

## CABINET

<b>Date of Meeting</b>	Tuesday, 14 <sup>th</sup> December 2021
<b>Report Subject</b>	Medium Term Financial Strategy and Budget 2022/23
<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

This report updates the additional budget requirement for 2022/23 in advance of receipt of the Welsh Local Government Provisional Settlement and the formal budget setting process.

An additional budget requirement of £16.750m was reported to Cabinet and Corporate Resources Overview and Scrutiny Committee in July (Stage 1). All cost pressures were considered by relevant scrutiny committees in September and October and all were supported with no recommended changes – Cabinet received this feedback at the October meeting to conclude Stage 2 of the budget process. At this meeting Cabinet were also advised of an updated additional budget requirement of £18m due to various changes, the most significant of which being the increase in Employer National Insurance contributions from 1 April 2022. Since then further work has been undertaken on pay and inflation assumptions and we have also received notification of the draft budget increase from North Wales Fire and Rescue Service. The impact of these and other adjustments to existing cost pressures has increased the additional budget requirement to £20.696m as detailed in Table 1 of the report. Changes to the additional budget requirement from Stage 1 in July are detailed in Table 2 for completeness.

The report also reminds Members of the budget solutions strategy which is highly dependent on sufficient national funding for local government.

The report advises that the revised minimum additional budget requirement for 2022/23 of £20.696m equates to an uplift in Welsh Government Grant of a minimum of 7%.

This is also in line with other Councils across North Wales and a letter to Welsh Government has been sent by the six North Wales Council Leaders and Chief Executives in advance of the Provisional Settlement which is appended to this report.

The Settlement is due to be received on 21 December 2021.

## RECOMMENDATIONS

1	To receive and note the revised additional budget requirement and changes to cost pressures.
2	To note the solutions strategy and the required increase in Aggregate External Finance funding prior to the receipt of the Provisional Settlement.

## REPORT DETAILS

<b>1.00</b>	<b>EXPLAINING THE MEDIUM TERM FINANCIAL STRATEGY AND BUDGET 2022/23</b>
1.01	The Council reviews the Medium-Term Financial Strategy (MTFS) on an annual basis in advance of setting each annual budget. This report updates the additional budget requirement for 2022/23 in advance of receipt of the Welsh Local Government Provisional Settlement and the formal budget setting process.
1.02	An additional budget requirement of £16.750m was reported to Cabinet and Corporate Resources Overview and Scrutiny Committee in July (Stage 1). All cost pressures were considered by relevant scrutiny committees in September and October and all were supported with no recommended changes – Cabinet received this feedback at the October meeting to conclude Stage 2 of the budget process. At this meeting Cabinet were also advised of an updated additional budget requirement of £18m due to various changes, the most significant of which being the increase in Employer National Insurance contributions from 1 April 2022.
1.03	Since then further work has been undertaken on pay and inflation assumptions and we have also received notification of the draft budget increase from North Wales Fire and Rescue Service. The impact of these and other adjustments to existing cost pressures has increased the additional budget requirement to £20.696m as detailed in Table 1. Changes to the additional budget requirement from Stage 1 in July are detailed in Table 2 for completeness.

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	Carbon Reduction Officer	(0.058)	14
	Digital Connectivity Officer	(0.042)	14
	Basware	(0.041)	14
	<b>Total</b>		<b>3.947</b>
	<b>Revised Minimum Budget Requirement</b>		<b>20.696</b>
1.07	<u>Pay Inflation 2021/22 (Note 1)</u>		
	Pay negotiations for NJC staff have not yet been concluded, and the Trade Unions have balloted their Members on the latest offer from the Employers which is at 1.75%. This is an increase from the offer 1.5% which was previously included in the forecast and equates to an increase in cost of £0.291m.		
1.08	<u>Pay Inflation 2022/23 (Note 2)</u>		
	Following a review of assumptions on pay, based on the current pay offer for 2021/22 and previous announcements on public sector pay at a UK level the 2022/23 NJC Pay inflation has been increased to 2.5% which is an increase of £0.776m for Non Schools and an increase of £0.441m for Schools.		
1.09	<u>Increase in Employers National Insurance Contributions (Note 3)</u>		
	An increase in National Insurance contributions of 1.25% for both Employees and Employers was announced as part of the Autumn Budget and Spending Review which was presented by the Chancellor of the Exchequer on 27 October 2021. This increase is effective from April 2022 and will result in additional costs of £1.415m.		
1.10	<u>Removal of Education Pressures (Note 4 &amp; 5)</u>		
	Further grant funding has meant that a cost pressure for a School based Counsellor has been able to be removed from the forecast.		
	A cost pressure for the revenue costs of a capital project undergoing a feasibility study has been removed due to the outcome of the study being concluded with no recommendation for progression at this time.		
1.11	<u>Independent Remuneration Panel for Wales (Note 6)</u>		
	The above panels draft Annual Report Consultation recommends an increase for all Councillors as well as for increases for Senior salaries. The overall increase is 17% and this has increased the budget pressure from £0.029m to £0.213m.		

1.12	<p><u>Accelerated Capacity Report (Note 7)</u></p> <p>A report on capacity within the Organisation was considered by Cabinet in October 2021 and a number of critical posts were approved for early recruitment due to specific service pressures. Some of these were included in the original forecast but additional posts for enforcement and flooding prevention were also recommended. The pressure reflects the impact of these and other minor changes to existing pressures.</p>
1.13	<p><u>Schools Utility Inflation (Note 8)</u></p> <p>Recent above inflationary increases of Electricity and Gas together with information from our energy suppliers have led to a review of Council utility budgets. Due to the lower utilisation of Council Offices the pressure for Council Buildings can be met from within the existing budgets but the contracts affecting schools will increase from 2022/23 which has led to an additional pressure of £0.250m.</p>
1.14	<p><u>North Wales Fire &amp; Rescue Authority (NWFRA) (Note 9)</u></p> <p>The Council has now received details of the proposed increase in the NWFRA Levy for 2022/23 being an increase of 5.9% which equates to a total increase of £0.490m. This is an increase of £0.159m to the pressure previously included in the forecast.</p>
1.15	<p><u>Social Care Commissioning (Note 10)</u></p> <p>The impact of the increase in the national living wage from April 2022 and an increase in CPI has resulted in an increase of £0.746m to the cost pressure for Social Care Commissioning which brings the overall amount to £2.698m.</p>
1.16	<p><u>Increase in Education Pressures (Note 11 &amp; 12)</u></p> <p>An increase of £0.022m in the cost pressure for the Pupil Referral Unit (PRU) has been included to reflect additional costs for caretaking and cleaning.</p> <p>An increase in the Additional Learning Needs (ALN) cost pressure for schools of £0.143m has been made to reflect increasing demand from the latest information available.</p>
1.17	<p><u>New Pressure for Pension Data Service Software (Note 13)</u></p> <p>This is a new cost pressure for the revenue costs of the Pension Data Service Software which is required to enable the Council to fulfil the regulatory requirements for Pensions services.</p>
1.18	<p><u>Deferral of Pressures to 23/24 (Note 14)</u></p> <p>A review of additional posts has identified some that can be deferred until 2023/24.</p>

	The requirement for the funding for Basware Software will not be required in 2022/23 though it is likely to be required from 23/24.
1.19	<b>Remaining Risks</b>
1.20	<p><u>Out of County Placements</u></p> <p>The position on Out of County Placements remains a risk with increasing numbers of placements in the current financial year which is expected to continue into 2022/23. This will be kept under review.</p>
1.21	<p><u>Social Care Commissioning</u></p> <p>The Social Care Sector is experiencing significant pressures due to the continuing impact of the pandemic together with higher inflationary costs for a number of areas including insurance and additional cleaning. The additional pressure included in this forecast takes into account the recent announcement regarding the National Living Wage but it is recognised that this pressure could increase further.</p>
1.22	<p><u>National Living Wage</u></p> <p>The Government has announced that the National Living Wage will rise to £9.50 per hour from April 2022. This is an increase of 6.6% on the current rate of £8.91 per hour. The impacts of this over and above the inflationary increases already included within the forecast are currently being worked through.</p>
1.23	<p><u>Hardship Fund</u></p> <p>The Council has received considerable financial support from the Welsh Government hardship fund over the last couple of years. This is due to cease in 2022 and the impact of this is currently being assessed.</p>
1.24	<b>Strategic Funding Solutions</b>
1.25	<p>As set out in previous updates, the solutions for balancing the budget are threefold:-</p> <ul style="list-style-type: none"> <li>- Government Funding (Aggregate External Finance)</li> <li>- Local Taxation and Income</li> <li>- Service Efficiencies</li> </ul>
1.26	<p><u>Update on Service Efficiencies</u></p> <p>In July we reported that a realistic minimum target of £2m was estimated as a contribution to the budget for 2022/23. Work has continued over the Summer with all services working to identify areas that can contribute to this target.</p> <p>To date a figure of £1.250m has been identified as a realistic and achievable efficiency figure and work is ongoing on a number of areas.</p>

1.27	<p><u>Council Tax</u></p> <p>The impact of different increases in Council Tax percentages for 2022/23 are set out below.</p> <p><u>Table 3 – Council Tax Increases</u></p> <table border="1" data-bbox="320 389 1401 622"> <thead> <tr> <th>Percentage Increase</th> <th>0%</th> <th>1%</th> <th>2%</th> <th>3%</th> <th>4%</th> <th>5%</th> </tr> <tr> <td></td> <td>£m</td> <td>£m</td> <td>£m</td> <td>£m</td> <td>£m</td> <td>£m</td> </tr> </thead> <tbody> <tr> <td>Council Tax</td> <td>0.234</td> <td>1.143</td> <td>2.053</td> <td>2.962</td> <td>3.871</td> <td>4.780</td> </tr> </tbody> </table> <p>The above figures include the agreed Council Tax base for 2022/23 and a collection rate of 98.5% but excludes the impact on the Council Tax Reduction Scheme (CTRS) which is included within the budget pressures.</p>	Percentage Increase	0%	1%	2%	3%	4%	5%		£m	£m	£m	£m	£m	£m	Council Tax	0.234	1.143	2.053	2.962	3.871	4.780
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1.28	<p><u>Government Funding - Aggregate External Finance (AEF)</u></p> <p>The Welsh Local Government Association (WLGA) have prepared a report to the Finance Sub Group detailing the impact across Wales of current cost pressures and these total £324m which equates to an average increase in AEF across Wales of around 7%.</p> <p>This is consistent with our local position when taking into account the level of efficiencies identified and an annual uplift in council tax similar to recent years. This is also in line with other Councils across North Wales and a letter to Welsh Government has been sent by the six North Wales Council Leaders and Chief Executives in advance of the Provisional Settlement which is appended to this report.</p>																					
1.29	<p><u>Table 4 – Budget Timeline</u></p> <table border="1" data-bbox="320 1397 1388 1662"> <thead> <tr> <th>Date</th> <th>Event</th> </tr> </thead> <tbody> <tr> <td>13 December 2021</td> <td>Cabinet – Updated Additional Budget Requirement</td> </tr> <tr> <td>20 December 2021</td> <td>Welsh Government Draft Budget</td> </tr> <tr> <td>21 December 2021</td> <td>Provisional Local Government Settlement</td> </tr> <tr> <td>18 January 2022</td> <td>Cabinet – Budget Review</td> </tr> <tr> <td>15 February 2022</td> <td>Cabinet and Council – Budget Setting</td> </tr> </tbody> </table>	Date	Event	13 December 2021	Cabinet – Updated Additional Budget Requirement	20 December 2021	Welsh Government Draft Budget	21 December 2021	Provisional Local Government Settlement	18 January 2022	Cabinet – Budget Review	15 February 2022	Cabinet and Council – Budget Setting									
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<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	<p><b>Revenue:</b> the revenue implications for the 2022/23 budget are set out in the report.</p> <p><b>Capital:</b> the borrowing needs for the capital programme are built into the revenue estimates for 2022/23.</p>

<b>3.00</b>	<b>IMPACT ASSESSMENT AND RISK MANAGEMENT</b>	
3.01	<b>Ways of Working (Sustainable Development) Principles Impact</b>	
	Long-term	Negative – the absence of longer-term funding settlements from Welsh Government means that sustainable support for service delivery is challenging for the longer term. Sustainable funding from Welsh Government that provides additional funding for Indexation, Service demands and new legislation will provide a positive and sustainable position for the Council in the longer term.
	Prevention	As above
	Integration	Neutral Impact
	Collaboration	Services continue to explore opportunities for collaboration with other services and external partners to support positive impacts.
	Involvement	Communication with Members, residents and other stakeholders throughout the budget process.
	<b>Well-Being Goals Impact</b>	
	Prosperous Wales	Longer term funding settlements from Welsh Government that provide additional funding for indexation, service demands and new legislation will aid sustainability and support a strong economy that 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.

<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 and Members and Scrutiny Committees.

<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 – Letter to the Minister.

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	Cabinet Report 13 July 2021. Scrutiny Reports September/October 2021.

<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>

**8.00 GLOSSARY OF TERMS**

8.01 **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.

**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.