

CABINET

Date of Meeting	Tuesday 17 December 2024
Report Subject	Medium Term Financial Strategy and Budget 2025/26
Cabinet Member	Cabinet Member for Finance and Social Value
Report Author	Corporate Finance Manager and Chief Executive
Type of Report	Strategic

EXECUTIVE SUMMARY

This report provides an update on the Council's revenue budget position for the 2025/26 financial year in advance of the receipt of the Welsh Local Government Provisional Settlement on 11 December which had not been received at the time of writing the report. An update on the key headlines and impacts of the Provisional Settlement will be provided at the meeting.

In July, Cabinet and Corporate Resources Overview and Scrutiny Committee were advised of an initial 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.

The UK Chancellor announced her Autumn Budget Statement on 30 October and the potential impact on the Welsh Government budget is set out in the report. The actual impact for Local Government and Welsh Councils will not be known until the publication of the Welsh Government draft budget and provisional settlement which are scheduled for 10/11 December.

Following receipt of the provisional settlement a detailed briefing will be provided to all members to advise of the impact on the Council's overall 2025/26 budget position.

This report sets out the changes to the 2025/26 additional budget requirement since the last reported position in September. The report also updates on the progress made to identify solutions to bridge the budget gap and advises of the

remaining options available to the Council to enable it to set a legal and balanced budget once the provisional settlement is confirmed.

RECOMMENDATIONS

1	To receive and note the revised additional budget requirement for the 2025/26 financial year.
2	To note the progress made to identify solutions to bridge the budget gap and to also note the remaining options available to set a legal and balanced budget once the provisional settlement is confirmed.

REPORT DETAILS

1.00	EXPLAINING THE MEDIUM-TERM FINANCIAL STRATEGY AND BUDGET 2025/26
1.01	This report provides an update on the Council's revenue budget position for the 2025/26 financial year in advance of the receipt of the Welsh Local Government Provisional Settlement on 11 December which had not been received at the time of writing the report. An update on the key headlines and impacts of the Provisional Settlement will be provided at the meeting.
1.02	In July, Cabinet and Corporate Resources Overview and Scrutiny Committee were advised of an initial additional budget requirement for the 2025/26 financial year of £37.778m
1.03	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.
1.04	National Context It is clear from a recent Society of Welsh Treasurers survey coordinated by the Welsh Local Government Association that all Councils in Wales are experiencing similar significant financial challenges. Across Wales total cost pressures of £563m have been identified for the 2025/26 financial year with additional cost pressures of £457m in 2026/27 and £462m in 2027/28.
1.05	The UK Chancellor announced her Autumn Budget Statement on 30 October and the potential impact on the Welsh Government budget is set out below.
1.06	For the 2024/25 financial year Welsh Government will receive additional revenue consequential funding of £774m with a further £929m anticipated for the 2025/26 financial year (£694m revenue and £235m capital).

	Therefore, over the next two years Welsh Government are expected to receive additional funding of around £1.7bn.																											
1.07	The actual impact for Local Government and Welsh Councils will not be known until the publication of the Welsh Government draft budget and provisional settlement which are scheduled for 10/11 December.																											
1.08	Based on the above, Welsh Government will have much greater funding flexibility than previously expected to allocate to local government so that they can meet the impact of pay awards and escalating service demand in areas such as social care, homelessness and additional learning needs. The Council will continue to make representations for a better funding settlement which will be essential to enable the Council to be able to set a legal and balanced budget.																											
	THE REVISED ADDITIONAL BUDGET REQUIREMENT																											
1.09	<p>Since September there have been some changes to the additional budget requirement, and these are set out in the table below:</p> <p><u>Table 1: Changes to the Additional Budget Requirement 2025/26</u></p> <table border="1" data-bbox="319 929 1404 1388"> <thead> <tr> <th></th> <th style="text-align: right;">£m</th> <th></th> </tr> </thead> <tbody> <tr> <td>September Cabinet Report</td> <td style="text-align: right;">38.420</td> <td>Note</td> </tr> <tr> <td colspan="3">New Pressures:</td> </tr> <tr> <td>Employers National Insurance Contributions</td> <td style="text-align: right;">4.189</td> <td>(1)</td> </tr> <tr> <td>Employers Teacher Pension Contributions</td> <td style="text-align: right;">3.147</td> <td>(2)</td> </tr> <tr> <td>Hawarden High School – Resource Unit</td> <td style="text-align: right;">0.138</td> <td>(3)</td> </tr> <tr> <td>Additional Teacher Pay Award – Sep 2024</td> <td style="text-align: right;">0.399</td> <td>(4)</td> </tr> <tr> <td>Out of County Placements</td> <td style="text-align: right;">1.200</td> <td>(5)</td> </tr> <tr> <td>Revised Additional Budget Requirement</td> <td style="text-align: right;">47.493</td> <td></td> </tr> </tbody> </table> <p>Notes in support of table 1:</p> <ol style="list-style-type: none"> 1. Impact of Employers National Insurance contribution increase following UK Autumn Budget Statement – it is anticipated that additional funding will be provided for this from HM Treasury. 2. Impacts of the increase in Employers Teacher Pension contributions effective from April 2024 – it is anticipated that additional funding will be provided by UK Government / Welsh Government. 3. Specialist Additional Learning Needs provision as approved by Cabinet in October (full annual impact of £0.237m from 26/27) 4. A Teacher Pay Award of 5.5% has been approved effective from 1 Sep 2024 – an additional 0.5% compared with the budgeted amount of 5%. 5. Impact of current in-year projected overspend 		£m		September Cabinet Report	38.420	Note	New Pressures:			Employers National Insurance Contributions	4.189	(1)	Employers Teacher Pension Contributions	3.147	(2)	Hawarden High School – Resource Unit	0.138	(3)	Additional Teacher Pay Award – Sep 2024	0.399	(4)	Out of County Placements	1.200	(5)	Revised Additional Budget Requirement	47.493	
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	<u>FUNDING SOLUTIONS</u>																											

1.10

Since September a significant amount of work has been undertaken to identify solutions to meet the remaining budget shortfall. An update on the latest position is detailed in the table below:

Table 2: Funding Solutions identified to date

	£m
Additional Budget Requirement	47.493
Less:	
Additional Funding	
Additional Funding for Employer NI increase	(4.189) (1)
Additional Funding for Teacher Pension increase	(3.147) (2)
Reduction in Existing Cost Pressures:	
Homelessness Demand	(3.017) (3)
Pay Award 2024/25	(0.754) (4)
Streetscene and Transportation – various removed	(0.681) (5)
Central Loans and Investment Account	(0.500) (6)
Children’s Group Homes	(0.450) (7)
Reduction of indexation pressures	(0.700) (8)
Revised Teachers Pay Award 25/26	(0.294) (9)
Mockingbird Repayment deferred for one year	(0.287) (10)
Digital Posts - various	(0.191) (11)
Recycling Income	(0.150) (12)
Local Bus Services	(0.150) (13)
Net Changes to borrowing costs	(0.129) (14)
Homecare Capacity	(0.100) (15)
Regional Collaboration Team	(0.050) (16)
Specialist Legal Expenses	(0.040) (17)
Empty Homes Grant	(0.025) (18)
ADM Resource	(0.024) (19)
Increased Income:	
Fees and Charges (annual review)	(0.150) (20)
Fast Track Income	(0.022) (21)
New Cost Reductions:	
School Demography	(1.349) (22)
Residual Waste Collection frequency	(0.653) (23)
County Hall vacation	(0.371) (24)
Reduction in Travel Budgets (indicative)	(0.160) (25)
Digital Strategy	(0.058) (26)
Reduction in NDR Transitional Relief	<u>(0.001) (27)</u>
Total Funding Solutions identified to date	(17.642)
Remaining Additional Budget Requirement	29.851

Notes in support of table 2:

1. Funding is expected through HM Treasury – assumed in full.
2. Funding is expected to be transferred into the Settlement – assumed in full.
3. Reduction in cost pressure based on Independent Homelessness Review Report in October – mid range.
4. Reduction following the NJC Pay Award for 2024/25 being agreed in October.
5. Reduction in cost pressures following a review and some alternative funding solutions being identified.
6. Reduction in cost pressure due to continuation of relatively stable interest rate forecasts.
7. Pressure deferred due to application for Welsh Government grant to provide funding for the pressure.
8. Review and Challenge of external partner and projected savings on the central utilities budget across Corporate Buildings and Schools.
9. Reduced cost pressure due to revised calculations.
10. Deferment of the first Mockingbird Loan Repayment to 2026/27 as agreed with Welsh Government.
11. Digital posts that can now be funded from approved carry forward balances.
12. Recycling income is not projected to reduce as much as originally forecast.
13. Removed Choice cost pressure as included in the September Cabinet report.
14. The level of anticipated borrowing costs from various capital schemes is not as high as originally anticipated.
15. Deferred pressure due to in-house Homecare Service not yet at full capacity due to current recruitment challenges.
16. Deferment of pressure to 2026/27 in agreement with Welsh Government.
17. Removed Choice cost pressure as included in the September Cabinet report.
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	<p>19. Removed Choice cost pressure as included in the September Cabinet report.</p> <p>20. Estimate of increased income from the 2025 review of fees and charges.</p> <p>21. Anticipated income forecast to be received from the Fasttrack project.</p> <p>22. Based on the downturn in overall pupil numbers</p> <p>23. Reduction in cost following implementation of the Residual Waste Service moving to 3 weekly from April 2025</p> <p>24. Initial projected savings from vacation of County Hall</p> <p>25. Indicative 20% reduction in travel budgets based on increased home working.</p> <p>26. Digital Strategy net savings from Care Cubed and Paris systems.</p> <p>27. Minor adjustment in NDR Transitional Relief.</p>
1.11	<p><u>AREAS STILL UNDER CONSIDERATION</u></p> <p>There are still a number of areas that will need to be subject to final consideration for final budget setting purposes once we have received our funding allocation from Welsh Government and these are set out below.</p>
1.12	<p>Welsh Government Aggregate External Finance (AEF)</p> <p>As set out earlier in the report we will be notified of our provisional settlement on 11 December which will provide more certainty on our overall budget position. Final budget proposal options will then need to be prepared for consideration by members prior to final budget setting day scheduled for 18 February.</p> <p>Following the UK Autumn Budget Statement there is scope for a much more positive funding allocation than previously anticipated. Each 1% uplift in our AEF equates to £2.595m so it is essential that a significant uplift is provided.</p> <p>However, as was the case last year changes to data sets as a result of PLASC and the latest statutory returns are likely to have a significant negative impact on our allocation.</p>

1.13	<p>Pay Assumptions</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.</p> <p><u>Pay Modelling</u></p> <p>An ‘aspirational’ amount of £2m is 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>
1.14	<p>Schools Budget</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 £12.521 for school budgets for pay awards and other identified pressures.</p> <p>Each 1% reduction on the schools budget would equate to £1.173m off the cumulative cost pressures currently included.</p>
1.15	<p>Homelessness</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 Out’ 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>
1.16	<p>Portfolio Cost Reductions</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.</p>
1.17	<p>Transformation Programme</p> <p>The resourcing and governance arrangements of this key programme are now underway and an update is included as a separate item on this agenda. The areas 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. However, in view of the major challenge facing the Council priority will be directed to any areas that may be able to generate savings for the 2025/26 budget.</p>
1.18	<p>Review of In Year Budget Position</p> <p>The Council's latest budget monitoring position (as at Month 7) shows an overall projected overspend of £6.466m 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 in an attempt 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>
1.19	<p>Social Care – Commissioning Costs</p> <p>Social Care budgets have been relatively protected in recent years and commissioning costs will be subject to negotiation with care providers over the coming weeks.</p>

	<p>The impact of the recently announced increase in Employers National Insurance contributions and Real Living Wage is likely to significantly impact on the independent care sector and will need to be factored into negotiations.</p>
1.20	<p>Out of County Placements</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 now being £1.7m. An initial amount of £0.500m was included in the forecast which has now been increased to £1.7m to re-set at existing levels. However, 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>
1.21	<p>Council Tax</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 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>
1.22	<p>Summary and Conclusions</p> <p>The United Kingdom Autumn Budget Statement on 30 October included welcome additional consequential funding for Welsh Government to consider as part of its upcoming draft budget for 2025/26 (see para 1.06)</p> <p>We now need to await the provisional settlement allocation from Welsh Government scheduled for the 11 December and it is essential that we receive a significant contribution to reduce the reliance on local taxation and the other measures set out in the report.</p> <p>As set out in the report, the Council will need to identify sufficient solutions to meet the remaining gap of £29.851m to meet its statutory duty of setting a legal and balanced budget. It is important to note that no account has been taken to date on the Council's two main funding streams of Welsh Government Grant and annual Council Tax uplifts.</p> <p>Further reports and specific proposals from the considerations detailed in paragraphs 1.12 – 1.21 will then be brought to members in January and February 2025 in line with the timeline below.</p> <p>Following receipt of the provisional settlement a briefing will be provided to all members to advise of the impact on the overall 2025/26 budget position.</p>

1.23	Table 3: Budget Timeline	
	Date	Event
	10/11 December 2024	WG Draft Budget/Provisional Settlement
	17 December 2024	Report to Cabinet and Corporate Resources Overview and Scrutiny Committee - Budget Update
	16 January 2025	Overview and Scrutiny Committees – as required
	21 January 2025	Report to Cabinet and Corporate Resources Overview and Scrutiny Committee - Proposed budget requirement and solutions
	18 February 2025	Report to Cabinet and Council - Final Budget Proposals
	February 2025	WG Final Budget/Settlement

2.00	RESOURCE IMPLICATIONS
2.01	<p>Revenue: the revenue implications for the 2025/26 budget are set out in the report.</p> <p>Capital: the borrowing needs for the capital programme are built into the revenue estimates for 2025/26.</p>

3.00	IMPACT ASSESSMENT AND RISK MANAGEMENT		
3.01	<p>Ways of Working (Sustainable Development) Principles Impact</p> <table border="1" style="width: 100%;"> <tr> <td style="width: 20%;">Long-term</td> <td> <p>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.</p> <p>Negative – failure to agree a balanced and legal budget and may lead to potential Welsh Government intervention.</p> <p>Negative – failure to balance the budget may lead to the section 151 Officer issuing a section 114 notice effectively declaring the Council bankrupt.</p> </td> </tr> </table>	Long-term	<p>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.</p> <p>Negative – failure to agree a balanced and legal budget and may lead to potential Welsh Government intervention.</p> <p>Negative – failure to balance the budget may lead to the section 151 Officer issuing a section 114 notice effectively declaring the Council bankrupt.</p>
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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.

Well-Being Goals Impact

Prosperous Wales	Longer term funding settlements from Welsh Government that provide additional funding for indexation, service demands and new legislation will aid sustainability and support a strong economy that encourage business investment in the region. The opposite will be true if settlements are inadequate.
Resilient Wales	Continuation of services to support communities and social cohesion will have a positive impact. The opposite will be true if settlements are inadequate.
Healthier Wales	An appropriate level of funding will ensure that communities are supported and will have a positive impact. The opposite will be true if settlements are inadequate.
More equal Wales	A positive impact with greater parity of funding from Welsh Government for all Welsh Local Authorities. The opposite will be true if settlements are inadequate.
Cohesive Wales	Appropriate level of funding will support services working alongside partners. The opposite will be true if settlements are inadequate.
Vibrant Wales	As Healthier and Cohesive Wales above
Globally responsible Wales	Neutral impact.

4.01	Consultation has taken place with Portfolio Management Teams and the Chief Officer Team, the Finance Team, Cabinet Members, Group Leaders and Overview and Scrutiny Committees. Workforce conferences have been scheduled in January for employees.
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5.00	APPENDICES
5.01	None to this report

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Cabinet Report July 2024 Cabinet Report September 2024 Overview and Scrutiny Reports and Presentations October-December 2024

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

8.00	GLOSSARY OF TERMS
8.01	<p>Medium Term Financial Strategy (MTFS): a written strategy which gives a forecast of the financial resources which will be available to a Council for a given period, and sets out plans for how best to deploy those resources to meet its priorities, duties and obligations.</p> <p>Revenue: a term used to describe the day to day costs of running Council services and income deriving from those services. It also includes charges for the repayment of debt, including interest, and may include direct financing of capital expenditure.</p> <p>Capital: Expenditure on the acquisition of non-current assets or expenditure which extends the useful life of an existing asset.</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</p>

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.

External Partners: Organisations outside of the Council that we work alongside to deliver services.