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| Report to | Cabinet |
| Date of meeting | 23 rd January 2024 |
| Lead Member / Officer | Councillor Gwyneth Ellis, Lead Member for Finance, Performance and Strategic Assets |
| Report author | Liz Thomas, Head of Finance and Audit |
| Title | Council Budget 2024/25 |

1. What is the report about?

The report sets out the implications of the Welsh Government's (WG) Provisional Funding Settlement for Local Government 2024/25 and proposals to set a balanced budget for 2024/25.

2. What is the reason for making this report?

2.1 The Council is legally required to set a balanced and deliverable budget before the start of each financial year and to set the resulting level of Council Tax to allow bills to be sent to residents.

2.2 There is a statutory duty on the Head of Finance and Audit (Section 151 Officer) to report to full Council, at the time the budget is considered and the Council Tax is set, on the robustness of the budget estimates and the adequacy of financial reserves.

2.3 To set out the impact of the Provisional Settlement and to approve the budget for 2024/25, including the level of Council Tax.

3. What are the Recommendations?

3.1 To note the impact of the Provisional Settlement 2024/25.

3.2 That Cabinet supports the proposals outlined in Appendix 1, and detailed in Section 4, and recommends them to the full Council in order to set the budget for 2024/25.

3.3 To recommend to Council the average Council Tax rise of 8.23% for council services plus an additional 1.3% for the increase in the levy to the North Wales Fire and Rescue Authority. This equates to an overall uplift of 9.53% proposed (paragraph 4.4).

3.4 To recommend to Council that authority is delegated to the Head of Finance and Audit, in consultation with the Lead Member for Finance, to adjust the use of cash reserves included in the budget proposals by up to £500k if there is movement between the draft and final settlement figures in order to allow the setting of Council Tax in a timely manner.

3.5 That Cabinet supports the strategy for use of reserves as set out in paragraph 4.5, and recommends to the full Council.

3.6 That Cabinet confirms that it has read, understood and taken account of the Well-being Impact Assessments as set out in Section 7.

4. Report details

4.1 Provisional Funding Settlement for Local Government 2024/25

4.1.1 The Provisional Settlement for 2024/25 was received by the Council on 20th December 2023 and resulted in a cash increase of £6.720m or 3.6% when compared with the level of funding received in 2023/24. WG have produced tables so that funding levels in 2023/24 and 2024/25 can be compared on a like for like basis across all Welsh councils. Denbighshire's percentage increase at 3.7%, is higher than the cash comparison above as the council tax base (the number of properties used in the calculation of council tax) has been adjusted for in the 2023/24 comparator WG have used (and has been adjusted for all Welsh councils).

4.1.2 Denbighshire's increase compares favourably to the Welsh average of 3.1% and follows increases in population and free school meals data used in the formula to distribute funding to councils. The increase in the data will result in higher demands for services.

4.1.3 Within the announced figure WG have advised the following:

- All pay increases for both teaching and non-teaching posts are included within the settlement.
- The costs of enabling authorities to continue to meet the additional costs of introducing the Real Living Wage (RLW) for care workers are included in the

settlement. This includes paying the RLW to both our own social care employees and the private social care sector.

4.1.4 The UK Government's Autumn Statement referred to changes in costs of employers' contributions to teachers pensions. Whilst the WG recognises the implications for local authority budgets in the covering letter, they expect funding to be provided by UK Government during 2024/25 financial year and are seeking assurances on amounts and timing from the Treasury. The increase in the costs of employers' contributions to teachers pensions is certain and therefore has been included in the Council's cost pressures (see paragraph 4.2.4). Uncertainty remains around funding for this cost pressure from both UK and Welsh Governments.

4.1.5 Part of WG Programme of Government commits to ensuring local authorities are not hampered by unnecessary bureaucracy. A programme of work to reduce the number of separate grants paid to local authorities from 2024-25 and to move grants into the Settlement is ongoing. Some areas have already been identified for change, in particular education specific grants with grants previously paid to regional educational consortia such as GwE in North Wales (the regional school improvement and effectiveness service) transferring to local authorities. As this work continues, we expect more changes to be presented as part of the Final Settlement, WG has committed to transparency in this respect.

4.1.6 The Final Settlement is expected in early March. WG cannot guarantee that there will be no other changes between the provisional and final settlements, but do not intend to make changes to methods or data underpinning the distribution of the settlement.

4.1.7 The provisional settlement provides no indication of what future year settlements are likely to be as it has done in the past couple of years.

4.1.8 There were no 'transfers in' included in the draft settlement, referring to grant funding that ceases to be ringfenced for a specific purpose or initiative, with the grant 'transferring into' the settlement alongside the ongoing responsibility to deliver that initiative.

4.1.9 In summary, whilst the increase in the settlement is above the planning assumption used in the Medium Term Financial Plan (MTFP) is positive and welcomed it does not

materially change the unprecedented financial challenge the Council faces in setting a balanced budget in 2024/25 and in the future.

2024/25 Budget Setting

4.2 Pressures

4.2.1. The proposals to balance the 2024/25 budget are shown in the Medium Term Financial Plan (MTFP) in Appendix 1. The main areas of growth and pressures are:

- Pay pressures of £4m for non-schools assuming an April 2024 pay award of 5%.
- Allowance for increase in Council Tax Reduction Scheme of £0.350m
- Schools' inflationary pressures are recognised amounting to £5.486m. This includes funding for teaching and non-teaching pay awards estimated at 5%, utilities, NDR and service level agreements.
- Schools demographic pressure of £0.213m recognising an overall increase in the number of learners.
- £7.969m to recognise increases in demand and forecast costs in Adult Social Care and Homelessness. This is part of the Council's long-term strategy to manage care budgets as well as recognising the agenda to ensure all care staff are paid the Real Living Wage. A pressure to fund the increase in demand for homelessness has also been included within the figure.
- £2.000m to recognise existing pressures in Education and Children's Services relating to children's social care placements.

4.2.2 Pay Grading pressure. In recent years increases to the National Living Wage driven by high levels of inflation has had an impact on the Council's pay structure. Grades have compressed at the lower end of the structure due to the removal of some spinal points and there is an increasing need to review the structure. It is hoped that this will also assist in addressing the recruitment and retention issues the Council has been experiencing. Though final decisions around implementation will need to be considered carefully during 2024/25, initial modelling has been undertaken and a cost pressure equating to the minimum changes required has been included for 2024/25 at £1.759m. This work can only be concluded once details of the April 2024 pay award are known. It is proposed to set aside a reserve to fund the costs of additional changes under consideration in 2024/25 (see reserves paragraph 4.5), which are built in as additional pressures within the MTFP from 2025/26.

4.2.3 Arrangements to fund the North Wales Fire and Rescue Authority are that a levy based on population is charged on all 6 North Wales councils. The levy is set by the Fire Authority, not by the councils, which ultimately must be paid. Following a public consultation to review a set of options for emergency cover, the Fire and Rescue Authority is currently planning to increase the levy by 10.8% in total across the region. Due to changes in population data used in the settlement, Denbighshire's increase is likely to be 13.8% and equates to a pressure of £0.838m.

4.2.4 The employers' teachers' pension contribution rate will increase by 5% from April 2024 and this equates to an additional £1.917m cost pressure for schools which has been included in the increased funding to schools. As set out previously in the report (para 4.1.4). Funding is anticipated from governments to cover the costs but has not been confirmed at this stage.

4.2.5 In recent years the Council has invested significantly in highways resurfacing, with £4m being the current annual capital allocation (in addition to revenue funding and any WG capital funding available). The £4m allocation is funded by borrowing which costs c£300k every year for 40 years from revenue. Given the Council's current financial position, funding through borrowing at this level every year is unsustainable. It is proposed to review the funding approach and reduce the capital allocation to £2m in 2024/25 which requires an estimated £150k increase in the capital financing budget (labelled as Investment in Priorities in Appendix 1).

4.3 Efficiencies, Savings and Reductions to Services

4.3.1 The pressures identified above amount to £24.682m. A draft settlement of around 13.13% would have been required to fund all these pressures. The provisional settlement generates £6.720m additional revenue leaving a funding gap of £17.962m. The following items are included in the proposals to bridge that gap:

- Major Savings Proposals amounting to £2.388m (see Appendix 2 for details) – Heads of Service were tasked with bringing forward large-scale saving projects, in discussion with Lead Members. Each proposal has been considered by CET and at informal meetings of Cabinet, before a report is issued to all Members and being discussed at a virtual meeting arranged.
- Services have also identified non-strategic savings/efficiencies amounting to £1.367m (summarised in Appendix 3) along with capital and corporate savings of £0.928m that have been identified (summarised also within Appendix 3). Bringing the total non-strategic savings/efficiencies to £2.295m.

- Schools were also asked to plan for 3% savings which amount to £2.7m, after receiving funding increases to cover inflationary pressures totalling £7.616m as set out in section 4.2 of this report (schools position is summarised in full paragraph 4.6 below).

4.3.2 Despite efficiencies, savings, and reductions in costs/services to date, in total they are insufficient to set a balanced budget without an unsustainable use of reserves. All Heads of Service have therefore been issued with further savings targets totalling £3m. These savings are being worked on now and will need to be delivered as soon as practical. In March 2024 separate budget sessions for Members will be arranged and will involve each Head of Service presenting the savings they have found, what services are impacted and how those impacts will affect our communities. Ordinarily, these further savings proposals would have been identified before the budget is set but given the scale of the challenge this year and that the Provisional Settlement was not released until late December 2023 this has not been possible.

4.4 Council Tax (Appendix 4 for Council Tax sensitivity analysis)

4.4.1 Based on the final additional budget requirement of £24.682m, an overall annual increase of 8.23% is required on Council Tax for Council Services plus an additional 1.3% for the increase in the levy to North Wales Fire and Rescue Authority. This equates to an overall uplift of 9.53% and provides overall additional yield of £7.580m in 2024/25.

4.4.2 This amounts to an average increase of £126.36 per annum (£2.43 per week equivalent) and brings the amount to £1,661.71 on a Band D equivalent for council services, and an average increase of £19.96 per annum (£0.43 per week equivalent) on a Band D equivalent for the North Wales Fire and Rescue Service Levy.

4.4.3 The council services increase combined with the fire levy equates to an average increase of £146.32 per annum and brings the amount to £1,681.67 on a Band D equivalent (£2.81 per week equivalent).

4.4.4 This increased level is on a par with indicative increases across North Wales.

4.5 Reserves

4.5.1 Unearmarked reserves currently stand at £5.6m. The current convention is to keep a minimum £5m unearmarked reserve, to meet any unforeseen costs pressures and unexpected events outside of the Council's control. It would be imprudent to plan to use the first £5m of this reserve. Furthermore, it is not proposed to plan to use the £0.6m

above the £5m base level reserve given the increased level of risk that will be inherent in the budget set in 2024/25. Should there ever be a call on this reserve, there would need to be a plan to replenish the reserve to its target level of £5m.

4.5.2 The Council also has earmarked reserves which are set aside for specific purposes. Some are restricted in their use by, for example, the terms and conditions of grant where their source is government funding. Earmarked reserves are also used by services to manage their budgets and are reviewed regularly as part of budget monitoring. The Council holds limited centrally held earmarked reserves and it is appropriate to consider the need to use these reserves cautiously to assist the Council to set annual budgets as set out within the paragraphs below.

4.5.3 The Council is currently forecasting a net 2023/24 in-year overspend which will need to be funded from reserves. The level of overspend is currently £3.3m (December Finance update to Cabinet). The earmarked Budget Mitigation reserve will be used to support the overspend. The reserve currently stands at £4.7m, leaving a forecast balance of £1.4m available to assist with future funding gaps.

4.5.4 The Council has limited other earmarked reserves that it is proposed are re-assigned to assist with the current financial situation:

- Pensions reserve £3.6m – the aim of this reserve is to mitigate the risk that the triennial review of the Clwyd Pension Fund will return to a deficit position requiring a significant budget pressure in 2026/27. It is proposed to re-assign the Pension reserve for the pay regrading costs in 2024/25 over and above the pressure included within the MTFP (paragraph 4.2.2 relates) and exit costs associated with the Voluntary Exit Scheme that has been running since November 2023. After funding both initiatives there is likely to be very little left in this reserve.
- Modified Loan reserve £4.4m – this was created as a result of discussions with external auditors and a change in the way the Council accounts for a set of historical loans. It is proposed to re-assign the modified loan reserve and to transfer the balance to the budget mitigation reserve. Re-assigning the reserve requires the inclusion of a budget pressure to be included in the MTFP (£100k) within the capital financing budget which will need to increase each year by a relatively small amount of £5k.

4.5.5 The Council has, and will have to, utilise reserves available to fund;

- 2022/23 net in-year overspend - £1.6m

- 2023/24 forecast in-year overspend - £3.3m
- 2023/24 and 2024/25 funding the costs of the voluntary exit scheme – unquantifiable at this stage
- 2024/25 pay regrading at the maximum estimate of additional costs for 2024/25 £2.7m (over and above £1.7m pressure included in MTFP).

The Council is having to make considerable use of its reserves, which is necessary given the unprecedented financial position. Reserves can only be used once however, and reliance on reserves is not sustainable. A significant in-year overspend in 2024/25, of the like seen in 2023/24, would leave the Council with little financial resilience going forward which is concerning given the Council's forecast for 2025/26 and 2026/27 is just as challenging as 2024/25, if not worse.

4.5.6 The strategy for use of reserves therefore is to minimise the use of cash reserves in setting future budgets as far as possible and the proposal is not to use reserves in balancing the 2024/25 budget.

4.6 Schools

4.6.1. Schools will receive a combined increase in funding of 5.82% in 2024/25. This includes all increases in funding as set out in section 4.2 of the report and then the application of a 3% reduction. The Schools and Non-delegated School Budgets are currently £84m+ and account for 33.7% of the Council's budget, its largest budget. In recent years the Council has protected schools. Given the scale of the financial challenge the Council faces in setting balanced budgets in the medium term, schools cannot be exempt from finding savings and reducing their levels of expenditure. The Council has committed to regular communication with schools regarding its budget through regular updates to the Schools Budget Forum and Headteacher meetings. Schools have been notified to expect a reduction in funding of between 2-4% after inflationary funding some months ago. The Council provides schools with indicative 3-year funding allocations which has included a 3% reduction in funding in 2024/25, and so schools have been preparing and developing their plans in readiness.

4.7 Medium Term Financial Plan – 2024/25 to 2026/27

4.7.1 Appendix 1 MTFP also shows the headline financial projections for 2025/26 and 2026/27. Funding is based on Council Tax increases of 3.8% for both years and on latest forecasts from the Wales Fiscal Analysis for WG future funding levels at slightly negative reductions of -0.3% in 2025/26 and -0.5% in 2026/27. With modest forecast pressures

included for pay and price inflation, demography and increases in demands in Social Care resulting in a shortfall in funding of £15m in 2025/26 and £13m in 2026/27. The cumulative shortfall over the 3 years is £38m. To put that into context, that equates to 15% of the current budget (2023/24 budget equates to £251m). The financial challenge therefore continues into future years, and the Council will need to reconsider its strategic approach to delivering services within the funding available, a more transformational approach will need to be adopted in future. A refreshed MTFP is planned for April, and there will be opportunities for all Members to fully engage in future transformational discussions.

5. How does the decision contribute to the Corporate Priorities?

Effective management of the Council's budgets and delivery of the agreed budget strategy underpins activity in all areas. The proposals include allocations to continue to support both corporate and service priorities, but the Council will need to reflect on the future financial outlook and consider realistically what can be achieved within available funding.

6. What will it cost and how will it affect other services?

As set out within the report.

7. What are the main conclusions of the Well-being Impact Assessment?

The 2024/25 budget is being viewed as an evolving process rather than a one-off event in January. The Well-being Impact Assessment (WIA) for the budget is similar and is evolving alongside saving proposals.

WIA for each of the major savings proposals of significant impact are tabled for informal discussion with CET and Cabinet. Upon being progressed, each Head of Service has completed a full Well-being Impact Assessment to support understanding more fully the impact of the reduction in service and develop further the possible mitigations.

All assessments to date have been collated and reviewed by strategic planning and performance officers to highlight any themes and patterns emerging to provide CET and Cabinet with regular updates on the aggregate impact in respect of each of the well-being

goals and whether the savings were disproportionately affecting any particular protected group. This has been collated to form an overall WIA regarding the impact of necessary budget reduction measures at Appendix 5. It should be noted that this WIA focuses on a high-level aggregation of the combined budget reduction measures, and this work will continue as savings proposals are refined.

8. What consultations have been carried out with Scrutiny and others?

In addition to regular reports to the Governance and Audit Committee, the budget process has been considered by SLT, Cabinet Briefing, Group Leaders and Council Briefing meetings. The School Budget Forum have been included in the proposals through-out the year. Trade Unions have been consulted through Local Joint Consultative Committee.

9. Chief Finance Officer Statement

9.1 There is a statutory duty on the Head of Finance and Audit (Section 151 Officer) to report to full Council, at the time the budget is considered and the Council Tax is set, on the robustness of the budget estimates and the adequacy of financial reserves. The Council must have regard to this report in making its decisions on its budget.

9.2 The Council, along with all other Welsh councils, faces unprecedented financial challenges. Whilst the report contains proposals for setting a balanced budget in 2024/25, the details of some of those proposals are currently being worked through and therefore the work to ensure the budget can be delivered is ongoing with further updates to be provided to Members in the coming weeks. As set out in paragraph 4.7, the medium term financial outlook for financial years 2025/26 and 2026/27 looks equally as challenging as 2024/25 and must be considered when making decisions for the 2024/25 budget.

9.3 Cost pressures have been included within the budget that recognise and remedy in-year and forecast service pressures as much as possible in order to build in resilience. These have been estimated based on latest forecasts of demands and costs and are therefore considered to be reasonable having regard to statutory services' spending needs in 2024/25 and the financial context within which the budget is set.

9.4 The budget proposals for 2024/25 contain a level of financial estimates due to the uncertainty of the impact on the Council of current economic events. Having considered

the level of funding required by services and the savings / budget reductions proposals put forward, I am satisfied that they are reasonably robust. It is clear, however, that there continue to be some significant risks within the 2024/25 budget proposals (as set out in section 10 of this report).

9.5 The position with regard to financial reserves is set out in section 4.4 of the report. I recommend that the council maintains unearmarked reserves at the current level (£5.6m) and minimises as far as possible further use of reserves to balance the budget in 2024/25. It is important to protect current levels of reserves to safeguard the Council's position against potential risks.

9.6 Due to the very late date for the Final Settlement it is recommended that Cabinet and Council delegate authority to the Head of Finance and Audit in consultation with the Lead Member for Finance to adjust the use of reserves included in the budget proposals by up to £500k. WG has indicated that there are unlikely to be any material changes, however it is sensible to have a contingency plan agreed beforehand.

9.7 It is important to note that if the proposals in this report are not accepted, alternative proposals must be submitted so that the Council's statutory responsibility to set a balanced budget can be met.

10. What risks are there and is there anything we can do to reduce them?

10.1 The budget process itself is a risk management measure with the aim of identifying, assessing and agreeing budget proposals in a planned and timely way. Failure to agree these proposals without viable alternatives will risk not achieving a balanced budget for 2024/25.

10.2 The allocation of savings targets now to be achieved as soon as practical is not a strategy that the Council has previously had to use in balancing its budget and therefore exposes the Council to a level of risk it has not experienced before. A number of initiatives, however, are under development which will assist every service in meeting that service savings target and include the voluntary exit scheme, and the fees and charges review to increase income. These initiatives have yet to be concluded and therefore at this stage it is difficult to assess how sufficient they will be. The finance team will work to

support services throughout the coming weeks to calculate savings and report the total level of savings proposals to Members before the beginning of the new financial year.

10.3 The total savings / reductions to budgets needing to be found for the 2024/25 budget at £7.683m (excluding schools) is significantly higher than in recent years. Savings listed have been given a Red, Amber, Yellow and Green rating purely in terms of being able to achieve the savings and are shown in Appendices 2 and 3 (please note that this does not assess risk to service delivery). A system is being developed to track and measure savings delivered ensuring that progress can regularly be reported at an appropriate level of detail at various committees. This will strengthen the effectiveness of the Council's financial management and ensure prompt action can be taken to mitigate any impacts should variances occur in year. It is likely that a savings / reductions tracker will be added to budget monitoring processes and will feed through to the monthly finance report to Cabinet, and further consideration will be given to the roles of the Scrutiny and Governance and Audit Committees.

10.4 Forecasting cost pressures has been challenging in setting budget proposals for 2024/25 and are driven by both increases in demands for services and increases in costs by higher levels of inflation. Despite the use of the most up to date demand forecasts in budget calculations, these are estimates and risks remain that expenditure could exceed budgets even though budgets have been increased in the new financial year. In particular specific demands for statutory services within social care, homelessness and waste services. The Council's reserves mitigate against such risks materialising in year, and also a prudent approach has been adopted with regards to future inflation increases, for example, pay inflation has been included at 5%, at the time of writing this is higher than some economic forecasts are predicting for 2024. Should such forecasts be confirmed this will provide further mitigation to demand led risks.

10.5 Despite careful monitoring of costs and tracking of savings proposals, ultimately if a significant in-year over spend materialises in 2024/25 of the like seen in 2023/24, and, if savings proposals cannot be delivered, this will lead to reserves being called upon in 2024/25. This will reduce the Council's level of financial resilience and sustainability going forward. The financial situation is extremely challenging and effective and disciplined in-year financial management is essential by all budget holders.

11. Power to make the decision

Local authorities are required under Section 151 of the Local Government Act 1972 to make arrangements for the proper administration of their financial affairs.