

CABINET

Date of Meeting	Monday 26 September 2022
Report Subject	Medium Term Financial Strategy and Budget 2023/24
Cabinet Member	Cabinet Member for Finance, Inclusion, Resilient Communities including Social Value and Procurement for Finance, Inclusion, Resilient Communities including Social Value & Procurement
Report Author	Corporate Finance Manager and Chief Executive
Type of Report	Strategic

EXECUTIVE SUMMARY

This report provides an update to the additional budget requirement for the 2023/24 financial year in advance of the specific Member Briefings and Scrutiny meetings to be held in the Autumn.

An additional budget requirement of £16.503m for 2023/24 was reported to Cabinet and Corporate Resources Overview and Scrutiny Committee in July. At that stage it was acknowledged that there was further work to be undertaken over the summer to reflect ever changing service demands and to assess the impacts of emerging pay awards and inflationary impacts such as utilities.

The current national employers pay offers for Teachers and NJC (Green Book) employees are now known and the significant financial impact has been included in the revised forecast. Latest intelligence on potential future increases on utility prices has also been built into the forecast - this is also significant.

The impact of pay and utilities, together with other changes to existing cost pressures and some new emerging pressures across Portfolios, have increased the minimum budget requirement to £24.348m as detailed in table 1 of the report.

The report also sets out the budget solutions and risks that will need to be urgently considered to enable the Council to set a legal and balanced budget in February.

RECOMMENDATIONS

1	To receive and note the revised additional budget requirement for the 2023/24 financial year.
2	To note the budget solutions and risks that will need to be urgently considered to enable the Council to set a legal and balanced budget in February.

REPORT DETAILS

1.00	EXPLAINING THE MEDIUM TERM FINANCIAL STRATEGY AND BUDGET 2023/24
1.01	This report provides an update to the additional budget requirement for the 2023/24 financial year in advance of the specific Member Briefings and Scrutiny meetings to be held in the Autumn.
1.02	An additional budget requirement of £16.503m for 2023/24 was reported to Cabinet and Corporate Resources Overview and Scrutiny Committee in July. At that stage it was acknowledged that there was further work to be undertaken over the summer to reflect ever changing service demands and to assess the impacts of emerging pay awards and inflationary impacts such as utilities.
	THE REVISED ADDITIONAL BUDGET REQUIREMENT
1.03	<p><u>Pay Awards – Update</u></p> <p>National negotiations have commenced between Employers and Trade Unions for the current year 2022/23. The Council has provided for an uplift of 3.5% for Teaching and Non-Teaching employees within this year's budget.</p> <p>The current pay offer for teachers is 5% for 2022/23 and 3.5% for 2023/24 and for NJC employees an offer of an £1,925 increase on all spinal column points has been made for 2022/23. This equates to an increase of 2.54% on the highest scale point to 10.5% on the lowest level.</p> <p>The in year impact of this increased pay offer will need to be met from reserves in 2022/23 and the budget requirement for 2023/24 will also increase due to the need to ensure the amounts are built into the base budget on a recurring basis.</p> <p>The additional impact for 2023/24 of the 2022 pay offer as it stands at the moment is £4.594m for NJC staff (including schools) and the additional cost for Teachers over and above the estimate already included is £1.144m.</p>

	<p>The teachers' pay offer included an increase of 3.5% for 2023/24. The 2023/24 pay award assumptions for Teachers and NJC have therefore been increased from 2.5% to 3.5% to bring them to this level which is considered reasonable at this time.</p>																														
1.04	<p><u>Utilities Inflation – Update</u></p> <p>Market volatility is continuing and forecasting likely increases in this market is extremely challenging. This has had a significant impact on UK energy prices causing steep cost rises across the wholesale utility markets.</p> <p>The revised forecast has been calculated with information from our energy suppliers on a range of scenarios taking account of new contracts to be purchased for both electricity and gas. As current markets are likely to remain volatile it is difficult to include any longer term forecasts beyond 2023/24.</p> <p>The revised forecast includes an increase of 75% for electricity and an increase of 291% on gas. The impact of these increases is affected by the current amount of energy already purchased by our suppliers.</p> <p>These inflationary impacts have increased the additional budget requirement by £1.050m for 2023/24.</p>																														
1.05	<p>The impact of pay and utilities, together with other changes to existing cost pressures and some new emerging pressures across Portfolios, have increased the additional budget requirement to £24.348m as detailed in table 1 below:</p>																														
1.06	<p><u>Table 1: Changes to the Additional Budget Requirement 2023/24</u></p> <table border="1" data-bbox="320 1335 1406 2087"> <thead> <tr> <th></th> <th style="text-align: right;">£m</th> </tr> </thead> <tbody> <tr> <td>July Cabinet Report</td> <td style="text-align: right;">16.503</td> </tr> <tr> <td colspan="2">Increases to Pressures:</td> </tr> <tr> <td colspan="2">Pay</td> </tr> <tr> <td>Impact of NJC Pay offer 2022</td> <td style="text-align: right;">4.594</td> </tr> <tr> <td>Impact of Teachers Pay offer 2022</td> <td style="text-align: right;">1.144</td> </tr> <tr> <td>Revised Projections for 2023 NJC</td> <td style="text-align: right;">1.366</td> </tr> <tr> <td>Revised Projections for 2023 Teachers</td> <td style="text-align: right;">0.482</td> </tr> <tr> <td>Total Changes to Pay</td> <td style="text-align: right;">7.586</td> </tr> <tr> <td>Utility Cost Inflationary Increase</td> <td style="text-align: right;">1.050</td> </tr> <tr> <td>Fuel Cost Increase</td> <td style="text-align: right;">0.362</td> </tr> <tr> <td>Pressure for Basware reprofiled from 25/26</td> <td style="text-align: right;">0.041</td> </tr> <tr> <td>Other Changes to Pressures</td> <td style="text-align: right;">1.453</td> </tr> <tr> <td colspan="2">Reductions to Pressures</td> </tr> <tr> <td>Borrowing costs reprofiling</td> <td style="text-align: right;">(0.448)</td> </tr> </tbody> </table>		£m	July Cabinet Report	16.503	Increases to Pressures:		Pay		Impact of NJC Pay offer 2022	4.594	Impact of Teachers Pay offer 2022	1.144	Revised Projections for 2023 NJC	1.366	Revised Projections for 2023 Teachers	0.482	Total Changes to Pay	7.586	Utility Cost Inflationary Increase	1.050	Fuel Cost Increase	0.362	Pressure for Basware reprofiled from 25/26	0.041	Other Changes to Pressures	1.453	Reductions to Pressures		Borrowing costs reprofiling	(0.448)
	£m																														
July Cabinet Report	16.503																														
Increases to Pressures:																															
Pay																															
Impact of NJC Pay offer 2022	4.594																														
Impact of Teachers Pay offer 2022	1.144																														
Revised Projections for 2023 NJC	1.366																														
Revised Projections for 2023 Teachers	0.482																														
Total Changes to Pay	7.586																														
Utility Cost Inflationary Increase	1.050																														
Fuel Cost Increase	0.362																														
Pressure for Basware reprofiled from 25/26	0.041																														
Other Changes to Pressures	1.453																														
Reductions to Pressures																															
Borrowing costs reprofiling	(0.448)																														

	<table border="1"> <tr> <td>Social Care pressures/reduction and reprofile</td> <td>(0.365)</td> </tr> <tr> <td>Delegated Schools pressure</td> <td>(1.000)</td> </tr> <tr> <td>On Site Inclusion Centres</td> <td>(0.124)</td> </tr> <tr> <td>Schools information Management System</td> <td>(0.177)</td> </tr> <tr> <td>Revisions to other pressures</td> <td>(0.149)</td> </tr> <tr> <td>Total Reductions to Pressures</td> <td>(2.263)</td> </tr> <tr> <td>New Pressures</td> <td>1.069</td> </tr> <tr> <td>New Budget Requirement</td> <td>24.348</td> </tr> </table>	Social Care pressures/reduction and reprofile	(0.365)	Delegated Schools pressure	(1.000)	On Site Inclusion Centres	(0.124)	Schools information Management System	(0.177)	Revisions to other pressures	(0.149)	Total Reductions to Pressures	(2.263)	New Pressures	1.069	New Budget Requirement	24.348
Social Care pressures/reduction and reprofile	(0.365)																
Delegated Schools pressure	(1.000)																
On Site Inclusion Centres	(0.124)																
Schools information Management System	(0.177)																
Revisions to other pressures	(0.149)																
Total Reductions to Pressures	(2.263)																
New Pressures	1.069																
New Budget Requirement	24.348																
1.07	<p><u>ONGOING RISKS</u></p> <p>Despite the work undertaken over the summer there remains a number of risks that may change the additional budget requirement further as detailed below.</p>																
1.08	<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 will need to be kept under review.</p>																
1.09	<p><u>Social Care Commissioning</u></p> <p>The Social Care Sector continues to experience significant demand and cost pressures and negotiations with care providers are ongoing.</p>																
1.10	<p><u>Pay Awards</u></p> <p>The pay awards for both Teachers and NJC are still not agreed and therefore there is a risk that they could be increased further.</p>																
1.11	<p><u>Inflation</u></p> <p>The forecast includes updated projections on energy and fuel inflation which are based on the latest intelligence from our suppliers at this time. The forecasts are particularly volatile and subject to change.</p>																
1.12	<p><u>External Partners</u></p> <p>Our external partners are also subject to the same cost pressures on pay and inflation which will present them with similar challenges to the Council. There is a risk and likelihood that additional contributions will be sought from the Council.</p>																
	<p>Budget Solutions</p>																
1.13	<p>The options available to the Council to meet this significant additional budget requirement are summarised in the table below, all will need to be progressed with urgency:</p>																

	<table border="1"> <tr><td>1. Supplementary Welsh Government Grant – seek support to meet the costs of increased pay awards and inflation</td></tr> <tr><td>2. Efficiencies – Portfolios</td></tr> <tr><td>3. Efficiencies - Schools</td></tr> <tr><td>4. Efficiencies – Corporate Financing</td></tr> <tr><td>5. Reduction of Cost Pressures – review controllable cost pressures</td></tr> <tr><td>6. Deferral / Reprofiting of Capital Projects with revenue implications</td></tr> <tr><td>7. Council Tax</td></tr> <tr><td>8. Use of Reserves and Balances</td></tr> </table>	1. Supplementary Welsh Government Grant – seek support to meet the costs of increased pay awards and inflation	2. Efficiencies – Portfolios	3. Efficiencies - Schools	4. Efficiencies – Corporate Financing	5. Reduction of Cost Pressures – review controllable cost pressures	6. Deferral / Reprofiting of Capital Projects with revenue implications	7. Council Tax	8. Use of Reserves and Balances										
1. Supplementary Welsh Government Grant – seek support to meet the costs of increased pay awards and inflation																			
2. Efficiencies – Portfolios																			
3. Efficiencies - Schools																			
4. Efficiencies – Corporate Financing																			
5. Reduction of Cost Pressures – review controllable cost pressures																			
6. Deferral / Reprofiting of Capital Projects with revenue implications																			
7. Council Tax																			
8. Use of Reserves and Balances																			
1.14	<p><u>Government Funding - Aggregate External Finance (AEF)</u></p> <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 at the time, are at a much lower level than those received over the last two years and were also set in a vastly different economic climate. By way of context an uplift on the Council's AEF of 3.5% equates to around £8m.</p> <p>Without a supplementary increase to our allocation the Council will have a serious and significant challenge to be able to meet its statutory responsibility of setting a legal and balanced budget for 2023/24 and future years.</p>																		
1.15	<p><u>Table 4 – Budget Timeline</u></p> <table border="1"> <thead> <tr> <th>Date</th> <th>Event</th> </tr> </thead> <tbody> <tr> <td>September/October</td> <td>Member Briefings</td> </tr> <tr> <td>October/November</td> <td>Overview and Scrutiny Committees</td> </tr> <tr> <td>20 December 2022</td> <td>Cabinet</td> </tr> <tr> <td>20 December 2022</td> <td>Welsh Government Draft Budget</td> </tr> <tr> <td>21 December 2022</td> <td>Provisional Local Government Settlement</td> </tr> <tr> <td>17 January 2023</td> <td>Cabinet – Budget Review</td> </tr> <tr> <td>14 February 2023</td> <td>Cabinet and Council – Final Budget Setting</td> </tr> <tr> <td>1 March 2023</td> <td>Welsh Government Final Budget/Settlement</td> </tr> </tbody> </table>	Date	Event	September/October	Member Briefings	October/November	Overview and Scrutiny Committees	20 December 2022	Cabinet	20 December 2022	Welsh Government Draft Budget	21 December 2022	Provisional Local Government Settlement	17 January 2023	Cabinet – Budget Review	14 February 2023	Cabinet and Council – Final Budget Setting	1 March 2023	Welsh Government Final Budget/Settlement
Date	Event																		
September/October	Member Briefings																		
October/November	Overview and Scrutiny Committees																		
20 December 2022	Cabinet																		
20 December 2022	Welsh Government Draft Budget																		
21 December 2022	Provisional Local Government Settlement																		
17 January 2023	Cabinet – Budget Review																		
14 February 2023	Cabinet and Council – Final Budget Setting																		
1 March 2023	Welsh Government Final Budget/Settlement																		

2.00	RESOURCE IMPLICATIONS
2.01	<p>Revenue: the revenue implications for the 2023/24 budget are set out in the report.</p> <p>Capital: the borrowing needs for the capital programme are built into the revenue estimates for 2023/24.</p>

3.00	IMPACT ASSESSMENT AND RISK MANAGEMENT	
3.01	Ways of Working (Sustainable Development) Principles Impact	
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		
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.

4.00	CONSULTATIONS REQUIRED/CARRIED OUT
4.01	Consultation has taken place with Portfolio Management Teams and the Chief Officer Team, the Finance Team, Cabinet Members, Group Leaders and Scrutiny Committees. Further consultation will be undertaken through Member briefings and specific Scrutiny meetings during the Autumn.

5.00	APPENDICES
5.01	None to this report

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Cabinet Report 12 July 2022

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	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.