

## CABINET

<b>Date of Meeting</b>	Tuesday, 22 <sup>nd</sup> November 2022
<b>Report Subject</b>	Medium Term Financial Strategy and Budget 2023/24
<b>Cabinet Member</b>	Cabinet Member for Finance, Inclusion, Resilient Communities including Social Value and Procurement
<b>Report Author</b>	Corporate Finance Manager and Chief Executive
<b>Type of Report</b>	Strategic

### EXECUTIVE SUMMARY

This report provides an update to the additional budget requirement for the 2023/24 financial year in advance of the specific Overview and Scrutiny meetings to be held throughout December and in advance of the receipt of the Provisional Settlement on 14<sup>th</sup> December 2022.

An additional budget requirement of £16.503m for 2023/24 was reported to Cabinet and Corporate Resources Overview and Scrutiny Committee in July with a revised position reported in September which considered the impact of the latest national employer pay offers for Teachers and NJC (Green Book) employees, utilities and other changes to existing cost pressures and some new emerging pressures across Portfolios. This had the effect of increasing the additional budget requirement to £24.348m.

Since September a number of changes and significant risks have been identified that are likely to lead to a further increase in the additional budget requirement and these are set out in the report.

The impact of these is still being modelled and some areas will be subject to negotiation over the coming weeks. However, it is projected at this stage that the additional budget requirement will potentially rise to around £32m.

The report also updates on the budget solutions available to the Council to meet this additional budget requirement which will be brought forward for member consideration in stages throughout the budget process.

## RECOMMENDATIONS

1	To note the risks that will increase the additional budget requirement for the 2023/24 financial year.
2	To refer all cost pressures and any available budget reductions to the individual Overview and Scrutiny Committees for review in December

## REPORT DETAILS

<b>1.00</b>	<b>EXPLAINING THE MEDIUM TERM FINANCIAL STRATEGY AND BUDGET 2023/24</b>
1.01	This report provides an update on the risks affecting the additional budget requirement for the 2023/24 financial year in advance of the specific Overview and Scrutiny meetings to be held throughout December.
1.02	An additional budget requirement of £16.503m for 2023/24 was reported to Cabinet and Corporate Resources Overview and Scrutiny Committee in July with a revised position reported in September which considered the impact of the latest national employer pay offers for Teachers and NJC (Green Book) employees, utilities and other changes to existing cost pressures and some new emerging pressures across Portfolios. This had the effect of increasing the additional budget requirement to £24.348m.
1.03	Since September a number of changes and significant risks have been identified that are likely to lead to a further increase in the additional budget requirement which are set out in paras 1.04 – 1.12 below.
	<b>CHANGES AND RISKS TO THE ADDITIONAL BUDGET REQUIREMENT</b>
1.04	<u>Independent Remuneration Panel for Wales (IRPW)</u>  The draft report from the IRPW has been received and is subject to a consultation period. The report includes a recommended increase to Members which is £0.057m higher than the initial estimate.
1.05	<u>Social Care Commissioning</u>  Annual uplifts for the cost of commissioned social care are subject to negotiation with the independent sector care providers each year. The uplift will need to take into account an increase in the Real Living Wage (around 10%) and current rates of inflation (CPI has also increased to 9.9% over the summer). Further work is ongoing but it is anticipated that a significant additional cost pressure will arise.
1.06	<u>External Partners</u>  External Partner organisations are subject to the same cost pressures as the Council such as pay, energy and inflation. Therefore, there is a likelihood that increased contributions will be sought from the Council.

	<p>Specific examples include North Wales Fire and Rescue Authority (NWFRA), Aura Leisure and Libraries and the Coroners Service. The potential impacts will be subject to appropriate consultation and negotiation and will need to be added to the budget requirement when agreed.</p>
1.07	<p><u>Internal Insurance Fund</u></p> <p>A review of the Councils Internal Insurance Fund has recommended that the level of the fund needs to be increased to ensure that it can cover the potential future liabilities based on current claims history. The level and timing of the increase is currently being considered.</p>
1.08	<p><u>Utilities Inflation – Further increase in the cost of Gas</u></p> <p>Market volatility is continuing and forecasting likely increases in this market is extremely challenging. This has had a significant impact on UK energy prices causing steep cost rises across the wholesale utility markets which had resulted in an additional pressure for the Council which was reported in September.</p> <p>We have subsequently received a further update from our energy suppliers regarding the cost of gas which reflects an increase of 590% to our current rate (previous increase was 291%) which will increase our cost base by a further £1.1m.</p> <p>The forecast increase of 75% for electricity remains the same.</p>
1.09	<p><u>Corporate Joint Committee (CJC)</u></p> <p>The Council's contribution to the cost of the regional North Wales Corporate Joint Committee has been confirmed as £0.081m so will need to be included in the budget on a recurring basis.</p>
1.10	<p><u>Education Appeals Post</u></p> <p>There is a requirement to resource an additional post to provide support for the education appeals team which is experiencing additional demand with limited existing capacity within the team (£0.027m).</p>
1.11	<p><u>Support Recharges</u></p> <p>A review of the level of support recharges to the Housing Revenue Account and to the Clwyd Pension fund has been undertaken and will result in a pressure to the Council fund of £0.280m to reflect current activity levels.</p>
1.12	<p><u>Other Minor Changes</u></p> <p>There have been some reductions in pressures due to the reprofiling of expenditure on capital projects (£0.097m) which has reduced the estimated costs of borrowing and by a change in the timeframe for the pressure for Basware software (£0.021m).</p>
1.13	<p>The impact of all the above is still being modelled and some areas will be subject to negotiation over the coming weeks. However, it is projected at this</p>

	stage that the additional budget requirement will potentially rise to around £32m.								
1.14	<p><b><u>FURTHER ONGOING RISKS</u></b></p> <p>Despite the work undertaken so far there remains a number of risks that may further change the additional budget requirement as detailed below.</p>								
1.15	<p><u>Out of County Placements</u></p> <p>The position on Out of County Placements remains a risk with increasing numbers of placements presenting in the current financial year this volatile position will need to be kept under close review.</p>								
1.16	<p><u>Pay Award</u></p> <p>The NJC pay award has now been agreed, however, the pay award for teachers is still not agreed and therefore there is a risk that there may be a further increase in the offer which would impact on both the current in-year pressure and the budget requirement for 2023/24.</p>								
1.17	<p><u>Supreme Court Judgment- Harper Trust and Brazel</u></p> <p>The Council is currently assessing the outcome and likely implications of the recent Supreme Court Judgement of the above case which may have a financial impact, due to the potential for the amendment of holiday pay calculations for irregular hours workers and Term Time only employees.</p>								
1.18	<p><u>Homelessness</u></p> <p>The Council is continuing to experience high 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. The Council has been able to fund this from specific funding from Welsh Government most recently from a specific grant. At present there is no confirmation that this will continue and therefore there is a risk that this may become a budget pressure if the funding ceases.</p>								
	<b>Budget Solutions</b>								
1.19	<p>The options available to the Council to meet this significant additional budget requirement are summarised in the table below and an update on progress is included in 1.20 – 1.25</p> <table border="1" data-bbox="320 1736 1412 2096"> <tr> <td>1. Supplementary Welsh Government Grant – seek support to meet the costs of increased pay awards and inflation</td> </tr> <tr> <td>2. Efficiencies / Cost Reductions– Portfolios</td> </tr> <tr> <td>3. Efficiencies / Cost Reductions - Schools</td> </tr> <tr> <td>4. Efficiencies /Cost Reductions– Corporate Financing</td> </tr> <tr> <td>5. Reduction of Cost Pressures – review controllable cost pressures</td> </tr> <tr> <td>6. Deferral / Reprofiting of Capital Projects with revenue implications</td> </tr> <tr> <td>7. Council Tax</td> </tr> <tr> <td>8. Use of Reserves and Balances</td> </tr> </table>	1. Supplementary Welsh Government Grant – seek support to meet the costs of increased pay awards and inflation	2. Efficiencies / Cost Reductions– Portfolios	3. Efficiencies / Cost Reductions - Schools	4. Efficiencies /Cost Reductions– Corporate Financing	5. Reduction of Cost Pressures – review controllable cost pressures	6. Deferral / Reprofiting of Capital Projects with revenue implications	7. Council Tax	8. Use of Reserves and Balances
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1.20	<p><u>Government Funding - Aggregate External Finance (AEF)</u></p> <p>The 2022/23 local government settlement provided, for the first time in a number of years, indicative figures for future settlements of 3.5% for 2023/24 and 2.4% for 2024/25.</p> <p>These indicative allocations, though welcome at the time, are at a much lower level than those received over the last two years and were also set in a vastly different economic climate. By way of context an uplift on the Council's AEF of 3.5% equates to around £8m.</p> <p>The UK Government Budget Announcement scheduled for November may provide some additional insight into future fiscal forecasts for devolved governments and the potential impacts on the Welsh Government budget.</p>
1.21	<p><u>Efficiencies / Cost Reductions - Portfolios</u></p> <p>All portfolios have been working to identify efficiencies / cost reductions from reductions in current pressures, reductions in expenditure and/ or an increase in income generation.</p> <p>The proposals identified to date are currently being risk assessed for deliverability and for certainty of figures and proposals that are sufficiently developed will be taken through the scrutiny process in December.</p>
1.22	<p><u>Efficiencies / Cost Reductions – Corporate Financing</u></p> <p>Work is underway on the following areas:</p> <ul style="list-style-type: none"> <li>• Employers National Insurance – The rate of National Insurance for employers and employee contributions has been reduced from November 2022 by 1.25%. We are currently working through the calculations on the pay pressures at the lower rate which should enable us to reduce our pay pressures downward. This figure is estimated to be between £1.4m and £2m.</li> <li>• Triennial Actuarial Review of the Clwyd Pension Fund – the triennial review of the Clwyd Pension Fund is reaching its latter stages which will determine employer pension contributions which will be effective from 1<sup>st</sup> April 2023. A positive outcome is expected due to the high performance of the fund over the last three years although the outcome will need to be mindful of future economic market expectations.</li> <li>• Central Loans and Investment Account - An emerging in-year underspend has arisen due to increased investment income from changes to interest rates and the lack of a need to borrow during 2022/23 to date. This will be reviewed for any recurring impacts.</li> </ul>
1.23	<p><u>Efficiencies / Cost Reductions– Schools</u></p> <p>Due to the scale of the financial challenge across the Council there will be a need to consider cost reductions from the delegated schools budget.</p>

	<p>The additional budget requirement includes school cost pressures totalling £8m at present. By way of context a 1% reduction in the delegated budget equates to around £1m.</p> <p>Future proposals will be subject to consultation with Schools Budget Forum School Head Federations.</p>																
1.24	<p><u>Council Tax</u></p> <p>The level of Council Tax increase for 2023/24 will be a matter for full council when setting the budget in February and will be a consideration following the outcome of the Provisional Settlement and the conclusion of work on all of the other budget solution work streams. By way of context each uplift of 1% equates to £0.951m</p>																
1.25	<p><u>Balances and Reserves</u></p> <p>The projected level of contingency reserve at Month 6 is £2.8m after meeting the in-year additional cost of the 2022/23 pay award (based on the latest offer) which is much lower than previous years.</p> <p>The Council also has an earmarked reserve of £2.4m from the additional Revenue Support allocation it received at the end of the 2022/23 financial year.</p> <p>As always it will be important to maintain an adequate level of reserves as a safeguard against risks and other unforeseen events.</p>																
1.26	<p><u>Next Steps</u></p> <p>Portfolio cost pressures and efficiencies /cost reductions will be scrutinised at individual Overview and Scrutiny Committees and a summary position reported to Cabinet in December following the receipt of the Provisional Settlement on 14<sup>th</sup> December.</p>																
1.27	<p><u>Table 4 – Budget Timeline</u></p> <table border="1"> <thead> <tr> <th>Date</th> <th>Event</th> </tr> </thead> <tbody> <tr> <td>December 2022</td> <td>Overview and Scrutiny Committees</td> </tr> <tr> <td>13 December 2022</td> <td>Welsh Government Draft Budget</td> </tr> <tr> <td>14 December 2022</td> <td>Provisional Local Government Settlement</td> </tr> <tr> <td>20 December 2022</td> <td>Cabinet</td> </tr> <tr> <td>17 January 2023</td> <td>Cabinet – Budget Review</td> </tr> <tr> <td>14 February 2023</td> <td>Cabinet and Council – Final Budget Setting</td> </tr> <tr> <td>1 March 2023</td> <td>Welsh Government Final Budget/Settlement</td> </tr> </tbody> </table>	Date	Event	December 2022	Overview and Scrutiny Committees	13 December 2022	Welsh Government Draft Budget	14 December 2022	Provisional Local Government Settlement	20 December 2022	Cabinet	17 January 2023	Cabinet – Budget Review	14 February 2023	Cabinet and Council – Final Budget Setting	1 March 2023	Welsh Government Final Budget/Settlement
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<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	<b>Revenue:</b> the revenue implications for the 2023/24 budget are set out in the report.

	<b>Capital:</b> the borrowing needs for the capital programme are built into the revenue estimates for 2023/24.
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<b>3.00</b>	<b>IMPACT ASSESSMENT AND RISK MANAGEMENT</b>
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3.01	<b>Ways of Working (Sustainable Development) Principles Impact</b>										
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	<b>Well-Being Goals Impact</b>										
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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, Scrutiny Committees and specific portfolio Member briefings. Further consultation will be undertaken through specific Scrutiny meetings during December.

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

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	Cabinet Report 12 July 2022 Cabinet Report 20 September 2022

<b>7.00</b>	<b>CONTACT OFFICER DETAILS</b>
7.01	<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>8.00</b>	<b>GLOSSARY OF TERMS</b>
8.01	<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.

**Capital:** Expenditure on the acquisition of **non-current assets** or expenditure which extends the useful life of an existing asset.

**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.

**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.