

## CABINET

<b>Date of Meeting</b>	Wednesday, 25 <sup>th</sup> September 2024
<b>Report Subject</b>	Medium Term Financial Strategy and Budget 2025/26
<b>Cabinet Member</b>	Cabinet Member for Finance and Social Value for Finance and Social Value
<b>Report Author</b>	Corporate Finance Manager and Chief Executive
<b>Type of Report</b>	Strategic

### EXECUTIVE SUMMARY

This report provides an update on the Council's concerning revenue budget position for the 2025/26 financial year in advance of consideration by relevant Overview and Scrutiny meetings.

In July, Cabinet and Corporate Resources Overview and Scrutiny Committee were advised of an additional budget requirement for the 2025/26 financial year of £37.778m. This was based on a number of assumptions that may be subject to change.

This position included the impact of the latest national position on public sector pay, the estimated impact of changes to service demand and the ongoing impacts of inflation. The report also included details of some ongoing risks that could further change the budget requirement.

Budget workshops were held on the afternoon and evening of 9 July to enable members to have a better understanding of the financial position and a further briefing is being scheduled to consider options available to the Council to balance its budget for 2025/26.

This report provides an update on the financial position and advises of the workstreams that are being undertaken to identify the solutions required to meet the funding gap.

However, it is important that members understand and are clear that the Council currently has a serious and major budget challenge to identify the solutions required that will enable it to agree a legal and balanced budget by March next

year. As previously reported the level of historic cost reductions already taken from portfolios during the period of austerity and beyond leaves very few options for further cost reductions of scale and some difficult choices will need to be made. 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 our quality standards.

However, unless sufficient cost reductions are identified that are achievable and deliverable the Council will not meet its statutory obligation to set a legal and balanced budget. These options have not been identified to date.

## RECOMMENDATIONS

1	To receive an update on the Council's concerning budget position for the 2025/26 financial year in advance of consideration by relevant Overview and Scrutiny Committees.
2	To note the ongoing work to identify budget solutions and to agree an approach to address the serious and major budget challenge.

## REPORT DETAILS

<b>1.00</b>	<b>EXPLAINING THE MEDIUM-TERM FINANCIAL STRATEGY AND BUDGET 2025/26</b>
1.01	This report provides an update on the Council's concerning revenue budget position for the 2025/26 financial year in advance of consideration by relevant Overview and Scrutiny meetings.
1.02	In July, Cabinet and Corporate Resources Overview and Scrutiny Committee were advised of an additional budget requirement for the 2025/26 financial year of £37.778m. This was based on a number of assumptions that may be subject to change.
1.03	This position included the impact of the latest national position on public sector pay, the estimated impact of changes to service demand and the ongoing impacts of inflation. The report also included details of some ongoing risks that could further change the budget requirement.
1.04	Budget workshops were held on the afternoon and evening of 9 July to enable members to have a better understanding of the financial position and a further briefing is being scheduled to consider options available to balance its budget for 2025/26.  However, it is important that members understand and are clear that the Council currently has a serious and major challenge to identify the solutions

	required that will enable it to agree a legal and balanced budget by March next year.																		
	<b>THE REVISED ADDITIONAL BUDGET REQUIREMENT 2025/26</b>																		
1.05	<p>Since July there have been some changes to the additional budget requirement, and these are set out in the table below:</p> <p><b><u>Table 1: Changes to the Additional Budget Requirement 2025/26</u></b></p> <table border="1"> <thead> <tr> <th></th> <th style="text-align: right;">£m</th> <th></th> </tr> </thead> <tbody> <tr> <td><b>July Cabinet Report</b></td> <td style="text-align: right;"><b>37.778</b></td> <td><b>Note</b></td> </tr> <tr> <td colspan="3"><b>Increases to Pressures:</b></td> </tr> <tr> <td>North Wales Fire and Rescue Levy</td> <td style="text-align: right;">0.545</td> <td>(1)</td> </tr> <tr> <td>NDR – Corporate Buildings</td> <td style="text-align: right;">0.097</td> <td>(2)</td> </tr> <tr> <td><b>Revised Additional Budget Requirement</b></td> <td style="text-align: right;"><b>38.420</b></td> <td></td> </tr> </tbody> </table> <p>Note:</p> <ol style="list-style-type: none"> <li>1. Increase in the potential uplift in North Wales Fire and Rescue Levy</li> <li>2. Increase in the NDR Multiplier for Corporate Buildings</li> </ol>		£m		<b>July Cabinet Report</b>	<b>37.778</b>	<b>Note</b>	<b>Increases to Pressures:</b>			North Wales Fire and Rescue Levy	0.545	(1)	NDR – Corporate Buildings	0.097	(2)	<b>Revised Additional Budget Requirement</b>	<b>38.420</b>	
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1.06	<p><b><u>ONGOING RISKS</u></b></p> <p>The July report included a number of ongoing risks, and an update is provided below (paras 1.07 to 1.12) for those that still remain and which may change the additional budget forecast requirement further.</p>																		
1.07	<p><b>Pay Awards</b></p> <p><u>Impact of National Pay Awards</u></p> <p>National Pay awards have still not been agreed for 2024/25; the latest offer for NJC (Green Book) employees (an increase of £1,290 on all pay points 2 to 43 inclusive together with an increase of 2.5% on all pay points) has been rejected and Trade Union Members are being balloted for potential industrial action.</p> <p>However, if agreed at this level, there would be an in-year benefit to the budget of over £0.800m which would also reduce the budget requirement for 2025/26 by the same amount. The final impact of the outcome of the pay award will be included in future updates once concluded.</p> <p><u>Teachers Pay and Pensions</u></p> <p>The 2024/25 budget provides additional funding for a 5% pay award from September 2024. However, an uplift of 5.5% has been confirmed in England which may then be replicated in Wales – the uplift in England has been presented as ‘fully funded’ so no adjustment has been included at this stage for 2025/26.</p>																		

	<p>Confirmation is still awaited on funding for additional Teacher Pay employer pension costs (effective from 1 April 2024) and negotiations are ongoing between UK Government and Welsh Government– no provision was included in the budget. There is a risk that the costs may not be met in full.</p>
1.08	<p><b>Homelessness</b></p> <p>The homelessness service is continuing to see increasing numbers presenting for support and the projected overspend in the current financial year £2.7m with an amount of £7.5m currently included in the forecast for 2025/26 based on a continuation of in-year demand. Mitigating actions to reduce the impact are currently being assessed and a reduction in the pressure is expected.</p>
1.09	<p><b>Social Care</b></p> <p>There continue to be a number of risks within the service that need to be kept under review, such as on-going recruitment and retention challenges, new statutory responsibilities and the impact of inflationary increases and match funding for projects such as the Regional Integration Fund (RIF).</p> <p>On-going support from existing grants is an area on which the service depends, so the continuation of these is critical. Any reduction would pose a risk to service delivery.</p> <p>In addition the portfolio is currently projecting an in-year overspend of £2.150m which if not brought back in line with the budget by the end of the financial year may also impact on the 2025/26 financial year.</p>
1.10	<p><b>Streetscene and Transportation</b></p> <p>The review of the Waste Strategy will impact on future costs of the service in relation to the ongoing risk of potential infraction fines for failing to achieve the statutory recycling targets since 2021/22 (estimated to be in the region of £1.2m over three financial years).</p> <p>There is also a risk that the continuation of the Sustainable Waste Management Grant may be stopped or reduced. This is a revenue grant provided by Welsh Government to support the provision of re-use and recycling services, as well as preventing waste. Any reduction of this grant from the current level could impact on further revisions to the forecast.</p>
1.11	<p><b>Education and Youth</b></p> <p>There has been an increase in the cost of employer teachers' pension contributions from April 2024 and no provision was made in the 2024/25 budget as it is assumed that the additional cost will be met by UK Government.</p> <p>However, at this stage no confirmation has been received and Welsh Government continue to negotiate a funding settlement with UK Government.</p>

	<p>Any overall shortfall would result in additional costs for 2024/25 and 2025/26 which are not currently included in the forecast.</p> <p>Increases in demand and complexity for Additional Learning Needs, Specialist Provision and Education other than at School (EOTAS) is currently being funded by additional Welsh Government grant. There are a number of risks relating to the continuation of grant funding into 2025/26 which will need to be kept under review.</p> <p>Further work is being undertaken on demography and the impact of any changes due to school modernisation on the revenue costs for schools.</p>
1.12	<p><b>Out of County Placements</b></p> <p>The position on Out of County placements remains an ongoing risk and the projected overspend in the current financial year is now more than £1m. An amount of £0.500m is included in the current forecast which will need to be kept under review throughout the budget process and there is a strong likelihood that it will need to be increased.</p>
	<p><b>Funding Solutions</b></p>
1.13	<p><b>Aggregate External Finance (AEF)</b></p> <p>The local government settlement did not provide an indicative figure for our main funding stream of Aggregate External Finance (AEF) for the 2025/26 financial year and beyond. However, independent analysis of the Welsh Government budget advises that only a marginal uplift at best can be expected. Therefore, at this stage it is considered prudent to plan for a cash flat settlement. By way of context each 1% uplift to our AEF would generate £2.585m of funding for the Council's budget.</p> <p>If there is no significant increase in AEF this will present a major and serious challenge to the Council, and it would be inevitable that some service reductions would be necessary.</p> <p>Therefore, it is essential that the remaining options identified below are maximised to ensure that any impact on service reductions are minimised.</p>
1.14	<p><b>Transformation Programme</b></p> <p>The resourcing and governance arrangements of this key programme are now underway 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>
1.15	<p><b>Previously agreed decisions</b></p> <p>The financial impacts of previously agreed decisions such as waste collection frequency and the future relocation of employees from County Hall to Ty Dewi Sant in Ewloe will have a positive contribution to the 2025/26 budget and will be included within future reports.</p>

1.16	<p><b>Review of Cost Pressures</b></p> <p>The cost pressures currently included in the forecast for 2025/26 are all relevant and deemed a priority within the respective portfolios. However, it needs to be noted that although some pressures can be deemed unavoidable there are also some pressures whereby the Council has a choice to either remove and/or defer to later point.</p> <p>In view of the overall position, a rigorous approach will need to be applied to a review of all existing cost pressures which is in progress.</p>
1.17	<p><b>School Budgets</b></p> <p>Net positive uplifts have been included for schools in recent years. In the last two financial years the full impact of all cost pressures for nationally agreed pay awards, energy and other costs have been included prior to a 3% 'top slice' which was necessary as a contribution to the Council's final budget balancing options.</p> <p>The school's delegated budget accounts for 32% of the Council's overall revenue budget. Therefore, in view of the scale of the financial challenge facing the council it will be necessary to consider further cost reductions for schools (netted off the cost pressures included).</p> <p>School's demography is also being reviewed and it is anticipated that there will be a significant reduction in pupil numbers which would result in an appropriate adjustment to the overall school budget.</p>
1.18	<p><b>Fees and Charges</b></p> <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.</p> <p>The annual inflationary uplifts from October were approved by Cabinet in July with an estimated additional contribution of £0.035m to the 2025/26 budget. A further uplift from October 2025 will contribute further and will be based on Consumer Price Index at the end of March 2025.</p>
1.19	<p><b>Review of Reserves and Balances</b></p> <p>A detailed review of all earmarked reserves is currently being undertaken and the overall position is due to be concluded by the end of September. The outcome of this work will be reported as part of the month 5 revenue monitoring report.</p> <p>Due to the significant projected overspend in the current financial year, any earmarked reserves that can be released will be required to replenish the contingency reserve which is currently expected to be overdrawn should the in-year position not improve by the end of the financial year.</p>
1.20	<p><b>Portfolio Cost Reductions</b></p>

	<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 over a decade of underfunding of local government.</p> <p>As previously reported the scale of historic cost reductions already taken from portfolios during the period of austerity and beyond leaves very few options of scale for any further cost reductions and some difficult choices will need to be made.</p> <p>It is envisaged that further cost reductions across all portfolios of over 10% will be required to balance the budget and Chief Officers are finding it extremely difficult to identify areas that won't impact on service quality and standards. Specific options are currently being considered that will be brought back to members for consideration.</p>
1.21	<p><b>Council Tax</b></p> <p>It is too early to make an assumption on council tax levels for 2025/26 as this will be largely dependent on how successful the Council is in identifying the portfolio and corporate cost reductions identified in the report.</p> <p>However, if there is no movement in the national funding position via anticipated Welsh Government Grant then it is inevitable that at least a similar increase to the current year will be required as there will need to be an even greater reliance on local taxation.</p> <p>As in previous years council tax levels will be a key consideration in the final stage of the budget process.</p>
1.22	<p><b>Summary and Conclusions</b></p> <p>The Council currently has a serious and major budget challenge to identify the solutions required that will enable it to agree a legal and balanced budget by March next year. As previously reported the scale of historic cost reductions already taken from portfolios during the period of austerity and beyond leaves very limited options of scale for further cost reductions and some difficult choices will need to be made.</p> <p>In previous years the Council has rightly stood by 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 our quality standards.</p> <p>However, unless sufficient cost reductions are identified that are achievable and deliverable the Council will not meet its statutory obligation to set a legal and balanced budget. These options have not been identified to date.</p> <p>We will continue to make representations for a better settlement alongside all Welsh Councils through the Welsh Local Government Association (WLGA), although it does appear clear that Welsh Government also have a challenging budget situation which means that an improved increased settlement figure seems unlikely.</p>

The cost pressures and cost reductions identified to date will be considered by relevant overview and scrutiny committees and a second budget workshop is being scheduled for early October which is open to all members.

Regular updates will be provided to members throughout the budget process in conjunction with the budget timeline detailed in the report.

1.23 **Table 2: Budget Timeline**

Date	Event
September 2024	Report to Cabinet and Corporate Resources Overview and Scrutiny Committee - Updated additional budget requirement and emerging budget solutions
Early October 2024	2 <sup>nd</sup> Member Workshop
30 October 2024	Chancellor's UK Budget
October/November 2024	Overview & Scrutiny Committees
December 2024	Report to Cabinet and Corporate Resources Overview and Scrutiny Committee - Budget Update
December 2024	WG Draft Budget/Provisional Settlement
January 2025	Report to Cabinet and Corporate Resources Overview and Scrutiny Committee - Proposed budget requirement and solutions
February 2025	Report to Cabinet and Council - Final Budget Proposals
March 2025	WG Final Budget/Settlement

**2.00 RESOURCE IMPLICATIONS**

2.01 **Revenue:** the revenue implications for the 2025/26 budget are set out in the report.

**Capital:** the borrowing needs for the capital programme are built into the revenue estimates for 2025/26.

**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.

<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 Scrutiny Committees. Further consultation will be undertaken through Member briefings and specific Scrutiny meetings during the Autumn.

<b>5.00</b>	<b>APPENDICES</b>
5.01	None to this report

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	Cabinet Report 23 July 2024

<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>

<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>Capital:</b> Expenditure on the acquisition of <b>non-current assets</b> or expenditure which extends the useful life of an existing asset.</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.

**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.

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