

## CABINET

<b>Date of Meeting</b>	Tuesday 21st January 2025
<b>Report Subject</b>	Medium Term Financial Strategy and Budget 2025/26 – Welsh Local Government Provisional Settlement
<b>Cabinet Member</b>	Cabinet Member for Finance and Social Value
<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 2025/26 financial year, which at that stage stood at £47.493m. The report identified potential funding solutions of £17.642m leaving an amount remaining at that time of £29.851m.

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 11 December 2024 as planned with responses to the consultation on the settlement invited by the deadline of 24 January 2025 - a summary of the key headlines is set out in the report.

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 in advance of the budget and Council Tax setting meeting on 18 February.

### RECOMMENDATIONS

1	That Cabinet notes the financial implications of the Welsh Local Government Provisional Settlement and the remaining work which needs to be completed
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	prior to agreeing a set of recommendations for Council to set a legal and balanced budget on 18 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 2025/26</b>
1.01	In July, Cabinet and Corporate Resources Overview and Scrutiny Committee were advised of an additional budget requirement for the 2025/26 financial year of £37.778m. This was revised upwards to £38.420m in September and the cost pressures were referred to and considered by relevant Overview and Scrutiny Committees from October to December.
1.02	In December, Cabinet and Corporate Resources Overview and Scrutiny Committee received a further update to the additional budget requirement for the 2025/26 financial year, which at that stage stood at £47.493m. The report identified potential funding solutions of £17.642m leaving an amount remaining at that time of £29.851m.
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 11 December as planned with responses to the consultation on the settlement invited by the deadline of 24 January. A summary of the key headlines is set out below.
2.02	<p><b>Standard Spending Assessment (SSA)</b></p> <p>The provisional Standard Spending Assessment (SSA) for 2025/26 is £389.514m which is an increase of 7.5% (£27.244m) on the SSA for 2024/25 of £362.270m.</p>
2.03	<p><b>Aggregate External Finance (AEF)</b></p> <p>The provisional Aggregate External Finance (AEF) for 2025/26 is £274.779m which, when compared to the adjusted 2024/25 AEF figure of £266.074m represents an <i>increase</i> of 3.3% (£8.705m) (All Wales average is an <i>increase</i> of 4.3% with Local Authority increases ranging from 2.8% to 5.6%).</p> <p>The percentage increase for the Council is 19<sup>th</sup> out of the 22 Welsh Councils.</p>

	<p>The provisional AEF represents a cash uplift of £16.096m (6.2%) over the 2024/25 AEF of £258.683m.</p>
2.04	<p><b>Adjustments to the Settlement</b></p> <p>There are a number of adjustments to our base settlement figure as detailed below:</p> <p>Transfers in:</p> <ul style="list-style-type: none"> <li>- Homelessness No-One Left Approach Grant (£0.590m)</li> <li>- Discretionary Homelessness Prevention Grant (£0.197m)</li> <li>- Homelessness Strategic Co-Ordinator Grant (£0.052m)</li> <li>- Teachers Pay Additional Costs (£0.910m)</li> <li>- Teachers Pensions Additional Costs (£3.041m)</li> <li>- NJC Pay Additional Costs (£2.455m)</li> <li>- Fire Service Pay and Pensions Additional Costs (£0.186m)</li> </ul> <p>Transfer Out:</p> <ul style="list-style-type: none"> <li>- Implementation of Performance and Management Framework (£0.040m)</li> </ul>
2.05	<p><b>Funding Per Capita</b></p> <p>The Aggregate External Finance allocation provides an amount of £1,764 per capita compared to the Welsh average of £1,937 which places Flintshire 19th out of the 22 Welsh Councils (20th in 2024/2025)</p>
2.06	<p><b>Additional Funding (Floor)</b></p> <p>There is currently no additional floor funding mechanism included in the settlement although it is clear, given the wide range of increases, that Welsh Government is open to providing additional floor funding at the final settlement stage.</p> <p>As we have one of the lowest increases it is important that the Council lobbies robustly to benefit from this opportunity.</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 confirmation on the level of 2025/26 funding for the following grants is still awaited from Welsh Government: -</p> <ol style="list-style-type: none"> <li>1. Local Authority Post-16 Education School Sixth Forms Provision (£43m in 2024/25)</li> <li>2. Housing Support Grant (£182m 2024/25)</li> <li>3. Sustainable Waste Management Grant (£16.4m in 2024/25).</li> <li>4. Animal Licensing Wales Enforcement Grant (£0.914m in 2024/25)</li> </ol>

	<p>Welsh Government have also confirmed reductions to the following specific grant funding as follows: -</p> <ol style="list-style-type: none"> <li>1. Looked After Children Change Fund – Supporting Foster Wales – reducing from £2.075m to £0.200m across Wales.</li> </ol> <p>The following funding is confirmed as increasing from 2025/26: -</p> <ol style="list-style-type: none"> <li>1. Mandatory Concessionary Fares increasing from £51m in 2024/25 to £55m across Wales in 2025/26.</li> <li>2. Communities for Work+ Grant Funding confirmed at £16.834m for 2025/26 compared to £16.767m in 2024/25.</li> </ol>
2.08	<p><b>Non-Domestic Rates (NDR) multiplier</b></p> <p>The provisional settlement refers to a cap of 1% to the increase in the Non-Domestic Rates (NDR) multiplier for 2025/26. There will also be the continuation of support for the retail, leisure and hospitality sector at a cost of £78m to Welsh Government.</p>
2.09	<p><b>Pay Awards</b></p> <p>The Settlement makes it clear that Local Authorities’ budget planning arrangements for 2025/26 must accommodate the full impact of pay awards for Teacher and Non-Teacher pay awards – there is no indication of any national planning assumptions within the annual uplifts.</p>
2.10	<p><b>Indicative Allocations for future years</b></p> <p>The Settlement does not include any indicative allocations for future years.</p> <p>However, Welsh Government is expecting to receive multi-year settlements at the conclusion of the UK Spending Review during the first half of 2025 which will provide much needed certainty for future budget planning purposes. Therefore, there is an expectation that Welsh Government will be able to provide more than one-year indicative local government settlement for the 2026/27 budget.</p>

2.11 **IMPACT OF THE SETTLEMENT ON BUDGET PLANNING 2025/26**

The impact of the provisional settlement is set out in the Table below:

**Table 1:**

	£m
<b>Additional Budget Requirement (Table 1 Dec Budget Report)</b>	<b>47.493</b>
Less Solutions identified to date (Table 2 Dec Budget Report)	<u>-17.642</u>
<b>Revised Additional Budget Requirement remaining</b>	<b>29.851</b>
Additional Cash Uplift in Draft Settlement	-16.096
Add back Teacher Pension Funding (already assumed funded)	<u>3.147</u>
<b>Revised Additional Budget Requirement remaining</b>	<b>16.902</b>
Homelessness Grants included within the 2025/26 Settlement. Funding for No One Left Approach, Discretionary Homelessness Prevention and Strategic Posts	0.839
<b>Revised Additional Budget Requirement remaining</b>	<b>17.741</b>

2.12 **FURTHER CHANGES SINCE DECEMBER REPORT**

**Table 2**

	£m
<b>Revised Additional Budget Requirement remaining (as above)</b>	<b>17.741</b>
1 Social Services - Additional Commissioned Care Fees	0.621
2 Social Services - Transition to Adulthood pressure reduced	<u>(0.271)</u>
Social Services - net increase	0.350
3 North Wales Fire and Rescue Authority – reduction in pressure	(0.545)
4 NDR Multiplier Capped at 1%	(0.064)
5 Payroll Officers – fixed term appointments	0.106
6 Cambrian Aquatics – agreed funding 2025/26	0.100
7 Central Loans & Investment Account – borrowing costs	0.036
8 Increased Fastrack Income	(0.020)
9 Out of County Placements – further increase in pressure	<u>0.300</u>
<b>Revised Additional Budget Requirement remaining</b>	<b>18.004</b>

	<p><b>Notes in support of Table 2:</b></p> <ol style="list-style-type: none"> <li>1. Social Services – commissioned care – increase incorporating updated inflation, Real Living Wage and Employers National Insurance increases.</li> <li>2. Social Services – due to a reduction in the anticipated demand for the service in 2025/26.</li> <li>3. North Wales Fire and Rescue Authority – reduction to reflect the latest proposed budget.</li> <li>4. NDR Multiplier – now capped at 1% following the provisional settlement.</li> <li>5. Payroll Officers – to meet the costs of fixed term contract terms for 3 officers currently on temporary contracts who all assist with the digitisation of the service.</li> <li>6. Cambrian Aquatics – additional funding provision agreed for 2025/26.</li> <li>7. Central Loans and Investment Account – updated to reflect latest capital financing costs across 5 key projects.</li> <li>8. Increased Fastrack Income – to reflect 2024/25 income to date and latest projections for 2025/26.</li> <li>9. Out of County Placements – to align the 2025/26 pressure with the reported revenue monitoring position at Month 8 in 2024/25.</li> </ol>
	<p><b>FINAL BUDGET PROPOSALS - AREAS STILL UNDER CONSIDERATION</b></p>
2.13	<p>The Council must set a legal and balanced budget from the resources available to it and final proposals are currently being prepared for consideration at Cabinet and County Council on 18 February. The areas still under consideration are summarised in the following paragraphs.</p>
2.14	<p><b>Government Funding - Aggregate External Finance (AEF)</b></p> <p>The impact of the Provisional Settlement has been set out in detail within the report and does not usually change significantly at the Final Settlement stage. However, the Council will be seeking the introduction of a Floor Funding mechanism to increase the amount of Aggregate External Finance that the Council receives to improve the Council's overall financial position. It would be prudent to utilise any additional resources to replenish the Council's unearmarked reserves as a safeguard against future risks.</p>
2.15	<p><b>Pay Assumptions</b></p> <p><u>Impact of National Pay Awards</u></p> <p>A pay award uplift of 4% for both Teaching (from September 2025) and Non-Teaching (from April 2025) is currently included in our estimates. This is a higher assumption than many other Welsh councils and will be reviewed again in advance of final budget setting in conjunction with latest economic forecasts. A 1% reduction equates to £0.964m for Non-Teaching and £0.502m for Teaching (September to March).</p> <p><u>Pay Modelling</u></p>

	<p>An 'aspirational' amount of £2m is still currently included for the potential impact of the pay modelling review which is being undertaken to address the recruitment and retention difficulties being experienced across the Council. A further assessment of affordability, including any potential compensatory cost reductions will need to be undertaken for final budget setting although there is a possibility that this cost pressure may need to be removed/deferred.</p>
2.16	<p><b>Schools Budget</b></p> <p>The delegated schools budget has been relatively 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 further contribution to the overall budget gap in the 2025/26 financial year including the amount of £0.750m currently included as a contribution to addressing school deficit budgets.</p> <p>School budgets benefitted from a net uplift of £3.995m in 2024/25 after taking into account increases for pay, NDR, free school meals and specialist mobile classroom provision which was offset by a 3% reduction and agreed savings on energy, demography and Pension Contributions.</p> <p>The current additional budget requirement for 2025/26 includes total cost pressures of £12.543m for school budgets for pay awards and other identified pressures, offset by a demographic adjustment of £1.349m, leaving a net uplift of £11.194m (9.5%).</p> <p>Each 1% reduction on the schools budget would equate to £1.173m off the cumulative cost pressures currently included.</p>
2.17	<p><b>Homelessness</b></p> <p>The homelessness service has continued to see increasing numbers presenting for support, and the projected overspend in the current financial year is £2.3m, net of 'No One Left Approach' Grant and additional Housing Benefit income.</p> <p>In response to growing concerns over the financial implications of increasing levels of homelessness, the Chief Executive engaged an Independent Consultant to complete a review of the Councils Homelessness Service and the Council's approach to tackling homelessness more broadly.</p> <p>The outcome of this review was considered by Cabinet in October and a number of recommended measures were agreed which could potentially reduce the cost pressure for 2025/26 within a range of £3.500m - £5.500m (from the £7.5m currently included) however, it is important to note that this is based on demand levels staying within the range we have seen over the last 18 months and any spikes in demand could further increase the financial pressure to the service.</p> <p>Therefore, at this stage a mid-range reduction of £3.017m has been assumed but this will be reviewed in advance of final budget setting based on latest demand projections.</p>

2.18	<p><b>Portfolio Cost Reductions</b></p> <p>It is unlikely that the other remaining options available to the Council will be sufficient to meet the current funding shortfall.</p> <p>Therefore, all portfolios are revisiting their cost base with a view to identifying the impact of potential further budget reductions of up to 10%. This will be a very significant challenge but is essential to provide Council with the options it requires for consideration at final budget setting. Final proposals will be referred to relevant Overview and Scrutiny Committees prior to final budget setting on 18 February.</p>
2.19	<p><b>Transformation Programme</b></p> <p>The resourcing and governance arrangements of this key programme are now underway and an update on specific projects was provided in December.</p> <p>The projects identified in the report will be reviewed with regards to achievability although it is anticipated that most of the cost reduction benefits will be over the medium to longer term.</p>
2.20	<p><b>Review of In-Year Budget Position</b></p> <p>The Council's latest budget monitoring position (as at Month 8) shows an overall projected overspend of £3.860m which is partly mitigated by a one-off budget risk reserve of £3m. To address the situation Action Plans have been put in place by the relevant overspending portfolios to try and bring spend back in line with the approved budget by the end of the financial year.</p> <p>However, service demand levels continue to be at unprecedented levels in areas such as social care and there is a significant risk that spend cannot be contained within existing budget levels. A review of the latest in-year budget position will need to be assessed prior to final budget setting.</p>
2.21	<p><b>Out of County Placements</b></p> <p>There continues to be significant volatility in this area and the trend of increasing costs is continuing with the projected overspend in the current financial year at Month 8 now being £2.010m. An initial amount of £0.500m was included in the forecast which was increased to £1.7m to re-set at Month 7 projected levels. However, due to the Month 8 position, this has been increased by a further £0.300m in Table 2 above and this will need to continue to be kept under close review and risk assessed as part of final budget setting, and it appears inevitable that a further increase may be required.</p>
2.22	<p><b>Potential Additional Income - DEFRA</b></p> <p>Draft Regulations come into force from January 2025 in relation to the Extended Producer Responsibility for Packaging (EPR) and we have been advised by the Department for Environment Food &amp; Rural Affairs (DEFRA) of a significant potential income stream for 2025/26.</p>



	<p>Specific terms and conditions are not yet clear to assess whether this income stream can be used legitimately as a budget contribution for 2025/26.</p> <p>Further details will be sought, and any options considered in advance of final budget setting.</p>								
2.23	<p><b>Council Tax</b></p> <p>The impact of an annual uplift in Council Tax is not currently included within the Budget Solutions identified in Table 2. As in previous years council tax levels will be a key consideration in the final stage of the budget process.</p> <p>However, it is anticipated that as a minimum a similar increase to the current year will be required as there continues to need to be a greater reliance on local taxation.</p> <p>Each increase of 1% in Council Tax (net of the impact on the Council Tax Reduction Scheme) would provide an additional £1.1m towards the gap.</p>								
2.24	<p><b>Summary and Conclusions</b></p> <p>Whilst the provisional local government settlement for the Council was better than anticipated some months ago, it is still extremely disappointing that we have once again received an uplift that is significantly below the Welsh average. The cash uplift is insufficient to meet the impact of our escalating cost base and difficult choices will need to be made to balance the budget for 2025/26 – future years are an even greater concern based on current fiscal assumptions for the Welsh Government budget.</p> <p>Representations will continue to be made for a better settlement, both regionally and alongside all Welsh Councils through the Welsh Local Government Association (WLGA) - a formal response by the Council to the provisional settlement will be submitted in advance of the deadline set of 24 January.</p> <p>At this stage the amount remaining to be found to reach a legal and balanced budget is £18.004m.</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>								
2.25	<p><b>Budget Timeline</b></p> <table border="1"> <thead> <tr> <th>Date</th> <th>Event</th> </tr> </thead> <tbody> <tr> <td>Early February</td> <td>Specific Overview and Scrutiny Meetings</td> </tr> <tr> <td>18 February 2025</td> <td>Cabinet and Council – Budget Setting</td> </tr> <tr> <td>TBC</td> <td>Welsh Government Final Budget/Settlement</td> </tr> </tbody> </table>	Date	Event	Early February	Specific Overview and Scrutiny Meetings	18 February 2025	Cabinet and Council – Budget Setting	TBC	Welsh Government Final Budget/Settlement
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### 3.00 RESOURCE IMPLICATIONS

3.01	
3.01	<p><b>Revenue:</b> the revenue implications for the 2025/26 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 2025/26.</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 July 2024 Cabinet Report September 2024 Cabinet Report December 2024 Overview and Scrutiny Reports October – December 2024

<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.