CYNGOR SIR *POWYS* COUNTY COUNCIL.

CABINET EXECUTIVE
19th September 2023

REPORT AUTHOR:	**County Councillor David Thomas** **Portfolio Holder for Finance and Transformation**
REPORT TITLE:	**Financial Planning Update**
REPORT FOR:	**Decision**

1. Purpose

1.1 To provide Cabinet with an update on the latest economic projections and how these influence and impact on the development of the Council's Budget for 2023/25 and the Medium Term Financial Strategy.

2. Background

2.1 The Medium-Term Financial Strategy (MTFS) sets out the financial strategy for Powys County Council for the period 2023 to 2028. It has been developed as part of the overall strategic planning process and aligned with the Council's Corporate Plan. It captures the financial, regulatory and policy drivers affecting the council and sets the direction and approach. It also incorporates the plan for delivering a balanced budget for 2023/24, and indicative budgets for the following 4 years to March 2028.

2.1 The economic situation continues to challenge the council and although inflation does appear to have slowed, it remains high and continues to impact on the cost of delivering Council services.

2.2 This report sets out the key factors impacting on our financial planning and how these change the assumptions we use in developing our budget plans.

3 Economic Context

3.1 Our current MTFS was informed by the forecasts published in the Office for Budget Responsibility (OBR) report "Economic and fiscal outlook" in November 2022. Updated OBR figures were published alongside the UK Spring Budget in March 2023 and more recently the "Fiscal risks and sustainability – July 2023" report updates these forecasts. These reports have enabled the Council to update the assumptions that support our financial planning.

3.2 The 2020s are turning out to be a very risky and challenging period for the public finances. In just three years, they have been hit by the Covid pandemic, the energy and cost-of-living crisis, and the sudden interest rate rises in 2022. The consequences of which continue to unfold. This rapid succession of shocks has delivered the deepest recession in three centuries, the sharpest rise in energy prices since the 1970s, and the steepest sustained rise in borrowing costs since the 1990s.

3.3 On the 9th August 2023, the First Minister, Mark Drakeford MS issued a statement outlining the significant financial pressure Welsh Government (WG) are facing in the current 2023/24 financial year and as they prepare for the 2024/25 budget round. He stated that “this is the toughest financial situation we have faced since devolution”. As Ministers review their departmental budgets it is yet to be established how their action will impact directly or indirectly Local Government. NHS funding will no doubt also be subject to review and reductions here could also impact on the Council where joint funding arrangements exist such as Continuing Health Care, Additional Learning Needs and Childrens services.

3.4 The UK Government has set itself a target to halve the inflation levels seen in the early months of 2023, before the year is out. Forecasters are generally expecting Consumer Prices Index (CPI) to fall sharply over the remainder of the year, linked to a fall in wholesale gas prices, an anticipated reduction in the cost of imported goods, and Bank of England monetary policy regarding interest rates. However, it is notable that the Bank of England’s latest forecasts suggest that decreases may not be as steep as previously predicted. With inflation still very high in core elements of the CPI basket of goods, price increases will remain a critical factor to keep under review in terms of budget planning.

3.5 Inflation continues to impose pressure on our costs, but headline figures don’t tell the whole story. Food inflation is lower than it was but the rate of increase is still very high at 18.4% and some old pressures are proving persistent. The transport category looks much more stable at 1.3% inflation overall, however beneath this the cost of transport insurance for example is showing a massive increase of 40.7%.

3.6 Overall CPI has slowed from 10.1% in March 2023 to 6.8% in July. Slowing inflation does not mean that prices are reducing, just that they are rising more slowly.

3.7 In May 2023, the Bank of England revised its inflation forecasts to 5.1% by the end of 2023, (compared with 3.9% in its February forecast). The Bank also indicated that it does not now expect inflation to reach its 2% target until the end of 2024. Whilst the picture is changeable, there is a consistent message that inflation is likely to fall, although perhaps not as quickly as originally forecast, and with ongoing challenges for some goods and services.

3.8 Bank of England base rate is currently set at 5.25% and will again be subject to review on the 21st September 2023.

3.9 Market intelligence reports that energy commodity markets have experienced unprecedented price increases for both electricity and gas. Having risen thirteen-fold in the wake of the Russian invasion of Ukraine in 2022, gas prices have fallen back more recently but are expected to remain at over twice their historical average into the mid-2020s. However, following a period of prices on a downwards trajectory, the start of June saw prices creeping higher due to maintenance issues at Norwegian's Nyhamna gas processing plant and the recent weather in Europe increasing electricity demand through higher use of air conditioning. More generally market demand is down on the previous year and capacity is good.

3.10 A mix of rising labour costs and workforce related legacies such as a shortage of replacement skills coming through the industries, are also affecting some services more than others, including transport, construction and social care.

3.11 More generally as a result of the rising costs and expected funding pressures that will be imposed on Local Government over the next few years, press coverage and Local Government Associations are already reporting that some Councils may have to consider ceasing the provision of non-essential services, reducing statutory service provision and cutting capital investment plans, whilst increasing Council Tax and other fees and charges by more than planned aligned to inflation or even higher.

3.12 The economic context outlined above has significant implications for the Council's financial planning. These are summarised below and are key factors in framing the assumptions and cost drivers in 2024/25 and over the medium term.

Factor	Planning Implications
Inflation	Increase in costs across various categories of goods and service, Contractual arrangements driven by CPI/RPI, Impact on Pay Awards. Impact across Revenue and Capital.
Energy	Energy costs have a significant impact on budgets across Council property, Schools, Leisure Centres, Offices, Street Lighting Fuel costs are key costs drivers for Council vehicles and transport providers
Interest Rates	Cost of Borrowing and affordability of the Capital Programme
Economic Growth	Impact on future funding settlements for Local Government
Labour market	Shortage of staff leading to increasing costs for commissioned services and agency staff, real living wage

4 <u>Understanding the impact</u>

4.1 The Medium Term Financial Strategy approved in principle by Council for the next five years and the assumptions contained within the strategy were based on the latest information available at that time. It does not include fixed funding, expenditure or activity projections, but sets out a five-year budget forecast for the resources that are likely to be available.

4.2 As set out in section 3 it is appropriate to again update our strategy to reflect the changes and how this impacts on the councils budget. This will increase the budget gap over the life of the plan which will need to be resolved by either generating additional income or reducing costs.

4.3 Work with other Authorities and through the Society of Welsh Treasures has supported the review, testing and challenging the assumptions we make as we develop and update our plans.

4.4 Our MTFS previously assumed 2% inflation non pay uplifts with some external contract uplifts identified as pressures and funded to CPI or other contract terms. The highest of which were utility increases – (355% gas and 173% electric). These assumptions have been reviewed and reconsidered in our plans. Each of the factors below will be regularly reviewed as we continue to see volatility.

- Energy Costs will see a reduction on the increase applied in the current, expected at over 20%
- Fuel 5%
- Food 5%
- Capital Scheme costs
- Cost of Borrowing – see section 5
- Inflationary impact on contractual obligations for commissioned services (5%)

4.5 As a service-driven organisation, workforce costs are a key cost driver across our services. Sustained levels of high inflation have resulted in protracted pay negotiation processes and upward pressure on pay awards for both NJC Council staff and Teachers Pay.

4.6 **Pay** negotiations continue at a national level and are expected to exceed the budgeted 5% increase for 2023-24, now likely to be closer to 7%. Whilst this pressure can be managed during 2023/24, due to using the opportunity to set aside reserves at the end of last year, the ongoing base budget must be addressed in 2024/25 adding additional pressure over and above any pay award agreed for that year. Assumptions for future years were budgeted at a 2% increase per annum from 2024/25 but with inflation remaining at current levels annual increases are now budgeted to be higher at 5% then dropping 1% per annum before falling back to 2% in the latter years of our plan. Pay award assumptions are a critical factor to keep under review. As pay is such a significant budget, small changes can have a big impact on cost, a 1% change is equivalent to £1.7 million.

4.7 **Pension Costs** – Powys Pension Fund's actuarial review was completed in March 2023 resulting in a reduction in the Councils contribution rate, this change is now reflected in the Councils Budget Plan with a stepped saving of £1.7 million over 3 years to March 2026. The Teacher's Pension Scheme (TPS) is subject to its actuarial review which will take effect from 1st April 2024 and implemented in September 2024. Our planning assumes that any increase in contribution rates for Teaching staff will be fully funded by Welsh Government, as was the case at the last review. However, due to the significant impact any change would have on Powys Schools budgets we will note this pressure in our plan, currently estimated at a full year cost of £3 million.

4.8 Pay and cost pressures have been equally challenging for providers of the service that the Council commission and it is inevitable that they will seek to pass these on in their pricing. Pressure may emerge as we retender our services and negotiate annual reviews.

4.9 The Council is a **Real Living Wage** (RLW) Employer and an advocate of RLW, with its own staff and apprentices are all paid at this level or above. Welsh Government have funded RLW to Social Care staff employed with external providers, and this is forms part of our WG settlement. In the current year the RLW element of provider contracts will cost the Council around £2.8 million funded by WG.

4.10 The Council purchases its **energy** via Crown Commercial Services (CCS). Regular briefings keep the council informed on market conditions and provides data to assist us in budget preparation. Our current assumptions across schools, street lighting and the Council's other estate are for a reduction of 15% for electricity and 29% for gas in 2024-25 and a further reduction of 20% and 26% in 2025-26. The situation will require careful monitoring as prices are susceptible to further change, and there will be a need to proactively plan for mitigating actions, including a review and reduction in energy usage.

4.11 Construction and material costs continue to be impacted by inflation and have a severe impact on the cost of schemes for both Revenue and more significantly for Capital Projects. It is unclear at this stage how this will impact the programme over the coming years.

4.12 The cost of living challenge continues to impact on our local businesses and residents, demand for our services has grown and is expected to create further additional pressure on the Council and its services through 2024/25 and beyond. Key areas include:-

- Increasing homelessness
- Referrals to Social Services
- Increasing levels of debt owed to the Council
- Council Tax collections rates
- Money Advice, Benefits support, Council Tax Reduction Scheme

4.13 Demand for these and other services are already a key feature in our budget plans and these will continue to be monitored and updated through the autumn ahead of finalising the budget for 2024/25.

4.14 All of the above impacts on our indicative budget plan for 2024/25 which is now estimated at £16.3 million, an increase of £6.0 million from the £10.3 million gap projected in February 2023. The worst case gap is £18.0 million if the Teachers pension increase from September 2024 is included.

4.15 The table below shows the impact of the change for the most significant elements of our budget.

FRM Figures	2024/25 (as at Mar 23) £k	2024/25 (Aug 23) £k	2024/25 Variance £k
Pay Inflation for previous year (2023/24)	0	2,387	2,387
Pay Inflation	4,152	8,712	4,561
Non-pay Inflation	1,104	2,613	1,509
Grant Changes	214	214	0
Capital Financing	1,001	1,001	0
Corporate Pressures	897	897	0
Demographic Pressures	722	503	-219
Contract and Other Pressures	14,900	15,471	571
Savings	(690)	(3,522)	(2,832)
Total Requirement	22,300	28,276	5,976
Council Tax increase - 5%	(4,898)	(4,898)	0
Welsh Government Increase - 2% then 0%	(7,089)	(7,089)	0
Additional Funding	**(11,986)**	**(11,986)**	**0**
Gap	10,313	16,290	5,976
Teachers Pension Funding Uncertainty	0	1,750	1,750
Worst Case Gap	**10,313**	**18,040**	**7,726**

5 Capital Financing

5.1 The Capital strategy sets out the Council's capital priorities for the next 5 years with the provisional Capital Programme totalling £369 million (including the Housing Revenue Account (HRA)). This is a significant commitment.

5.2 Construction and material price increases affect the capital programme and revenue budget in terms of managing and maintaining Council assets. Inflationary pressures are having multiple effects, including cost increases where commitments are yet to be approved/delivered, capacity constraints, willingness to tender for works, and the pricing of risk into contracts. External grant funding may not keep up with such increases, and so the risk of affordability should the Council continue with some projects, is significant, unless costs are reduced elsewhere.

5.3 Existing borrowing is at fixed rates. However, given current commitments and a significant future borrowing requirement to fund the programme there remains a significant risk of increased costs well into the long term. Whilst there is a market view that rates may fall back as soon as inflation is deemed to be under control, it is unclear whether this will be to levels previously experienced.

5.4 The most recent forecasts for interest rates are shown below. The revised Medium Term Financial Strategy has been updated to take account of these changes.

Interest Rate Forecasts								
Bank Rate	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
Link	5.50%	5.50%	5.50%	5.25%	4.75%	4.25%	3.75%	3.25%
Cap Econ	5.50%	5.50%	5.50%	5.50%	5.00%	4.50%	4.00%	3.50%
5Y PWLB RATE								
Link	5.60%	5.30%	5.10%	4.80%	4.50%	4.20%	3.90%	3.60%
Cap Econ	5.10%	4.70%	4.50%	4.40%	4.20%	4.00%	4.00%	3.90%
10Y PWLB RATE								
Link	5.20%	5.00%	4.90%	4.70%	4.40%	4.20%	3.90%	3.70%
Cap Econ	5.10%	4.60%	4.50%	4.30%	4.20%	4.10%	4.00%	3.90%
25Y PWLB RATE								
Link	5.40%	5.20%	5.10%	4.90%	4.70%	4.50%	4.20%	4.00%
Cap Econ	5.30%	4.90%	4.70%	4.60%	4.50%	4.30%	4.30%	4.20%
50Y PWLB RATE								
Link	5.10%	5.00%	4.90%	4.70%	4.50%	4.30%	4.00%	3.80%
Cap Econ	4.90%	4.70%	4.60%	4.50%	4.40%	4.30%	4.20%	4.10%

5.5 It is essential we utilise our capital appropriately and all bids follow the approval gateway. The Council has strengthened its scrutiny and challenge of the Capital Programme through the Schools Capital Oversight Board and more recently the Capital Oversight Board. These Boards seek assurance that projects are prudent, affordable and will deliver tangible benefits over the long term.

5.6 The Capital Programme will be reviewed and reconsidered during the Autumn to ensure that the revenue implications of capital expenditure is accurately reflected in the FRM and that the capital expenditure plans of the council remain affordable, prudent and sustainable. To support this there are a number of key considerations:

- Managing Capital Financing costs
- Maximising grant funding and other income sources
- Sustainable and well maintained asset base
- Prioritising investment to support key Council priorities and delivery of corporate objectives
- undertaken only where there is a statutory requirement on the Council to undertake such works to address identified corporate risks.
- Delivery of approved transformation projects which contribute to cost reductions or improvement
- Where appropriate release assets to deliver Capital receipts
- Decarbonisation and climate risk
- Demonstrate Value for Money

5.7 Schemes already included in the indicative programme will be reviewed in respect of timing and risk to service delivery objectives. Schemes that are not time critical may be deferred to later in the programme to focus internal capacity on delivery of priority schemes, allowing the impact of economic uncertainty to be clearer, and to spread the timing of any borrowing requirement and treasury management risk.

5.8 An extensive review of the Councils assets is being undertaken, this will establish the current condition of all assets, the ongoing maintenance costs and any investment requirements, how the assets contribute to the delivery of services and supports the Corporate Plan. An enhanced focus is needed on disposal, relinquishment and alternative use, and working with partners to maximise opportunities for co-location of services. Once this is complete, any future capital investment together with the proceeds from the sale of surplus assets will be included in the capital programme.

5.9 Capital receipts are an important means of increasing the affordability of the Capital Programme. The generation of capital receipts is also consistent with the need to accelerate a reduction in the Council's asset base where this can support savings requirements or reduce maintenance liabilities and the carbon output of the Council.

6 Other Pressures

6.1 Service specific pressures are being reviewed by the Senior Leadership Team, these will consider demographic changes, specific contractual arrangements and legislative changes and will undoubtedly create additional pressure in our plans. Managing and mitigating these will be a key focus as the budget develops over the next few months.

7 Future Funding

7.1 The net revenue budget requirement is the amount of budget the Council requires to fulfil its functions. It is calculated taking the output of each of the service integrated business plans; these identify the resource requirements for each service to deliver their statutory functions, the Corporate Plan and service improvement objectives offset by budget reduction and additional income proposals.

7.2 The financing of the net budget comes from the Welsh Government settlement and Council Tax income. Assumptions for these elements are key in developing our plans.

Funding £'000	2024/25	2025/26
AEF (RSG & NNDR) 3.1% & 2%	- 235,753	- 240,468
Council Tax 5%	- 102,854	- 107,996
Total	**- 338,607**	**- 348,465**

7.3 Alongside this year's final settlement announcement Welsh Government (WG) issued an indicative allocation for the Revenue Support Grant for 2024/25 at 3.1%. This figure is indicative and dependent on current estimates of NDR income and the funding provided to WG by the UK Government. The announcement of the Provisional Local Government Settlement is again expected to be delayed to December rather than October.

7.4 For planning purposes our budget plan models 3 scenarios based on 2%, 0% and -2% from 2025/26. A 0% reduction for 2025/26 would equate to £4.7 million less.

7.5 Council Tax increase is currently modelled at 5% year on year increase. Cabinet have not yet discussed the level at which Council Tax will be set, the percentage used is for illustrative purposes only at this stage and is based on the figure originally included in the MTFS approved by Council March. In proposing the final level of increase for the 2024/25 budget, consideration will be given to the affordability for Powys residents, together with the ongoing need to meet increasing demand and inescapable cost pressures on vital local services. In addition there will be small adjustments to the current tax base.

7.6 Income from fees and charges makes a significant contribution (£78 million per annum) to the Council's budget and the Council's approach to income generation is set out the Councils Income Policy, fees and charges will be reviewed in line with this policy will be presented in the updated Fees and Charges Register, which will be presented with the budget papers annually for approval. The council's policy is based on the principle of full cost recovery and inflationary uplifts will be considered to ensure that the Council can continue to recover its costs for the services it provides. A blanket uplift is not assumed, however an increase in line with inflation is expected unless there is a clear rational to do otherwise. Increases in income will be reflected at a service level in the FRM.

7.7 In addition to the AEF, Councils also receive specific grants which are accompanied by specific terms and conditions as to how they can be used. For 2023/24 specific grants account for £79 million of the Council funding. Whilst welcomed these are generally a temporary source of funding allocated on an annual basis, and this creates a recruitment challenge and financial risk particularly when inflationary pressures erode the real term value of this funding. WG have committed to reduce the administrative burden on local authorities and will review specific grants. The impact of this review, including any potential grant transfers into the RSG will need to be factored into plans as further information becomes available. It is important to note that any such transfers can distort the percentage change in funding when headline announcements are made.

7.8 Grant Funding is a significant financing element for our Capital schemes. In 2023/24 £43 million will support Schools, Highways and Housing projects. This funding is a key element to support the affordability of the Capital Programme and will remain fundamental in our forward capital plans.

8. <u>Revised Financial Resource Model and Budget Gap</u>

8.1 The assumptions included in the original MTFS have all been reviewed in light of the circumstances described in the earlier sections of the report. The table at Appendix A updates the position from that reported in March 2023.

8.2 Our modelling assumes that our optimistic assumption for the WG Settlement creates an £15.3 million budget gap next year and a cumulative gap of £43.4 million. The worst case scenario sees the cumulative figure increase to £82.3 million at the end of year 5.

8.3 The Financial Resource Model (FRM) continues to be updated and will not be finalised until the budget work has been completed. The assumptions will continue to be reviewed as the budget process progresses, and these will inevitably lead to further changes in our financial modelling. The indicative draft budget from WG will not be released until December 2023, with final budgets in

March 2024. Council tax levels included are purely for modelling purposes at this stage and have been maintained at levels modelled previously notwithstanding that the gap has increased.

9. Strategy to bridge the gap : Sustainable Powys

9.1 It is becoming clear that the Council in its current form is not sustainable for the longer term, in response to this challenge the Council has embarked on a programme of change to reimagine what the Council should look like in the future to ensure that it can remain financially stable and provide sustainable services in the long-term.

9.2 Delivering valued local government services is at the heart of all we do. With changing times and economic conditions, we need to be pro-active, innovative and forward-thinking to deliver effective public services for the future.

9.3 We recognise the challenges and we want to work in partnership to explore the opportunities to make the changes needed to build the stronger, fairer and greener future for Powys.

9.4 "Sustainable Powys" will review what services we provide and how they are provided to meet current needs whilst ensuring we have innovative solutions to provide the best services adapted for our future generations. It is about working together to design a future for our local authority that delivers stronger, fairer and greener services whilst reducing our costs.

9.5 In line with Stronger Fairer Greener, Sustainable Powys key principles are:-

- **Outcomes and transformation**, not just modifying services
- **Engagement**: engaging early with people in agreeing, designing and delivering outcomes
- Addressing the fundamental question: **why do we do what we do?**
- Having a strategic **whole county** view, not just the Council
- **Innovation**: being open minded and seeking innovative solutions, using all the expertise available
- Using **evidence** - if we aren't getting results, we should change
- It's a **continual process** to meet existing and long-term needs sustainably
- Delivering **outcomes at lower or no costs**

9.6 When considering how we transform our services the following principles will apply: -

- Moving from an organisational focus (supporting our own internal requirements and functional silo's) to a focus that looks to meet our residents and communities' needs.
- Management ethos focuses on improving the outcomes for residents and communities by removing barriers.
- Moving from functional silos to services that effectively meets our residents and communities' demand.

- Decision making is based on a clear set of principles, experience, knowledge, robust evidence and is taken as close to the frontline as possible.
- Continuous improvement informed by timely data which will measure how well we are delivering outcomes for residents and communities.
- Accountable for activities and accepting responsibility, resulting in transparent delivery of effective outcomes.
- We challenge everything we do and will realise the right outcomes using our transformation methodology.
- Partnerships are outcome focused, based on collaboration and strong relationships (working together, stronger together).

9.7 Our work has gained momentum over the summer months. As this work progresses throughout the Autumn proposals will be developed for consideration before inclusion in our budget plan. Where proposals can deliver earlier savings and where no policy decision is required and there is no impact on our residents, they will be implemented as soon as possible.

10. <u>Financial Resilience</u>

10.1 The Council must put financial resilience at the forefront of its financial activities and draws upon the support from Audit Wales who undertake regular pan Wales assessments on councils' financial sustainability.

10.2 The Council draws upon CIPFA's pillars of financial resilience and indicators of financial stress as a framework for improvement within its Finance Transformation plan. The snapshot included at Appendix B builds on CIPFA financial resilience pillars, which focus on reserves levels, managing the in year budget and delivering savings, a long term robust MTFS and benchmarking against others shown through trend analysis and forecasts.

10.3 The snapshot provides a high-level overview of the financial health of the Council. Whilst the snapshot presents no immediate cause for concern the ongoing challenges linked to the medium term are clear. Other points of note within the snapshot are summarised below:

- Revenue Outturn shows a year on year underspend that increased through the Covid period, it was supported by significant savings achieved each year. In recent years we have achieved less than 80% of our savings target each year, with some being written off and others rolled forward, our aspiration is to improve delivery to over 90% of our savings target in this and future years.

- A consequence of the underspends has been the ability to shore up useable reserves in readiness for specific pressures likely to materialise in the coming years, which may be needed to help support the MTFS and delivering balanced budgets. Over the medium term, it will be key that we understand the one-off nature of these resources and carefully prioritise them to ensure that, in line with their intended purpose, they are either spent on areas of most impact, or retained as a buffer against areas of highest risk.

- The snapshot highlights the importance of external income from grants to customer and client income through fees and charges. These income streams increased through the Covid period and have now dropped to pre Covid levels, the volatility of these income streams pose a risk to the council and its financial planning. Fees and charges are susceptible to external factors, whilst for grants, there is a risk of real term reductions of cost against funding uplifts, grants ceasing and planning challenges. It is critical that these income streams and the risks associated with them are managed as proactively as possible - at best to help address the budget gap, at worst to avoid adding to it.
- Capital spend remains consistent year on year, and this years forecast is likely to reduce as services review their plans and reprofile budgets. This highlights the need to undertake robust and realistic assessment of delivery capabilities as part of rolling the programme forward and profiling expenditure. The outturn forecast is likely to mean lower than planned borrowing costs with a knock on effect in future years.
- The benchmarking comparisons show how Powys compares against other Welsh authorities, whilst our useable reserves have increased, the comparators show that we are in the bottom quartile of the level of reserve against net budget.

10.4 The findings of the Powys Financial Sustainability review by Audit Wales (AW) published in July 2021 set out three proposals for improvements, these remain valid:

- addressing the medium term budget gap,
- ensuring that the ambitious capital strategy is affordable, and
- continues to ensure that it monitors whether its budget planning processes are having the desired effect and helping to prevent significant overspends in key service areas.

10.5 The later AW Assurance and Risk Assessment Review – Powys County Council in February 2023 stresses “that the Council needs to develop a sustainable plan to address substantial emerging cost pressures”.

10.6 Significant progress has been made to improve financial resilience and is evidenced in the Audit Wales review and documented as part of our Financial Management (FM) Code Assessment.

11. Financial Risks

11.1 At a time when the Council is facing unprecedented challenges, the effective management of risk is needed more than ever. The Risk management framework that we have in place ensures that we identify, consider and manage risks appropriately There are a number of risks identified in terms of our financial planning and these are summarised as follows:-

Budget Delivery Risks

- Change Delivery Capacity
- Delivery of Cost Reductions
- Political Approval of Budget
- Economic Factors
- COVID

Funding Risks

- Variations to Settlement Assumptions
- Grants
- Income
- Debt management & recovery
- Treasury Management

Demand and Service pressure

11.2 The effective monitoring and managing of these risks supports our financial resilience and as our plans are finalised the risks will be assessed and provision to mitigate them will be considered through the continued use of the revenue risk budget and the level of reserves that we will maintain.

12 Reserves

12.1 The Councils position on reserves remains in line with our Reserve Policy. The need to hold an appropriate level of Reserves has been brought to the fore over the last year and with continued economic uncertainty our reserves remain crucial to our financial stability.

12.2 The position going forward will require reserves to be maintained at a prudent level. It is evident that, given the continued level of inflation, future cost pressures and lower funding settlements indicated, the challenge to deliver balanced budgets carries a significant risk, reserves are fundamental to managing this risk.

12.3 In the interests of financial resilience, reserves should not be relied upon as general budget funding. This is because:

- It creates a gap in the finances of the following year as reserves are cash sums.
- Earmarked reserves are set aside for a particular purpose.
- Reserves are an important part of financial resilience, providing a cash buffer.
- Cash in reserves is not idle; it generates investment income in line with the Treasury Management Strategy and avoids the need for short-term borrowing.

12.4 The use of reserves and the levels at which they are maintained is determined on an annual basis as part of the Council's budget setting process following a risk based assessment. In the main reserves are held corporately rather than service based, except where specific reserves and their use have been agreed.

13 Budget timetable

13.1 The draft Budget Timetable was published in July in line with the Council's constitution and is set out at Appendix C. The timetable allows for SLT / EMT and Cabinet to shape the draft budget, alongside engagement with Council and Scrutiny committees through the process. It is again anticipated that the draft and final settlements from Welsh Government will be delayed.

14 Resource Implications

The Head of Finance (Section 151 Officer) has provided the following comment:

14.1 This report identifies the factors and the implications that they have on the Council financial plans. It refreshes the Medium Term Financial Strategy updating the assumptions upon which it was originally based and sets the policy framework and direction in which the budget proposals will continue to be developed.

14.2 The current volatility dictates that we will keep the position under constant review and we will continue to update our assumptions and their impact on the FRM as required.

14.3 Discussions at a national level will be very important as we move through the Autumn and we will work closely with other Authorities and the WLGA to ensure that the impact the current economic position is having on the Council is fully understood, together with the implications this will have on our ability to deliver appropriate Council services to our residents.

15 Legal implications

The Head of Legal Services (and the Monitoring Officer) has commented as follows: " The recommendations are supported from a legal point of view".

16 Data Protection

There are no data protection issues within this report.

17 Comment from local member(s)

This report relates to all service areas across the whole County.

18 Impact Assessment

No impact assessment is required at this stage but as proposals are developed they will be supported by an Integrated Impact Assessment to inform the decision.

19 Recommendations

19.1 Cabinet acknowledge the changing environment in which our plans are being developed and agree with the revised assumptions that are being used to support the development of the MTFS; and that work will continue to update and refresh the MTFP as appropriate.

19.2 Agree that the Senior Leadership Team continues to work with the relevant Portfolio Cabinet Member(s) to identify potential savings to assist in addressing the indicative budget gap across the period of the Medium Term Financial Plan.

19.3 Delegate to the Chief Executive, in consultation with the Leader and Cabinet Member for Finance, the authority to implement any saving proposal in advance of 2024/25 where no policy recommendation is required.

19.4 This report is presented to Finance Panel for their scrutiny and feedback.

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Corporate Director:

Documents referenced to support this report:

Office for Budget Responsibility : “Economic and fiscal outlook” in November 2022 and “Fiscal risks and sustainability – July 2023”
WLGA Briefing July 2023 - Market Intelligence Expert Group
Written Statement by the Welsh Government First Minister, Mark Drakeford MS - Update about Budget 2023-24, 9th August 2023.

Appendix A

FINANCE RESOURCE MODEL 2024-2029					
REVENUE EXPENDITURE	**2024/25 £**	**2025/26 £**	**2026/27 £**	**2027/28 £**	**2028/29 £**
Base Budget (Prior Year)	**326,620,380**	**354,896,620**	**375,561,134**	**393,419,958**	**408,763,603**
Pay Award inflation 2023-24 Impact	2,387,336	0	0	0	0
Pay Award inflation 2024 onwards	8,712,370	7,657,485	5,958,506	4,220,731	3,954,369
Non pay Inflation	2,612,635	2,318,400	1,793,803	1,226,435	1,247,415
Grant Changes & Transfers into RSG (+)	214,000	0	0	0	0
Total Covid Pressures to be Addressed	(206,652)	(206,652)	(107,652)	(107,652)	(107,652)
Total Demography	502,833	734,270	734,270	734,270	734,271
Total Corporate Pressures	897,465	922,140	948,049	975,253	1,003,817
Total Service Pressures	15,393,336	9,668,131	8,360,038	8,206,407	7,967,258
Schools Reserves and Movements					
Total Cost Reductions	(3,522,342)	(1,062,060)	(205,420)	(125,930)	(128,450)
Undelivered Savings	284,340	0	0	0	0
Total Capital Financing	1,000,920	632,800	377,230	214,130	214,130
Total FRM Revenue Net Exp	**354,896,620**	**375,561,134**	**393,419,958**	**408,763,603**	**423,648,761**
FRM Net Exp	354,896,620	375,561,134	393,419,958	408,763,603	423,648,761
Current Year Budget	326,620,380	354,896,620	375,561,134	393,419,958	408,763,603
GAP - each year	**28,276,240**	**20,664,514**	**17,858,824**	**15,343,645**	**14,885,159**
Additional Funding					
Council Tax increase - 5% and tax base increase	-4,897,801	-5,142,692	-5,399,826	-5,669,817	-5,953,308
Settlement (8.7%, 3.1%, 2% then on)	-7,088,603	-4,715,064	-4,809,365	-4,905,553	-5,003,664
Funding Shortfall each Year	16,289,836	10,806,759	7,649,632	4,768,274	3,928,186
Funding Shortfall Cumulative	16,289,836	27,096,594	34,746,227	39,514,501	43,442,687

Appendix C - Budget Timetable 2024-25

Date	Meeting/Responsibility	EMT, SLT and Cabinet Activities
April - August	Senior Leadership Team (SLT)	Work on Sustainability Proposals
August	Executive Management Team (EMT)	Develop budget planning, Medium Term Financial Strategy (MTFS) approach
August	EMT	MTFS modelling in the Finance Resource Model (FRM)
10th Sept	Cabinet / EMT / SLT	Decide on public engagement re budgets and work up approach as part of budget workshop
13th Sept	Political Groups	Section 151 (Head of Finance) and political groups - updates on budgets
18th Sept	Council Budget Seminar	Overarching update
Sept	Schools Budget Forum	Opportunity to meet the requirements of the School Forums regulations in relation to consultation on schools budget and any Service Level Agreements (SLAs) / charging for goods / services to schools' budget shares (NB minimum 3 months before agreement finalised)
Sept	Welsh Government (WG)	Autumn spending review
Sept	Finance	Collate all savings and growth proposals in IBPs
Sept	Finance	Collate the capital proposals identified through the IBP - if any as we know bids can be submitted through the year
30th Sept	SLT	Integrated Business Plan (IBP) 1st draft - link to Corporate Plan
28th Sept	Finance panel	Scrutiny of updated MTFS and feedback
October	IBP Service Panels	Various dates - Each Head has a panel challenge event Oct 03rd October – IBP Education 11th October IBP – Adult Social Care 19th October – IBP Workforce Organisational Development 03th October – IBP Planning, Property, Public Protection 04th October – IBP Housing, 25th October – IBP Community Development 17th October – IBP Highways, Transport, Recycling 31stth October – IBP Children's Services 19th November – IBP Finance 12th November – IBP T&C and Economy and Digital
October	Group Leaders	Alternative budgets timetable agreed
18th Oct	Political groups	Section 151 and political groups - updates on budgets and consultation
24th October	Cabinet / EMT / SLT	Budget workshop
17th November	Schools Budget Forum	Consultation required on any proposed new charges / SLAs or changes to existing charges / Service level Agreements (SLAs) to schools' budgets at least three months before agreement is finalised.

6th November	Council	Budget seminar
13th November	Cabinet/SLT/EMT/Comms	Planning the budget consultation as part of budget workshop
15th November	Group Leaders	Budget Update
21st Nov	Cabinet	Set council tax base
30th November	Joint Council	Update unions
4 and 5th Dec	Cabinet / EMT / SLT	Budget workshop
Nov / Dec	Comms	Budget consultation with public goes live
Dec	Schools Budget Forum	Opportunity to meet the requirements of the School Forums regulations in relation to consultation on schools budget and any SLAs / charging for goods / services to schools' budget shares (NB minimum 3 months before agreement finalised)
13th Dec	Group Leaders	Budget Update
Dec	SLT	Update on budget Finance Resource Model (FRM)
Dec	Welsh Government	Draft settlement
Dec/Jan	Comms	Consultation closure
Dec/jan	Comms	Finalise consultation responses and feedback findings
19th Dec	Cabinet / EMT / SLT	Budget workshop
2024		
Jan	Head of Finance	Business rates consultation
Jan	Finance	Community council precepts finalised
Jan	Cabinet/EMT	Finalise draft budget - informal meetings
Jan	Group Leaders	Budget Update
Jan	Clerks	Publish cabinet agenda
16th Jan	Formal Cabinet	Approve draft budget (MTFS & FRM), reserve policy, capital strategy and Fees & Charges Register (income and charging schedule) and recommend to full council for approval
31st Jan	Finance Panel	Budget scrutiny
2nd Feb	Political Groups	Preparation of Alternative Budget & discussions with Heads re Impact assessments
29th – 31st Jan	Scrutiny	Scrutiny of draft budget -
Feb	Group Leaders	Budget Update

Feb	Head of Finance	Discussion of alternative Budget with Section 151 officer
5th Feb	Finance / Groups	Last date for submission of alternative budget with Final Impact assessments
6th Feb	Clerks	Issue Scrutiny Agenda for Alternative Budget (papers to follow)
6th Feb	Cabinet	Informal Cabinet to consider Scrutiny Comments on Cabinet Budget
8th Feb	Head of Finance	Last date for Alternative budgets to be approved by Section 151 officer
9th Feb	Clerks	Send Alternative Budget papers to Scrutiny if approved by Section 151 officer
12th Feb	Schools Budget Forum	Discussion of final agreement for proposed charges / SLAs
9th - 12thth Feb	Scrutiny	Scrutiny Of Alternative Budgets
14th Feb	Finance	Deadline for informing Welsh Government of Schools Budget for 2024-25 (section 45 return)
15th Feb	Finance	Prepare Scrutiny Report for alternative budget
13th Feb	Cabinet	Cabinet consider Alternative Budget
Feb	Clerks	Publish Cabinet and any alternative Budgets
22nd Feb	Council	Approve final budget (MTFS & FRM) and capital strategy, reserve policy and Fees & Charging Register (income & charging schedule).
07-Mar	Council	Council approve council tax
March	WG	Final settlement
Mid March	Finance	Full budget included in the finance system
Mid May	Finance	Full budget set out in the budget book available on the website