

## CABINET

<b>Date of Meeting</b>	Tuesday, 12 <sup>th</sup> July 2022
<b>Report Subject</b>	Medium Term Financial Strategy and Budget 2023/24
<b>Cabinet Member</b>	Cabinet Member for Finance, Inclusion, Resilient Communities including Social Value and Procurement
<b>Report Author</b>	Corporate Finance Manager and Chief Executive
<b>Type of Report</b>	Strategic

### EXECUTIVE SUMMARY

The Council reviews and updates the Medium Term Financial Strategy (MTFS) annually, and in advance of planning the annual budget for the following financial Year.

The MTFS forecasts the resources the Council will need to meet our ever changing cost base for the years ahead. Refining our forecast is the first step in planning our budget requirement for the following financial year. Our forecast for the 2023/24 financial year has been updated and will be presented to the Committee at this meeting.

The updated forecast shows that we are likely to have a minimum budget requirement of an additional £16.503m of revenue resources for 2023/24. How this estimate is built up will be explained in full at the meeting.

This is the first stage of developing our budget for 2023/24. During the Autumn, the Overview and Scrutiny Committees will be invited to review the cost pressures, and the opportunities for cost control and efficiency, under their respective terms of reference.

Member workshops to explain the forecast position and the budget strategy in more detail are in the process of being arranged for September.

The report also sets out the strategy to achieve a legal, balanced budget, which, as in previous years is based on national funding from Welsh Government through Aggregate External Finance (AEF), identification of service and corporate efficiencies and from annual uplifts in Council Tax.

As part of the 2022/23 Local Government Settlement we were given indicative figures for 2023/24 and for 2024/25. Whilst this is welcome, the next two years of local government settlements will be at a considerably lower level than the previous two years which presents significant challenges and increases the amount that needs to be met from other sources.

Members will be aware that whilst we will be able to identify some costs savings and efficiencies as part of our annual budget setting process, there are no cost savings of any scale remaining following a decade of under-funding of local government and we have, in the past rightly stood by the principle that the Council will not reduce the budget for any service to the point where the service is unsafe, or to do so would mean we would fail to meet our statutory duties or fail to meet our quality standards.

Therefore the need to consider areas of service reform to generate, where possible, a higher level of cost savings, will be an area where the Council will need to undertake a great deal of work over the summer to find solutions that enable us to set a legal and balanced budget.

## RECOMMENDATIONS

1	To receive and note the additional budget requirement.
2	To agree the process and timeline for Member workshops
3	To refer the cost pressures to the Overview and Scrutiny Committees in the Autumn
4	To note the solutions available to meet these cost pressures and re-set the funding strategy for 2023/24.

## REPORT DETAILS

<b>1.00</b>	<b>EXPLAINING THE MEDIUM TERM FINANCIAL STRATEGY FORECAST 2023/24</b>
1.01	The Council reviews and updates its Medium Term Financial Strategy (MTFS) annually, and in advance of planning the annual budget for the following financial year.
1.02	The MTFS forecasts the resources the Council will need to meet our ever changing cost base for the years ahead. Refining our forecast is the first stage in planning our budget requirement for the following financial year.  Our forecast for the 2023/24 financial year has been updated and will be presented to the Committee at this meeting. It takes into account current

	<p>economic market factors e.g. commodity price inflation, the national position on public sector pay and other new or changing functions required of local government through legislation as well as demands on services.</p> <p>The economic outlook is extremely challenging with inflation at its highest level in 40 years and with considerable increases in energy costs. These factors together with an increase in individuals National Insurance contributions mean that all households are experiencing a reduction in income.</p> <p>Inflation forecasts on energy and fuel is particularly volatile and we are working through the latest inflationary estimates with our energy team. This represents a significant risk and is likely to result in an increase to the forecast which we will include in future reports.</p> <p>The forecast will be kept under review and updated as appropriate throughout the year.</p>
1.03	<p>The forecast shows that we are likely to have a minimum budget requirement of an additional £16.503m of revenue resources for 2023/24. This excludes the impact of the outcome of the pay modelling exercise due to be undertaken in 2022/23.</p> <p>The estimate has been built up in great detail. Some cost pressures are still under review due to constantly changing service demands and therefore there is likely to be some refinement to figures over the summer. Prior to reporting to Scrutiny Committees, all cost pressures will be reviewed and challenged at a senior level and as in previous years will be supported by a an explanatory method statement.</p> <p>The principal cost pressures currently relate to pay awards, inflationary increases, and for increasing and changing service demands mainly within the two portfolios of Education and Youth and Social Services.</p>
1.04	<p>The cost pressures have been categorised as:</p> <ul style="list-style-type: none"> <li>- Prior Year Decisions/ Approvals</li> <li>- Income Loss</li> <li>- Legislative/Unavoidable Indexation</li> <li>- Issues requiring national resolution</li> <li>- National Funding Requirements (Pay Awards)</li> <li>- Strategic Decisions</li> <li>- New Posts</li> </ul> <p>Forecasts for 2024/25 and 2025/26 will continue to be refined alongside the work to agree the 2023/24 budget as decisions made throughout the process will impact on the projections for later years.</p> <p>The main purpose of this report is to set out in detail the forecast cost pressures for 2023/24 prior to referral for review and challenge by Overview and Scrutiny Committees later in the year together with workshops for Members to be held after the summer.</p>

1.05	<p>The table below summarises all cost pressures:</p> <p><b>Table 1: Additional Budget Requirement 2023/24</b></p> <table border="1" data-bbox="300 421 1343 994"> <thead> <tr> <th data-bbox="300 421 954 546" rowspan="3">Summary of Pressures</th> <th colspan="3" data-bbox="954 421 1343 465">2023/24</th> </tr> <tr> <th data-bbox="954 465 1082 510">L</th> <th data-bbox="1082 465 1209 510">M</th> <th data-bbox="1209 465 1343 510">H</th> </tr> <tr> <th data-bbox="954 510 1082 546">£m</th> <th data-bbox="1082 510 1209 546">£m</th> <th data-bbox="1209 510 1343 546">£m</th> </tr> </thead> <tbody> <tr> <td data-bbox="300 546 954 636">Prior Year Decisions/Approvals</td> <td data-bbox="954 546 1082 636">0.781</td> <td data-bbox="1082 546 1209 636">0.781</td> <td data-bbox="1209 546 1343 636">0.781</td> </tr> <tr> <td data-bbox="300 636 954 680">Income Loss</td> <td data-bbox="954 636 1082 680">0.150</td> <td data-bbox="1082 636 1209 680">0.150</td> <td data-bbox="1209 636 1343 680">0.150</td> </tr> <tr> <td data-bbox="300 680 954 748">Legislative/Unavoidable Indexation Pressures</td> <td data-bbox="954 680 1082 748">1.174</td> <td data-bbox="1082 680 1209 748">1.174</td> <td data-bbox="1209 680 1343 748">1.174</td> </tr> <tr> <td data-bbox="300 748 954 792">National Resolution Pressures</td> <td data-bbox="954 748 1082 792">3.618</td> <td data-bbox="1082 748 1209 792">5.960</td> <td data-bbox="1209 748 1343 792">7.380</td> </tr> <tr> <td data-bbox="300 792 954 837">National Funding Requirement (Pay)</td> <td data-bbox="954 792 1082 837">5.057</td> <td data-bbox="1082 792 1209 837">5.830</td> <td data-bbox="1209 792 1343 837">6.603</td> </tr> <tr> <td data-bbox="300 837 954 882">Strategic Decisions</td> <td data-bbox="954 837 1082 882">5.410</td> <td data-bbox="1082 837 1209 882">5.743</td> <td data-bbox="1209 837 1343 882">5.986</td> </tr> <tr> <td data-bbox="300 882 954 927">New Posts</td> <td data-bbox="954 882 1082 927">0.312</td> <td data-bbox="1082 882 1209 927">0.312</td> <td data-bbox="1209 882 1343 927">0.312</td> </tr> <tr> <td data-bbox="300 927 954 994"><b>Total Pressures</b></td> <td data-bbox="954 927 1082 994"><b>16.503</b></td> <td data-bbox="1082 927 1209 994"><b>19.950</b></td> <td data-bbox="1209 927 1343 994"><b>22.386</b></td> </tr> </tbody> </table>	Summary of Pressures	2023/24			L	M	H	£m	£m	£m	Prior Year Decisions/Approvals	0.781	0.781	0.781	Income Loss	0.150	0.150	0.150	Legislative/Unavoidable Indexation Pressures	1.174	1.174	1.174	National Resolution Pressures	3.618	5.960	7.380	National Funding Requirement (Pay)	5.057	5.830	6.603	Strategic Decisions	5.410	5.743	5.986	New Posts	0.312	0.312	0.312	<b>Total Pressures</b>	<b>16.503</b>	<b>19.950</b>	<b>22.386</b>
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1.06	<p><u>Prior Year Decisions/Approvals</u></p> <p>Included within this category are cost pressures that have been subject to previous approved decisions. These include borrowing requirements for the 21<sup>st</sup> Century Schools Programme, annual uplift in the Minimum Revenue Provision (MRP) and an adjustment for a one off efficiency included in the 2022/23 budget.</p>																																										
1.07	<p><u>Income Loss</u></p> <p>This category reflects pressures arising from a reduction of income from reductions in rent levels due to the disposal of assets on our agricultural estate, static prices on garden waste and a reduced level of income from gas extraction.</p>																																										
1.08	<p><u>Legislative/Unavoidable Indexation Pressures</u></p> <p>The cost pressures within this category include estimated increases in costs for services such as Coroners, Independent Remuneration Panel for Wales (IRPW), North Wales Fire and Rescue Authority (NWRA) as well as for anticipated inflationary increases for fuel and energy which represent a significant financial risk and are likely to increase. These pressures will need to be kept under review and are likely to be subject to change as further information becomes available.</p>																																										
1.09	<p><u>Issues Requiring National Resolution</u></p>																																										

	<p>This category reflects the Council Tax Reduction Scheme (CTRS) and a minimum cost of indexation for social care commissioning.</p> <p>Social care commissioning is an area of increasing demand and continual pressure and discussions will need to continue with Welsh Government/Welsh Local Government Association to try and secure additional funding support.</p>
1.10	<p><b><u>National Funding Requirement – National Pay Awards</u></b></p> <p>The impact of the nationally agreed pay awards for Teacher Pay and Non Teacher Pay are included in this category.</p> <p>At this stage, the forecast figures for 2023/24 onwards reflects an inflationary increase at the lower level of 2.5% rising to 3.5% at the higher level. The initial request from Trade Unions to National Employers is far in excess of this and will be subject to negotiations over the coming months.</p> <p>The 2022/23 Local Government Settlement set out an expectation that the impact of all agreed pay awards should be met from the funding available. Within the 2022/23 budget an increase of 3.5% was included. Any increase in pay over and above 3.5% will need to be funded from reserves in the current financial year and will also have the effect of increasing the budget requirement for 2023/24.</p> <p>No figures are currently included for the impact of the pay modelling exercise which is due to be completed in 2022/23.</p>
1.11	<p><b><u>Strategic Decisions</u></b></p> <p>There are a number of areas where further strategic consideration is required over the coming months before the outcome can be included in the formal budget process.</p> <p><u>Social Care</u></p> <p>Included in this category are cost pressures for Transition to Adulthood, Children’s Group homes and additional revenue costs for Croes Atti Residential Home and the Buckley Extra Care facility. Increased Homecare Capacity and additional costs of Special Guardianship Orders are also included within the forecast.</p> <p>A further cost pressure is included to reflect the impact of the Real Living Wage (RLW) on self-funders within the Social Care Sector.</p> <p><u>Education</u></p> <p>At this stage a cost pressure for further investment in delegated schools budgets is included in the 2023/24 forecast. Detailed work is underway to calculate pressures for schools arising as a result of forecast increased energy costs, demographic changes, and increases in pupils eligible for free school meals. The impact the pandemic, and periods of school closures, has had on our children and young people is becoming clearer. The complexity of their needs and demands for services are increasing. These pressures will need to</p>

	<p>be kept under review and considered alongside overall school funding levels and affordability.</p> <p>Cost pressures also include borrowing costs for the joint archive service and further investment in on site inclusion centres.</p> <p><u>Out of County Placements</u></p> <p>Increased demand on the service is continuing and a cost pressure is included which will need to be kept under review throughout the 2022/23 financial year.</p> <p><u>Digital Strategy</u></p> <p>Cost pressures include funding for a Schools Information Management System, an additional Digital Services Technician and licence costs.</p> <p><u>Other</u></p> <p>Other cost pressures include capital borrowing costs, revenue costs for Electric/Hydrogen Vehicles and increased capacity within the Public Protection Team.</p>
1.12	<p><b>New Posts</b></p> <p>There is a requirement to address capacity and service demand and the cost pressures reflected within this category were either deferred from 2022/23 or reflect the second year of the pressure that was approved in the 2022/23 budget.</p>
1.13	<p><b>Further work on the forecast</b></p> <p>As referred to in the report there are number of cost pressures which will need to be subject to further review over the summer. An updated position will be shared with Cabinet after the summer.</p>
	<p><b>Strategic Funding Solutions</b></p>
1.14	<p>The solutions available to the Council to fund the cost pressures outlined in the report can be spilt into three themes:-</p> <ul style="list-style-type: none"> <li>- Government Funding (Aggregate External Finance)</li> <li>- Service Transformation and Efficiencies</li> <li>- Local Taxation and Income</li> </ul> <p>We can also consider supressing the budget requirement by not making full budget provision for some cost pressures and treating them as 'Open Risks' to be managed in-year.</p>
1.15	<p>The 2022/23 local government settlement provided, for the first time in a number of years, indicative figures for future settlements of 3.5% for 2023/24 and 2.4% for 2024/25.</p>

	<p>These indicative allocations, though welcome, are at a much lower level than those received over the last two years so will present significant challenges and increase the requirement for budget contributions to be met from other sources.</p> <p>Therefore the need to consider areas of service reform to generate a higher level of cost savings will be an area where the Council will need to undertake further work over the summer to find solutions so that we are able to set a legal and balanced budget.</p>
1.16	<p>Members will be aware that whilst we are able to identify some cost savings and efficiencies as part of our annual budget setting process, there are no cost savings of any scale remaining following a decade of underfunding of local government.</p> <p>In previous years the Council has rightly stood on the principle that it will not reduce the budget for any service to the point where the service is unsafe, or to do so would mean we would fail to meet our statutory duties or fail to meet our quality standards. The impacts of budget reduction options have been risk-assessed year on year.</p> <p>Any options which Committees would recommend we explore as a contribution to the budget will need to be risk assessed on this basis.</p>
1.17	<p>The Council has adopted a comprehensive policy for fees and charges for chargeable services. By applying this policy we have balanced cost recovery of service provision with affordability and fairness for the payer. The annual review of the policy is also on this Cabinet agenda. There is no more scope for generating additional income or new income streams for 2023/24 over and above this report.</p>
1.18	<p>It is too early to make an assumption on Council Tax levels for 2023/24 as this will be largely dependent on how successful the Council is in identifying portfolio and corporate efficiencies. As in previous years Council Tax levels will be a key consideration in the final stage of the budget process.</p>
1.19	<p><b>Budget Timeline</b></p> <p>An outline of the local budget timeline at this stage is set out in the table below:</p> <p><b>Table 2: Budget Timeline</b></p>

Date	Event
12 July	Cabinet – Initial additional budget requirement
September/October	Overview & Scrutiny Committees and Member Workshops
18 October 2022	Cabinet
To be Confirmed	WG Draft Budget/Provisional Settlement
20 December 2022	Cabinet
17 January 2023	Cabinet
14 February 2023	Cabinet and Council
To be Confirmed	WG Final Budget/Settlement

2.00	RESOURCE IMPLICATIONS
2.01	<p><b>Revenue:</b> the revenue implications for the 2023/24 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> <p><b>Human Resources:</b> there are some potential implications for additional capacity as set out in the report.</p>

3.00	IMPACT ASSESSMENT AND RISK MANAGEMENT				
3.01	<p><b>Ways of Working (Sustainable Development) Principles Impact</b></p> <table border="1"> <tbody> <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> </tbody> </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
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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 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	The Forecast for 2023/24 – 2025/26 will be considered by Overview and Scrutiny Committees during September and October.

<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1. MTFS Forecast 2023/24 – 2025/26

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	None

<b>7.00</b>	<b>CONTACT OFFICER DETAILS</b>
7.01	<p><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></p>

<b>8.00</b>	<b>GLOSSARY OF TERMS</b>
8.01	<p><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.</p> <p><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.</p> <p><b>Budget:</b> 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><b>Revenue Support Grant:</b> 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><b>Specific Grants:</b> An award of funding from a grant provider (e.g. Welsh Government) which must be used for a pre-defined purpose.</p> <p><b>Welsh Local Government Association:</b> the representative body for unitary councils, fire and rescue authorities and national parks authorities in Wales.</p> <p><b>Financial Year:</b> the period of 12 months commencing on 1 April.</p> <p><b>Local Government Funding Formula:</b> The system through which the annual funding needs of each council is assessed at a national level and</p>

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.