b>	<b>APPENDICES</b>
6.01	None

<b>7.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
7.01	Cabinet Report 18 July 2023 Cabinet Report 19 September 2023 Scrutiny Reports and Presentations October 2023 Cabinet Report 19 December 2023

<b>8.00</b>	<b>CONTACT OFFICER DETAILS</b>
8.01	<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>

<b>9.00</b>	<b>GLOSSARY OF TERMS</b>
9.01	<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.

**Revenue:** a term used to describe the day to day costs of running Council services and income deriving from those services. It also includes charges for the repayment of debt, including interest, and may include direct financing of capital expenditure.

**Budget:** a statement expressing the Council's policies and service levels in financial terms for a particular financial year. In its broadest sense it includes both the revenue budget and capital programme and any authorised amendments to them.

**Revenue Support Grant:** the annual amount of money the Council receives from Welsh Government to fund what it does alongside the Council Tax and other income the Council raises locally. Councils can decide how to use this grant across services although their freedom to allocate according to local choice can be limited by guidelines set by Government.

**Specific Grants:** An award of funding from a grant provider (e.g. Welsh Government) which must be used for a pre-defined purpose.

**Welsh Local Government Association:** the representative body for unitary councils, fire and rescue authorities and national parks authorities in Wales.

**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.

**Standard Spending Assessment (SSA) -** The SSA is the amount of revenue expenditure Welsh Government considers appropriate to ensure that each local authority can provide a standard level of service. The SSA takes account of factors such as population, sparsity and deprivation.

**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.