



CABINET

Date of Meeting	Tuesday, 23rd July 2024
Report Subject	Medium Term Financial Strategy and Budget 2025/26
Cabinet Member	Cabinet Member for Finance and Social Value
Report Author	Corporate Finance Manager and Chief Executive
Type of Report	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 2024/25 an initial additional budget requirement of £28.251m was projected for 2025/26 which was based on broad assumptions for pay, social care commissioning and other known pressures at that time.

Our forecast for the 2025/26 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 £37.778m for 2025/26.

Appendix A shows the detail of all the cost pressures for 2025/26 as well as early indications of pressures for 2026/27 and 2027/28.

This is the first stage of developing our budget for 2025/26.

The main purpose of this report is to set out in detail the forecast cost pressures for 2025/26 and two budget briefings were held on 9 July to enable members to have a better understanding of the financial position and a further briefing will be scheduled for September as an opportunity to contribute to a developing budget strategy.

To date Welsh Government has provided no indicative figures for our main funding stream – Aggregate External Finance (AEF) for 2025/26. However, independent analysis of the Welsh Government budget advises that only a marginal uplift at best can be expected. Therefore, at this stage it is considered prudent to plan for a cash flat settlement. By way of context each 1% uplift to our AEF would generate £2.585m of funding for the Council’s budget.

A cash flat settlement is woefully insufficient to meet current service demand and inflationary impacts – most of which are outside of the Council’s control.

The Council clearly has a serious and major budget challenge for the financial year 2025/26 if there is no significant movement on national funding levels.

A detailed budget strategy is being 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 2025/26 financial year.
2	To agree the process and timeline for budget setting for 2025/26.

REPORT DETAILS

1.00	EXPLAINING THE MEDIUM TERM FINANCIAL STRATEGY FORECAST FOR 2024/25
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 2025/26 financial year has been updated and takes into account the latest expectations 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 £37.778m as summarised in the table below:

Table 1: Summary of Cost Pressures 2025/26

Summary of Pressures	£m
Prior Year Decisions / Approvals	1.104
Legislative/Unavoidable Indexation	1.722
National Funding Requirement (Pay Awards)	11.464
Social Care	7.069
Education and Youth	3.304
Out of County Placements	0.500
Planning, Environment and the Economy	0.065
Housing and Communities	9.160
Streetscene and Transportation	2.081
Governance	0.617
Central and Corporate Finance	0.692
Total Pressures	37.778

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 2025/26. Two budget briefings were held on 9 July to enable members to have a better understanding of the financial position and a further briefing will be scheduled for September as an opportunity to contribute to the 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 21st 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 (2024/25) has been rejected and Trade Union Members are currently being

	<p>balloted for potential industrial action. The offer made is £1,290 (SCP 2-43) and 2.5% on all other salary points.</p> <p>If agreed at this level, there would be an in-year benefit to the budget of around £0.850m. However, if not agreed at this level, any final award in excess of the budgeted amount will need to be met from reserves in the current financial year and would also have the impact of increasing the budget requirement for 2025/26.</p> <p>No estimated impact from the current pay offer is included in the forecast at this stage and will be refined once the final outcome is known (positive or negative).</p> <p>As inflation levels are now much more stable the assumptions for the 2025/26 pay award have been reduced to 4% from the 5% previously included in the forecast.</p> <p><u>Teacher Pay</u></p> <p>Similarly, the September 2024 pay award is still unknown, so no assumptions have been made of the impact of any variation to the budgeted amount. An uplift of 4% has been included for a September 2025 pay award.</p> <p><u>Pay Modelling</u></p> <p>A review of the pay model is continuing with the intention that it will support the recruitment and retention issues that the Council is experiencing. Formal recommendations have not yet been made and it is acknowledged that affordability will be challenging based on the current national funding outlook.</p> <p>As this piece of work is deemed a priority for the Council an ‘aspirational’ amount of £2m has been included in the estimates at this stage but will be subject to review as the project progresses.</p>
1.08	<p><u>Impact of Inflation / Indexation</u></p> <p>The forecast includes estimated increases in costs for areas such as the coroner service, member allowances, North Wales Fire and Rescue Authority (NWFRA) as well as anticipated inflationary increases for fuel, energy and service contracts with external bodies.</p>
	<p><u>Portfolio Cost Pressures</u></p>
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 commissioned care, transition to adulthood, Children Services Group Homes and the revenue costs for the Croes Atti care facility.</p> <p><u>Education and Youth</u></p> <p>The forecast includes the reinstatement of £0.750m for School Deficits which was removed from the 2024/25 budget on a temporary basis and the inclusion of £0.462m for free school meals for eligible learners during holiday periods.</p>

Cost pressures have also been included to address resource and capacity needs such as EOTAS/Specialist Provision (Estyn Inspection and Medical Need) £0.656m, Sustainable Communities for Learning £0.285m, Integrated Youth Provision Grant Funding reduction £0.278m and ALN Reforms £0.135m.

Streetscene and Transportation

The forecast includes a wide range of service demand cost pressures including School Transport re-procurement increases (£0.350m), Local Bus re-procurement increases (£0.150m), recycling income reductions (£0.150m), drainage costs from severe weather events (£0.150), additional security costs Depot and Greenfield HRC (£0.150m), Winter Maintenance service cost increases (£0.200m) and Recycling Receptacle costs (£0.160m).

Housing and Communities

The forecast includes an inflationary uplift on the Council Tax Reduction Scheme (CTRS) to reflect the impact of an annual increase in council tax. This is a higher uplift than in previous years as the 2024/25 increase was temporarily met by one-off funding.

There continues to be a significant growth in numbers presenting as homeless and needing to be accommodated within temporary accommodation. An additional amount of £2m was included in the 2024/25 budget but this area was still identified as a significant financial risk should demand levels not start to fall. Due to the continued increase in demand, there is a projected overspend of £2.9m for 2024/25 and a potential additional budget requirement for 2025/26 of around £7.5m and this has been included in the forecast.

Demand levels in the future and the impact of the mitigations being put in place are difficult to predict so will need to be kept under close review throughout this financial year.

Out of County Placements

An additional amount of £1.5m was included in the 2024/25 budget. At this early stage this is deemed sufficient to meet current demand levels but due to the volatility of this area will need to be kept under review throughout the financial year. An additional amount of £0.500m has been included for 2025/26 at this early stage to reflect a moderate increase in demand.

Digital / Information Technology

Cost Pressures have been included to progress our digital ambition requirements and include Digital Officers (£0.060m), Security Licences (£0.038m), VMWare Licencing (£0.055m) and Midland iTrent Maintenance (£0.087m).

Other Known Risks

1.10 Homelessness

As referenced earlier in the report the demands on the service are substantial. Whilst an initial pressure of £7.5m 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.
1.11	<p>Social Care</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>
1.12	<p>Streetscene and Transportation</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 since 2021/22 (estimated to be in the region of £1.2m over three financial years).</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 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>
1.13	<p>Education and Youth</p> <p>There has been an increase in the cost of employer teachers' pension contributions from April 2024 and no provision was made in the 2024/25 budget as it is assumed that the additional cost will be met by UK Government.</p> <p>However, at this stage no confirmation has been received and Welsh Government continue to negotiate a funding settlement with UK Government.</p> <p>Any overall shortfall would result in additional costs for 2024/25 and 2025/26 which are not currently included in the forecast.</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 2025/26 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>
	Funding Solutions
1.14	The local government settlement did not provide an indicative figure for our main funding stream of Aggregate External Finance (AEF) for the 2025/26 financial year and beyond. However, independent analysis of the Welsh Government budget advises that only a marginal uplift at best can be expected. Therefore, at this stage it is considered prudent to plan for a cash

	<p>flat settlement. By way of context each 1% uplift to our AEF would generate £2.585m of funding for the Council's budget.</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 over 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 additional contribution of £0.035m to the 2025/26 budget.</p>
1.17	<p>It is too early to make an assumption on council tax levels for 2025/26 as this will be largely dependent on how successful the Council is in identifying portfolio and corporate cost reductions. As in previous years council tax levels will be a key consideration in the final stage of the budget process.</p>
1.18	<p>Summary and Conclusions</p> <p>The Council clearly has a serious and major budget challenge for the financial year 2025/26 if there is no movement in national funding expectations which is woefully insufficient of 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 is being 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 An outline of the budget timeline is set out in the table below:

Table 2: Budget Timeline

Date	Event
July 2024	Report to Cabinet and Corporate Resources Overview and Scrutiny Committee - Initial additional budget requirement 2025/26
9 July 2024	Member Budget Briefing
September 2024	Report to Cabinet and Corporate Resources Overview and Scrutiny Committee - Updated additional budget requirement and emerging budget solutions
September 2024	2 nd Member Budget Briefing
October/November 2024	Overview & Scrutiny Committees
December 2024	Report to Cabinet and Corporate Resources Overview and Scrutiny Committee - Budget Update
December 2024	Welsh Government Draft Budget/ Provisional Settlement
January 2025	Report to Cabinet and Corporate Resources Overview and Scrutiny Committee - Initial budget proposals and solutions
February 2025	Report to Cabinet and Council - Final Budget Proposals
February/March 2025	Welsh Government Final Budget/Settlement

2.00 RESOURCE IMPLICATIONS

2.01 **Revenue:** the revenue implications for the 2025/26 budget are set out in the report.

Capital: 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.

Human Resources: there are some potential implications for additional capacity as set out in the report.

3.00	IMPACT ASSESSMENT AND RISK MANAGEMENT	
3.01	Ways of Working (Sustainable Development) Principles Impact	
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.	
Well-Being Goals Impact		
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.

4.00	CONSULTATIONS REQUIRED/CARRIED OUT
4.01	The Forecast for 2025/26 – 2027/28 will be considered by Overview and Scrutiny Committees during September and October. Member Budget Briefings were held in July and a further briefing will be scheduled for September.

5.00	APPENDICES
5.01	Appendix A. MTFFS Forecast 2025/26 – 2027/28

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	None

7.00	CONTACT OFFICER DETAILS
7.01	Contact Officer: Gary Ferguson, Corporate Finance Manager Telephone: 01352 702271 E-mail: gary.ferguson@flintshire.gov.uk

8.00	GLOSSARY OF TERMS
8.01	<p>Medium Term Financial Strategy (MTFS): 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>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.</p> <p>Budget: a statement expressing the Council's policies and service levels in financial terms for a particular financial year. In its broadest sense it</p>

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.

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.

MTFS - SUMMARY OF PRESSURES			
	2025/26	2026/27	2027/28
Pressure	£m	£m	£m
Prior Year Decisions / Approvals			
Minimum Revenue Provision (MRP) - Existing	0.300	0.300	0.300
21C Schools Band B Borrowing Costs	0.804	0.317	0.117
Total - Prior Years Decisions / Approvals	1.104	0.617	0.417
Legislative / Unavoidable Indexation Pressures			
Fee Increases - Coroners	0.021	0.022	
Members Allowances	0.112	0.112	
North Wales Fire and Rescue Authority	0.545	0.573	
CJC / Growth Deal Inflation	0.019	0.021	
ADM's / CAT's - Service Contract Inflation	0.202	0.328	
ADM's / CAT's - Other Pressures	(0.025)		
Increase to Regional Collaboration Team	0.050		
NDR Transitional Relief	0.111		
Non-Standard Inflation Fuel	0.250	TBC	TBC
Non-Standard Inflation Energy	0.150	TBC	TBC
Mockingbird Loan Repayment	0.287		
Total - Legislative / Unavoid Index'n Pressures	1.722	1.056	0.000
National Funding Requirement			
NJC Pay Award Estimate (Non Schools)	3.952	4.110	4.275
NJC Pay Award Estimate (Schools)	1.517	1.584	1.649
Teachers - Pay Award - April - August	1.831	1.546	1.608
Teachers - Pay Award - Sept - March	2.164	2.251	2.341
Pay Modelling - Potential Pressure	2.000	TBC	
Total - National Funding Requirement	11.464	9.491	9.873
CUMULATIVE TOTAL			
	14.289	11.163	10.290
Strategic Decisions			
Social Care			
Transition to Adulthood	0.675	0.990	1.020
Social Care Commissioning	3.985	4.258	4.551
Childrens Services Group Homes	0.450	0.250	
Croes Atti Extension - Revenue Costs	1.321		
Social Work Pay Review	0.108	0.055	
Increased Homecare Capacity	0.100		
Partnership Working Cost Increases	0.330		
Additional One Off Efficiency - Grants Maximisation Adults	0.100		
Buckley Extra Care Facility		0.680	
Llys Gwenffrwd Extension - revenue costs			1.500
	7.069	6.233	7.071
Education and Youth			
Joint Archive Service - Borrowing Costs	0.008	0.111	0.012

MTFS - SUMMARY OF PRESSURES			
Pressure	2025/26	2026/27	2027/28
	£m	£m	£m
Management of Specialist Foundation Provision - Estyn	0.135		
Resource Provision at Flint High School	0.185	0.020	
EOTAS / Specialist Provision - Estyn Inspection of Plas Derwen *	0.382	0.020	0.021
Specialist Primary - Revenue Costs of 2 Additional Classrooms	0.198	0.141	
EOTAS / Specialist Provision - Medical Need	0.274		
ALN Reforms - Transfer of Post 16 Responsibilities *	0.135	0.007	0.007
Sustainable Communities for Learning Rolling Cap Inv Prog	0.285	0.248	0.464
Inclusion and Progression – Specialist Mobile Classroom Provision	0.119		
Youth Justice Service - Grant Funding Reduction *	0.093		
School Deficits	0.750		
Integrated Youth Provision - Grant Funding Reduction/Loss	0.278		
Eligible Free School Meals	0.462		
	3.304	0.547	0.504
Out of County Placements			
Out of County Placements	0.500		
Planning, Environment and the Economy			
Specialist Legal Expenses	0.040	0.040	
Empty Homes WG Grant Contribution	0.025		
Additional Licencing Scheme for HMO's		(0.056)	
	0.065	(0.016)	0.000
Housing and Communities			
Homelessness Demand	7.517	TBC	TBC
Benefits - CTRS	1.643		
	9.160	0.000	0.000
Streetscene and Transportation			
Public Health Burials	0.020	0.020	0.020
Memorial Safety Programme	0.017		
Hawarden Cemetery Extension - Maintenance Costs	0.015	0.015	0.015
CQ Cemetery Fence Replacement	0.040		
School Transport	0.350	TBC	TBC
Local Bus	0.150	0.150	TBC
Recycling Income	0.150	TBC	TBC
Residual Waste Indexation	0.080	0.080	0.080
Parry and Evans Price Increase	0.019	0.019	0.019
Drainage - Summer Storm Events	0.150	TBC	TBC
Security Costs Depot and Greenfield	0.150	0.180	0.200
Replacement Heavy Plant (Transfer Station)	0.180	0.180	0.180
Potential Reduced Income via NMWTRA	0.100	TBC	TBC
Replacement Ancillary Equipment HRC	0.050	0.050	0.050
Depot Maintenance	0.160	0.160	0.160
Replacement Recycling Recepticals	0.160	TBC	TBC
Winter Maintenance Weather Stations	0.050		
Increased cost of delivering Winter Maintenance Service	0.200	0.100	0.100
Additional Infrastructure (non-commuted sums)	0.010	0.005	0.005
Mayrise Replacement Licences and IT Equipment	0.030	0.030	0.030
Emmissions Trading Scheme			0.050
Soft Plastics Collections 2027/28			0.200
	2.081	0.989	1.109

MTFS - SUMMARY OF PRESSURES			
Pressure	2025/26	2026/27	2027/28
	£m	£m	£m
Governance - Digital Strategy			
Schools Information Management System	0.011	0.010	
Digital Delivery - Digital Solutions Technician	0.038		
Digital Officers	0.060		
Corporate GIS Software Reprourement	0.030	(0.023)	
Corporate LLPG Compliance & Software Reprourement	0.033	(0.020)	
Digital Business Analyst (0.6 FTE)	0.030		
Microsoft E5 Security Licenses	0.038	0.050	
Network Connected Device Compliance & Assurance Solution	(0.015)		
VMWare Licencing	0.055		
Midland iTrent Maintenance	0.087		
	0.367	0.017	0.000
Governance - Other			
Single Persons Discount	0.250		
Central and Corporate Finance			
Capital Borrowing Costs 22/23	0.105		
Croes Atti Extension - Borrowing Costs	0.035	0.041	
Children's Residential Care - Borrowing costs	0.028	0.019	0.012
Corporate Loans & Investment Account (CLIA)	0.500		
Replacement Financial Management System (FMS)		0.435	0.049
ADM Resource	0.024		(0.024)
	0.692	0.495	0.037
Total - Strategic Decisions	23.489	8.266	8.721
CUMULATIVE TOTAL	37.778	19.429	19.011