

## CABINET

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| <b>Date of Meeting</b> | Tuesday, 18 <sup>th</sup> January 2022  |
| <b>Report Subject</b>  | Medium Term Financial Strategy and Budget 2022/23 – Welsh Local Government Provisional Settlement |
| <b>Cabinet Member</b>  | Cabinet Member for Finance, Social Value and Procurement  |
| <b>Report Author</b>   | Corporate Finance Manager and Chief Executive   |
| <b>Type of Report</b>  | Strategic   |

### **EXECUTIVE SUMMARY**

Cabinet received an update of an additional budget requirement of £20.696m for the 2022/23 financial year at its meeting on 14 December. The update was in advance of receipt of the Welsh Local Government Provisional Settlement which was received on 21 December.

This report updates on the key headlines and financial impacts of the Welsh Local Government Provisional Settlement in advance of the final stage of the formal budget setting process in February.

The 2022/23 Provisional Settlement will contribute £19.559m towards the previously reported additional budget requirement of £20.696m.

However, the additional budget requirement will need to increase significantly to take account of the need to meet the impacts of all of the issues identified in the report including Pay Awards / Real Living Wage and the continuation of additional costs and lost income arising from the pandemic following the cessation of the Welsh Government Hardship Fund at the end of March 2022.

A legal and balanced budget for 2022/23 will need to be recommended by Cabinet to Council once all of the work on the above issues has been concluded.

## RECOMMENDATIONS

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| 1 | That Cabinet notes the financial implications of the Welsh Local Government Provisional Settlement and the remaining work which needs to be completed prior to agreeing a set of recommendations for Council to set a legal and balanced budget in February. |
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## REPORT DETAILS

| <b>1.00</b>                          | <b>EXPLAINING THE COUNCIL FUND REVENUE BUDGET 2022/23</b>  |                      |         |   |    |                                  |       |             |       |                                      |       |                     |       |                                    |       |                     |       |                      |       |                                  |       |                        |               |
|--------------------------------------|--|----------------------|---------|---|----|----------------------------------|-------|-------------|-------|--------------------------------------|-------|---------------------|-------|------------------------------------|-------|---------------------|-------|----------------------|-------|----------------------------------|-------|------------------------|---------------|
| 1.01                                 | <p>Cabinet received an update of an additional budget requirement of £20.696m for the 2022/23 financial year at its meeting on 14 December. The update was in advance of receipt of the Welsh Local Government Provisional Settlement which was received on 21 December – Table 1 below shows the updated additional budget requirement presented at the meeting.</p> <p><b>Table 1 – Additional Budget Requirement</b></p> <table border="1"><thead><tr><th rowspan="3">Summary of Pressures</th><th>2022/23</th></tr><tr><th>L</th></tr><tr><th>£m</th></tr></thead><tbody><tr><td>Prior Year Decisions / Approvals</td><td>0.806</td></tr><tr><td>Income Loss</td><td>0.200</td></tr><tr><td>Legislative / Unavoidable Indexation</td><td>1.821</td></tr><tr><td>National Resolution</td><td>3.307</td></tr><tr><td>National Funding Requirement (Pay)</td><td>7.756</td></tr><tr><td>Strategic Decisions</td><td>5.699</td></tr><tr><td>New Posts - Capacity</td><td>0.864</td></tr><tr><td>New Posts - Other (Under Review)</td><td>0.243</td></tr><tr><td><b>Total Pressures</b></td><td><b>20.696</b></td></tr></tbody></table> | Summary of Pressures | 2022/23 | L | £m | Prior Year Decisions / Approvals | 0.806 | Income Loss | 0.200 | Legislative / Unavoidable Indexation | 1.821 | National Resolution | 3.307 | National Funding Requirement (Pay) | 7.756 | Strategic Decisions | 5.699 | New Posts - Capacity | 0.864 | New Posts - Other (Under Review) | 0.243 | <b>Total Pressures</b> | <b>20.696</b> |
| Summary of Pressures                 | 2022/23  |                      |         |   |    |                                  |       |             |       |                                      |       |                     |       |                                    |       |                     |       |                      |       |                                  |       |                        |               |
|                                      | L  |                      |         |   |    |                                  |       |             |       |                                      |       |                     |       |                                    |       |                     |       |                      |       |                                  |       |                        |               |
|                                      | £m   |                      |         |   |    |                                  |       |             |       |                                      |       |                     |       |                                    |       |                     |       |                      |       |                                  |       |                        |               |
| Prior Year Decisions / Approvals     | 0.806  |                      |         |   |    |                                  |       |             |       |                                      |       |                     |       |                                    |       |                     |       |                      |       |                                  |       |                        |               |
| Income Loss                          | 0.200  |                      |         |   |    |                                  |       |             |       |                                      |       |                     |       |                                    |       |                     |       |                      |       |                                  |       |                        |               |
| Legislative / Unavoidable Indexation | 1.821  |                      |         |   |    |                                  |       |             |       |                                      |       |                     |       |                                    |       |                     |       |                      |       |                                  |       |                        |               |
| National Resolution                  | 3.307  |                      |         |   |    |                                  |       |             |       |                                      |       |                     |       |                                    |       |                     |       |                      |       |                                  |       |                        |               |
| National Funding Requirement (Pay)   | 7.756  |                      |         |   |    |                                  |       |             |       |                                      |       |                     |       |                                    |       |                     |       |                      |       |                                  |       |                        |               |
| Strategic Decisions                  | 5.699  |                      |         |   |    |                                  |       |             |       |                                      |       |                     |       |                                    |       |                     |       |                      |       |                                  |       |                        |               |
| New Posts - Capacity                 | 0.864  |                      |         |   |    |                                  |       |             |       |                                      |       |                     |       |                                    |       |                     |       |                      |       |                                  |       |                        |               |
| New Posts - Other (Under Review)     | 0.243  |                      |         |   |    |                                  |       |             |       |                                      |       |                     |       |                                    |       |                     |       |                      |       |                                  |       |                        |               |
| <b>Total Pressures</b>               | <b>20.696</b>  |                      |         |   |    |                                  |       |             |       |                                      |       |                     |       |                                    |       |                     |       |                      |       |                                  |       |                        |               |
| 1.02                                 | <p>This report updates on the key headlines and financial impacts of the Welsh Local Government Provisional Settlement in advance of the final stage of the formal budget setting process in February.</p>   |                      |         |   |    |                                  |       |             |       |                                      |       |                     |       |                                    |       |                     |       |                      |       |                                  |       |                        |               |

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| <b>2.00</b> | <b>THE WELSH LOCAL GOVERNMENT PROVISIONAL SETTLEMENT</b>  |
| 2.01        | <p>The Welsh Local Government Provisional Settlement was announced on 21 December as planned with responses to the consultation on the settlement invited by the deadline of 8 February. A summary of the key headlines is set out below.</p> |

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| 2.02 | <p><b>Standard Spending Assessment (SSA)</b></p> <p>The provisional SSA for 2022/23 is £327.770m which is an increase of £29.080m (9.7%) on the SSA for 2021/22 of £298.689m.</p>  |
| 2.03 | <p><b>Aggregate External Finance (AEF)</b></p> <p>The provisional AEF for 2022/23 is £232.174m which when compared to the <i>adjusted</i> 2021/22 AEF figure of £212.608m represents an <i>increase</i> of £19.566m (9.2%). The All Wales average is an <i>increase</i> of 9.4%.</p> <p>The provisional AEF represents a cash uplift of £25.396m (12.3%) over the 2021/22 AEF of £206.778m (before taking into account the transfers in shown in para 2.04).</p> |
| 2.04 | <p><b>Transfers Into the Settlement</b></p> <p>There are two transfers into the settlement:</p> <ul style="list-style-type: none"> <li>• North Wales Regional Waste Treatment Project Gate Fees - £5.620m</li> <li>• Social Care Workforce Grant - £0.217m</li> </ul> <p>These two transfers will need to be added to the budget of the relevant portfolio so will increase the overall additional budget requirement shown in Table 1.</p>                      |
| 2.05 | <p><b>Funding Per Capita</b></p> <p>The AEF allocation provides an amount of £1,476 per capita compared to the Welsh average of £1,611 - a ranking of 20th out of the 22 Welsh councils (20th in 2021/22).</p>   |
| 2.06 | <p><b>Additional Funding (Floor)</b></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><b>Indicative Allocations for future years</b></p> <p>The Settlement included indicative All Wales revenue allocations for 2023/24 and 2024/25 of £5.3bn and £5.4bn respectively. This equates to an increase of £177m (3.5%) in 2023/24 and £128m (2.4%) in 2024/25.</p>   |
| 2.08 | <p><b>IMPACT OF THE SETTLEMENT ON THE BUDGET 2022/23</b></p> <p>Whilst the annual uplift in AEF represents a significant increase in cash terms there will still be significant challenges to address when setting the budget for 2022/23 which will require a significant amount of urgent and prioritised work as set out below:</p>   |
| 2.09 | <p><b>Funding for Pay Awards</b></p> <p>It is clear that the allocation provided for 2022/23 will need to cover in full the impacts of all pay awards (Teacher and Non Teacher) as well as the national expectation for Councils to implement the Real Living Wage.</p>  |

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|      | <p>The Office of Budget Responsibility's latest forecast predicts average earnings growth of 4% for 2022/23 - therefore urgent consideration is needed on the level of budget provision to be provided to meet the costs of future pay awards that are currently unknown.</p>   |
| 2.10 | <p><b>Real Living Wage</b></p> <p>The settlement makes specific reference to the requirement that authorities need to introduce the Real Living Wage and includes the following statement:</p> <p><i>"In making decisions about the level of funding for local government I have responded to the need to ensure that hardworking staff receive well deserved pay rises in the future. In particular I have included funding to enable authorities to meet the additional costs of introducing the Real Living Wage for care workers as set out by the Deputy Minister today. This allocation includes a transfer of £5m for which the base of the settlement has been adjusted, from the Social care Workforce and Sustainability grant".</i></p> <p>Implementation of the Real Living Wage may have significant cost implications for the Council, not just for our own employees but for those within the Independent Sector from whom we commission care.</p> |
| 2.11 | <p><b>Cessation of the Hardship Fund</b></p> <p>The Welsh Government Hardship Fund which has made a significant funding contribution to the Council's budget in the current financial year is due to cease at the end of March. Therefore, the continuation of additional costs and lost income will need to be borne by the Council in 2022/23. The claims made in the current financial year up until the end of November total £6.9m with lost income claims for the first half of the year being £1.1m. An urgent risk assessment of these claims is currently being undertaken.</p>  |
| 2.12 | <p><b>Review of key cost pressures at the minimum level</b></p> <p>The additional budget requirement of £20.696m reported to Cabinet in December included a number of significant financial risks and was based on the minimum level and below in-year demand levels.</p> <p>Some of the key financial risks include Social Care commissioning and Out of County Placements that will need to be reviewed based on current demand and inflationary impacts.</p>   |
| 2.13 | <p><b>Specific Grants</b></p> <p>The settlement provided information on the amounts of specific grants at an All Wales Level with some details of potential increases and decreases - analysis of the impacts of major changes is currently being undertaken.</p> <p>Some significant changes include the Social Care Recovery Grant which we have received in 2021/22 and is not continuing into 2022/23 and the Integrated Care Fund Grant which is currently under discussion with a potential reduction which may lead to additional cost pressures.</p>  |

| 2.14             | <p><b>Inflation</b></p> <p>Current inflation levels and future forecasts are running at the highest levels for some time (Consumer Price Index (CPR) inflation is currently at 5.1%) so impacts on council services and external partners will need to be reviewed in detail.</p>  |      |       |                 |                         |                 |  |                  |                                      |              |  |
|------------------|--|------|-------|-----------------|-------------------------|-----------------|--|------------------|--------------------------------------|--------------|--|
| 2.15             | <p><b>Planning over the Medium Term</b></p> <p>For the first time in a number of years the 2022/23 provisional settlement gave indicative allocations for the next two years.</p> <p>Whilst this is welcomed the indicative annual uplifts in AEF of 3.5% and 2.4% for 2023/24 and 2024/25 respectively are significantly less than 2022/23 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 2022/23 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>  |      |       |                 |                         |                 |  |                  |                                      |              |  |
| 2.16             | <p><b>SUMMARY AND CONCLUSIONS</b></p> <p>The 2022/23 Provisional Settlement will contribute £19.559m towards the previously reported additional budget requirement of £20.696m.</p> <p>However, the additional budget requirement will need to increase significantly to take account of the need to meet all the impacts of the issues identified in the report including Pay Awards / Real Living Wage and the continuation of additional costs and lost income arising from the pandemic following the cessation of the Welsh Government Hardship Fund in March 2022.</p> <p>A legal and balanced budget for 2022/23 will need to be recommended by Cabinet to Council once all of the work on the above issues has been concluded.</p>   |      |       |                 |                         |                 |  |                  |                                      |              |  |
| 2.17             | <p><b>Budget Timeline</b></p> <table border="1" data-bbox="300 1485 1366 1675"> <thead> <tr> <th data-bbox="300 1485 687 1525">Date</th> <th data-bbox="695 1485 1366 1525">Event</th> </tr> </thead> <tbody> <tr> <td data-bbox="300 1525 687 1565">18 January 2022</td> <td data-bbox="695 1525 1366 1565">Cabinet – Budget Review</td> </tr> <tr> <td data-bbox="300 1565 687 1606">8 February 2022</td> <td data-bbox="695 1565 1366 1606">Deadline for responses to the Settlement</td> </tr> <tr> <td data-bbox="300 1606 687 1646">15 February 2022</td> <td data-bbox="695 1606 1366 1646">Cabinet and Council – Budget Setting</td> </tr> <tr> <td data-bbox="300 1646 687 1675">1 March 2022</td> <td data-bbox="695 1646 1366 1675">Welsh Government Final Budget/Settlement</td> </tr> </tbody> </table> | Date | Event | 18 January 2022 | Cabinet – Budget Review | 8 February 2022 | Deadline for responses to the Settlement | 15 February 2022 | Cabinet and Council – Budget Setting | 1 March 2022 | Welsh Government Final Budget/Settlement |
| Date             | Event  |      |       |                 |                         |                 |  |                  |                                      |              |  |
| 18 January 2022  | Cabinet – Budget Review  |      |       |                 |                         |                 |  |                  |                                      |              |  |
| 8 February 2022  | Deadline for responses to the Settlement   |      |       |                 |                         |                 |  |                  |                                      |              |  |
| 15 February 2022 | Cabinet and Council – Budget Setting   |      |       |                 |                         |                 |  |                  |                                      |              |  |
| 1 March 2022     | Welsh Government Final Budget/Settlement   |      |       |                 |                         |                 |  |                  |                                      |              |  |

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| 3.00 | <b>RESOURCE IMPLICATIONS</b>   |
| 3.01 | <p><b>Revenue:</b> the revenue implications for the 2021/22 budget are set out in the report.</p> <p><b>Capital:</b> 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> |

**Human Resources:** there are no implications for additional capacity or for any change to current workforce structures or roles at this stage.

**4.00 IMPACT ASSESSMENT AND RISK MANAGEMENT**

**4.01 Ways of Working (Sustainable Development) Principles Impact**

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| 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**

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| 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   |

|  |                            |   |
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|  |                            | 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.   |

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| <b>5.00</b> | <b>CONSULTATIONS REQUIRED/CARRIED OUT</b>  |
| 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. |

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

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| <b>7.00</b> | <b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>  |
| 7.01        | Cabinet Report 13 July 2021<br>Scrutiny Reports September/October 2021<br>Cabinet Report 14 December 2021 |

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| <b>8.00</b> | <b>CONTACT OFFICER DETAILS</b>  |
| 8.01        | <b>Contact Officer:</b> Gary Ferguson, Corporate Finance Manager<br><b>Telephone:</b> 01352 702271<br><b>E-mail:</b> <a href="mailto:gary.ferguson@flintshire.gov.uk">gary.ferguson@flintshire.gov.uk</a> |

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| <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.<br><br><b>Revenue:</b> 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.

**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.