

CABINET

Date of Meeting	Tuesday 17 th January 2023
Report Subject	Medium Term Financial Strategy and Budget 2023/24 – Welsh Local Government Provisional Settlement
Cabinet Member	Cabinet Member for Finance, Inclusion, Resilient Communities including Social Value and Procurement for Finance, Inclusion, Resilient Communities including Social Value & Procurement
Report Author	Corporate Finance Manager and Chief Executive
Type of Report	Strategic

EXECUTIVE SUMMARY

The purpose of the report is to:

- 1) Update on the key headlines and financial impacts of the Welsh Local Government Provisional Settlement
- 2) Provide feedback from the series of specific Overview and Scrutiny committees
- 3) Update on changes and risks to the additional budget requirement for the 2023/24 financial year and
- 4) Update on the work being undertaken on the range of budget solutions available to the Council to set a legal and balanced budget.

Cabinet received an update to the additional budget requirement for the 2023/24 financial year at its meeting on 22 November 2022. At that stage the additional budget requirement was estimated to be £32.448m and the cost pressures and initial cost reduction options were referred to a series of specific Overview and Scrutiny meetings which were held from the 1st to 15th December.

Appendix A provides detail of the main discussion points from this series of meetings.

The Welsh Local Government Provisional Settlement was received on 14th December as planned and this report updates on the key headlines and financial impacts in advance of the final stage of the formal budget setting process in February 2023.

The 2023/24 Provisional Settlement will contribute £19.568m towards the previously reported additional budget requirement of £32.448m with the remaining amount needing to be met from the other areas of the budget solutions included in the report.

A number of ongoing risks have been reported previously which will potentially impact further on the additional budget requirement including the level of provision for pay awards, uncertainty around the continuation of funding within the homelessness service and levels of demand for Out of County Placements – this report also updates on these risks.

A legal and balanced budget for 2023/24 will need to be recommended by Cabinet to Council once the work on the above issues has been concluded.

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 set of recommendations for Council to set a legal and balanced budget in February.
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REPORT DETAILS

1.00	EXPLAINING THE COUNCIL FUND REVENUE BUDGET 2023/24
1.01	Cabinet received an update to the additional budget requirement for the 2023/24 financial year at its meeting on 22 nd November 2022. At that stage the additional budget requirement was estimated to be £32.448m and the cost pressures and initial cost reductions were referred to a series of specific Overview and Scrutiny meetings which were held from the 1 st to 15 th December 2022.
1.02	<p>The purpose of this report is to:</p> <ol style="list-style-type: none"> 1) Update on the key headlines and financial impacts of the Welsh Local Government Provisional Settlement 2) Provide feedback from the series of specific Overview and Scrutiny committees 3) Update on changes and risks to the additional budget requirement for the 2023/24 financial year and 4) Update on the work being undertaken on the range of budget solutions available to the Council in order to set a legal and balanced budget.

2.00	THE WELSH LOCAL GOVERNMENT PROVISIONAL SETTLEMENT
2.01	The Welsh Local Government Provisional Settlement was announced on 14 th December 2022 as planned with responses to the consultation on the settlement invited by the deadline of 2 nd February 2023. A summary of the key headlines is set out below.
2.02	<p>Standard Spending Assessment (SSA)</p> <p>The provisional SSA for 2023/24 is £348.552m which is an increase of 6.3% (£20.778m) on the SSA for 2022/23 of £327.774m.</p>
2.03	<p>Aggregate External Finance (AEF)</p> <p>The provisional AEF for 2023/24 is £251.747m which when compared to the adjusted 2022/23 AEF figure of £232.336m represents an <i>increase</i> of 8.4% (£19.411m) (All Wales average is an <i>increase</i> of 7.9 %).</p> <p>The provisional AEF represents a cash uplift of £19.568m (8.4%) over the 2022/23 AEF of £232.179m.</p>
2.04	<p>Transfers In/Out of the Settlement</p> <p>There are no transfers into or out of the settlement for the Council.</p>
2.05	<p>Funding Per Capita</p> <p>The Aggregate External Finance allocation provides an amount of £1,611 per capita compared to the Welsh average of £1,754 which places Flintshire 20th out of the 22 Welsh Councils (also 20th in 2022/2023)</p>
2.06	<p>Additional Funding (Floor)</p> <p>There is no additional 'floor' funding included this year to protect those councils who fall well below the Welsh average uplift.</p>
2.07	<p>Specific Grants</p> <p>Some details have been included for specific grants on an all-Wales basis which will need to be worked through in detail.</p> <p>We are still awaiting confirmation of the Sustainable Waste Management Grant.</p>
2.08	<p>Indicative Allocations for future years</p> <p>The Settlement included an update on the indicative all-Wales revenue allocation for 2024/25 which has increased by £169m to £5.69bn. This equates to an increase of 3.1% in 2024/25 compared with the previous indicative increase of 2.4%.</p>
	IMPACT OF THE SETTLEMENT ON THE BUDGET 2023/24
2.09	The Provisional Settlement is more than the indicative allocation due to a combination of consequential funding arising from recent UK Budget

	<p>announcements and the positive impact of data set adjustments used in the formula.</p> <p>Whilst the annual uplift in AEF is very helpful and welcome it does need to be noted that it only equates to around 60% of the estimated cost pressures identified for the Council. Therefore, there will still be some significant challenges to address when setting the budget for 2023/24 which will require a deal of urgent and prioritised work.</p>
	FEEDBACK FROM OVERVIEW AND SCRUTINY COMMITTEES
2.10	<p>Cabinet referred all cost pressures to a series of specific Overview and Scrutiny meetings which were held from the 1st to 15th December 2022 where the relevant Overview and Scrutiny Committee was requested to rigorously challenge all of the cost pressures and options for portfolio cost reductions identified. Each of the committees also received a complete list of all potential cost reductions for all portfolios for completeness, RAG (Red, Amber, Green) rated in order of deliverability and risk.</p> <p>The outcome of these meetings was that 1) all cost pressures were accepted and 2) there were no new cost reduction areas identified.</p> <p>Appendix A provides a summary of the main discussion points from this series of meetings.</p>
	CHANGES TO THE ADDITIONAL BUDGET REQUIREMENT
2.11	<p>North Wales Residual Waste Treatment Partnership (£0.303m)</p> <p>There is an estimated increase in expenditure of £1.092m for the partnership to reflect indexation for gate fees and haulage costs with this Council's additional contribution being £0.303m.</p>
2.12	<p>Social Care Workers Model (£0.179m)</p> <p>A revised grading model has been developed for social workers to address significant recruitment and retention issues within the service – it is anticipated that there will be an additional cost of £0.179m in 2023/24 to implement the model.</p>
2.13	<p>Capital borrowing costs (£0.060m)</p> <p>An increase in existing capital borrowing costs for 2022/2023 due to an update of the latest information and timelines.</p>
2.14	<p>Support Recharges to the HRA/CPF – Reduction of pressure (£0.040m)</p> <p>A reduction of £0.040m to the previously reported pressure of £0.280m due to further updates on actual costs.</p>

2.15	<p>Education Appeals Post – (0.027m)</p> <p>An additional post is required to provide support for the education appeals team which is experiencing additional demand with limited existing capacity within the team.</p>
2.16	<p>The impact of the above increases the additional budget requirement from £32.448m to £32.978m.</p>
	<p>ONGOING RISKS TO THE ADDITIONAL BUDGET REQUIREMENT</p>
2.17	<p>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:</p>
2.18	<p>Funding for Pay Awards</p> <p>It is now clear that the allocation provided for 2023/24 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 difficult. 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 in our budget on a recurring basis.</p> <p>The current assumed increase of 3.5% now appears low when compared to current market conditions and what other councils are providing for, therefore it is recommended that this assumption is revisited in advance of final budget setting in February 2023.</p>
2.19	<p>Homelessness</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. The Council has recently had confirmation on the continuation of specific grants for homelessness. The impact of the confirmed funding on the increasing demand for this service are currently being worked through and this remains a risk which will need to be assessed as part of the final budget setting.</p>
2.20	<p>Out of County Placements</p> <p>The position on Out of County Placements remains a risk with increasing numbers of placements presenting in the current financial year and this volatile position will need to be kept under close review.</p>
2.21	<p>School Transport</p> <p>Since the start of the Autumn school term, there have been a number of transport pressures emerging relating to increased costs in the provision of</p>

	<p>additional key service routes for Additional Learning Needs (ALN) and Pupil Referral Units (PRU).</p> <p>This is due to re-procurement increases and additional statutory provision as well as increased transport contractor costs due to fuel, insurance and driver costs etc.</p> <p>It is anticipated that these increased costs of around £0.200m in 2022/23 will continue into 2023/24.</p>
2.22	<p>Supreme Court Judgement – Harper Trust and Brazel</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. Early indications are that there will be no impact on the 2023/24 budget for the Term Time only element however the risk remains regarding a potential pressure for the irregular hours element which is still being assessed.</p>
2.23	<p>North Wales Fire and Rescue Levy (NWFRA)</p> <p>Consultation is underway on the levy uplift for the NWFRA which is expected to be concluded by the end of January 2023. There is a risk that the final uplift may be significantly more than we currently have included in the forecast.</p>
	<p>BUDGET SOLUTIONS</p>
2.24	<p>The options available to the Council to meet this significant additional budget requirement is summarised in the following paragraphs.</p>
2.25	<p>Government Funding - Aggregate External Finance (AEF)</p> <p>The Provisional Settlement has advised of an additional £19.568m and this is not expected to change significantly at the Final Settlement stage. Therefore, a combination of the remaining budget solutions will need to contribute to the remaining gap of £13.410m to ensure a legal and balanced budget (before any further impacts outlined in the report)</p>
2.26	<p>Efficiencies / Cost Reductions – Portfolios</p> <p>The options for cost reductions identified by Portfolios totalling £6.166m have now been considered by the relevant overview and scrutiny committee and have been risk assessed.</p> <p>Consideration will now need to be given as to which options are included in the final budget proposals taking into account risk and affordability.</p>

2.27	<p>Efficiencies / Cost Reductions – Corporate Financing</p> <p><i>Employers National Insurance</i></p> <p>The rate of National Insurance for employers and employee contributions has been reduced from November 2022 by 1.25%. The impact of this reduction is a positive benefit to the 2023/24 budget of £2.082m.</p> <p><i>Triennial Actuarial Review of the Clwyd Pension Fund</i></p> <p>The triennial review of the Clwyd Pension Fund is reaching its latter stages which will determine employer pension contributions for the next three years.</p> <p>Clwyd Pension Fund Committee agreed the Funding Strategy Statement at its meeting on 23rd November 2022 and individual results have now been shared with employing organisations as part of consultation.</p> <p>As the Fund is now more than 100% funded the outcome will make a significant positive contribution to the budget 2023/24 – 2025/26 and the profiling of this benefit over the three years is currently being considered.</p>
2.28	<p>Efficiencies / Cost Reductions– Schools</p> <p>Due to the remaining scale of the financial challenge across the Council there will still be a need to consider cost reductions from the delegated schools budget.</p> <p>The additional budget requirement includes school cost pressures totalling £9.5m at present. By way of context a 1% reduction in the delegated budget equates to around £1m.</p>
2.29	<p>Council Tax</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 in conjunction with the conclusion of work on all of the other budget solution work streams. By way of context each uplift of 1% equates to £0.954m</p>
2.30	<p>Balances and Reserves</p> <p>The projected level of contingency reserve at Month 8 is £3.797m after meeting the in-year additional cost of the 2022/23 pay award and other agreed allocations.</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 and it is recommended that this is transferred to the Contingency Reserve to enhance the level remaining.</p> <p>As always it will be important to maintain an adequate level of reserves to safeguard the Council against risks and other unforeseen events.</p>

2.31	<p>Planning over the Medium Term</p> <p>Welsh Government has updated its indicative allocations for the next two years to take account of the consequential arising from the UK Budget announcements in the Autumn.</p> <p>Whilst this is welcomed the indicative annual uplift in AEF for 2024/25 is still only 3.1% (increased from 2.4%) and will provide a significant challenge to meet the inevitable inflationary and demand impacts of Council Services.</p> <p>Therefore, it will be essential that decisions made as part of the budget for 2023/24 are considered in the context of the medium term position to build in resilience to meet the challenges of the inevitable cost pressures that will arise in subsequent years.</p>								
2.32	<p>SUMMARY AND CONCLUSIONS</p> <p>The 2023/24 Provisional Settlement will contribute £19.568m towards the previously reported additional budget requirement of £32.448m which is significantly in excess of the indicative allocation due to a combination of consequential funding arising from recent UK Budget announcements and the positive impact of data set adjustments used in the formula.</p> <p>As set out in the report this still only equates to around 60% of the identified cost pressures and the remainder will need to be met from the remaining budget solutions.</p> <p>With regards to next steps an assessment of the ongoing risks identified above needs to be concluded in conjunction with consideration of the other budget solutions:</p> <ul style="list-style-type: none"> - Portfolio Cost Reductions - Corporate Financing Reductions - Schools Cost Reductions - Council Tax Uplift <p>This report has been presented to Corporate Resources Overview and Scrutiny Committee on 12th January 2023 (open to all members) and feedback and comments will be provided verbally at the meeting.</p> <p>A legal and balanced budget for 2023/24 is scheduled to be recommended by Cabinet to Council on the 23rd February 2023.</p>								
2.33	<p>Budget Timeline</p> <table border="1" data-bbox="300 1776 1366 1928"> <thead> <tr> <th data-bbox="300 1776 686 1814">Date</th> <th data-bbox="686 1776 1366 1814">Event</th> </tr> </thead> <tbody> <tr> <td data-bbox="300 1814 686 1852">17 January 2023</td> <td data-bbox="686 1814 1366 1852">Cabinet – Budget Review</td> </tr> <tr> <td data-bbox="300 1852 686 1890">23 February 2023</td> <td data-bbox="686 1852 1366 1890">Cabinet and Council – Budget Setting</td> </tr> <tr> <td data-bbox="300 1890 686 1928">7 March 2022</td> <td data-bbox="686 1890 1366 1928">Welsh Government Final Budget/Settlement</td> </tr> </tbody> </table>	Date	Event	17 January 2023	Cabinet – Budget Review	23 February 2023	Cabinet and Council – Budget Setting	7 March 2022	Welsh Government Final Budget/Settlement
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3.00	RESOURCE IMPLICATIONS
3.01	<p>Revenue: the revenue implications for the 2021/22 budget are set out in the report.</p> <p>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</p> <p>Human Resources: there are no implications for additional capacity or for any change to current workforce structures or roles at this stage.</p>

4.00	IMPACT ASSESSMENT AND RISK MANAGEMENT														
4.01	<p>Ways of Working (Sustainable Development) Principles Impact</p> <table border="1"> <tr> <td>Long-term</td> <td>Negative – the absence of longer-term funding settlements from Welsh Government means that sustainable support for service delivery is challenging for the longer term. Sustainable funding from Welsh Government that provides additional funding for Indexation, Service demands and new legislation will provide a positive and sustainable position for the Council in the longer term.</td> </tr> <tr> <td>Prevention</td> <td>As above</td> </tr> <tr> <td>Integration</td> <td>Neutral Impact</td> </tr> <tr> <td>Collaboration</td> <td>Services continue to explore opportunities for collaboration with other services and external partners to support positive impacts.</td> </tr> <tr> <td>Involvement</td> <td>Communication with Members, residents and other stakeholders throughout the budget process.</td> </tr> </table> <p>Well-Being Goals Impact</p> <table border="1"> <tr> <td>Prosperous Wales</td> <td>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.</td> </tr> <tr> <td>Resilient Wales</td> <td>Continuation of services to support communities and social cohesion will have a positive impact. The opposite will be true if settlements are inadequate.</td> </tr> </table>	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.	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.
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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.

5.00	CONSULTATIONS REQUIRED/CARRIED OUT
5.01	Consultation has taken place with Portfolio Management Teams and the Chief Officer Team, The Finance Team, Cabinet Members, Group Leaders and Members and Scrutiny Committees.

6.00	APPENDICES
6.01	Appendix A: Summary of discussion points from Overview and Scrutiny Committees

7.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
7.01	Cabinet Report 12 July 2022 Cabinet Report 20 September 2022 Cabinet Report 22 November 2022 Scrutiny Reports November/December 2022

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

9.00	GLOSSARY OF TERMS
9.01	<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 includes both the revenue budget and capital programme and any authorised amendments to them.</p> <p>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.</p> <p>Specific Grants: An award of funding from a grant provider (e.g. Welsh Government) which must be used for a pre-defined purpose.</p> <p>Welsh Local Government Association: the representative body for unitary councils, fire and rescue authorities and national parks authorities in Wales.</p> <p>Financial Year: the period of 12 months commencing on 1 April.</p> <p>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.</p> <p>Aggregate External Finance (AEF): The support for local revenue spending from the Welsh Government and is made up of formula grant including the revenue support grant and the distributable part of non-domestic rates.</p> <p>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.</p> <p>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.</p>