

## **Medium Term Financial Strategy 2025/26 – 2027/28 (April 2024 Update)**

The Medium Term Financial Strategy (MTFS) sets out the Council's strategic approach to the management of its finances and outlines some of the financial issues that will face the Council over the next three years.

This is the first iteration of the MTFS 2025/26 – 2027/28 and it has been compiled with data and information available as at the end of March 2024. The document is an early version, it will be subject to refinement as the financial year 2024/25 progresses and will identify workstreams that need progressing during the year.

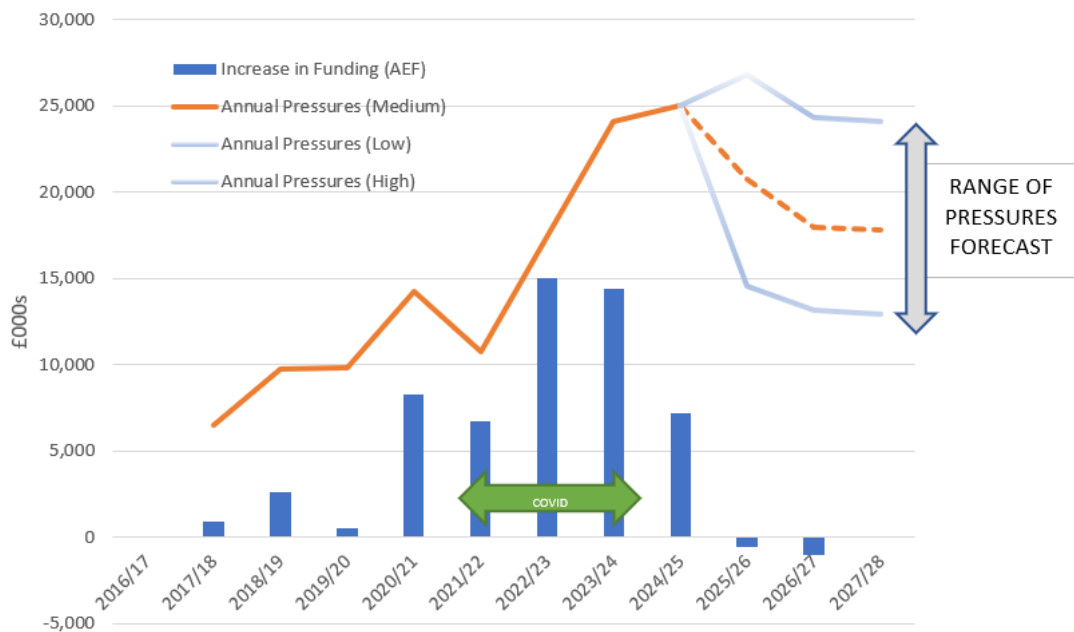
### **Summary of the Financial Outlook**

The medium term economic and political environment within which the Council operates remains extremely uncertain making forecasting budget projections with accuracy difficult. Whilst inflation has eased from its peak it will continue to have an impact by increasing costs of service delivery through the pressure on pay, commissioned care, food and fuel prices etc. General demand for services from our communities continues to grow and the complexity of needs has intensified in areas such as education and children's services and adult social care.

The 2024/25 funding settlement from Welsh Government provided no future indication of funding as it has done for the past 2 years. As circa 75% of the council's budget (net) is funded by the settlement this adds a level of uncertainty. Predictions on future funding from Welsh Government are based on latest forecasts from the Wales Fiscal Analysis for cash flat and even slightly negative funding settlements.

The graph below shows how funding received from Welsh Government compares with the cost pressures the council is subject to. It covers a 10-year period, looking back to 2017/18 and forecasts forward to 2027/28 using current Medium Term Financial Plan (MTFP) estimates of pressures using a range of cost assumptions from low to high.

## WG FUNDING COMPARED WITH PRESSURES



The council has faced a significant financial challenge in setting its 2024/25 budget, which is set to continue in the medium term due to a combination of no increases in funding from Welsh Government (working assumption), the continued impact of inflation and increases in demand for and complexity of needs for services. It is possible that the forthcoming general election and increases in funding from UK and Welsh governments could change the position, but this is unlikely to change the scale of the financial challenge facing the council which should not be underestimated.

Appendix 3 sets out the current revised budget projections in the Medium Term Financial Plan (MTFP) for 2025/26 – 2027/28 along with the assumptions that underpin the projections. At this stage in the budget process the MTFP shows high level estimates of known pressures along with the impact of increases in Council Tax and funding from Welsh Government. The table includes a range of assumptions to provide a low, medium and high estimate of costs for each pressure, illustrating both the uncertainty of the figures and the amount of work that still needs to be carried out to refine these projections.

### **Budget Pressures**

Corporate pressures currently included in the MTFP;

- Pay pressure - Non-Teaching Pay Awards.

- Pay Grades 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.
- Price inflation including energy
- Council Tax Reduction Scheme - Funding for CTRS transferred into the Local Government settlement a number of years ago and has not changed. Additional costs as a result of increases in Council Tax fall on the council
- Levy from North Wales Fire and Rescue Authority
- Schools inflation – covering teaching and non-teaching pay awards for those employees working in schools, and price inflation.
- Schools Demography – reflecting changes in overall pupil numbers.
- Investment in Priorities - impact of capital programme repayment of borrowing and interest costs.

Service Pressures currently included in the MTFP;

- Adult Social Care – based on ongoing pressures identified
- Children's Services – based on current overspend plus known additional placements

Current figures included are at a high level and both pressures need refinement as the year develops to reflect updated demands. Demands for some service provision is increasing in Adults and Childrens Services but also the complexity of care required by individuals is increasing.

There is a need to consider additional service pressures not currently specified in the MTFP. A relatively modest sum covering all pressures has been included in the MTFP for each of the 3 years. A short process whereby Heads of Service submit a short and focused business case that is supported by the Corporate Director, for approval by CET will be run this year and concluded by the summer.

The majority of the pressures faced by the council are outside of its control, for example pay inflation is set nationally.

## Risks

This section of the MTFS provides details of the strategic risks that the council is facing that it has not been possible to quantify in the MTFP at this stage, or there is still a degree of uncertainty if it will materialise.

- Pay Awards – The 2024/25 pay awards have yet to be confirmed. Should they be settled at amounts in excess of what has been set aside in the 2024/25 budget the council would need to use reserves in year to fund and to correct the base budget in 2025/26 which adds to the overall pressures in the MTFP for 2025/26. The employees' side in the pay negotiations are currently requesting 10% or a lump sum of £3,000 whichever the greater, the council has budgeted for 5% in 2024/25.
- Clwyd Pension Fund Triennial Review – revised employer contributions would take effect from 2026/27.
- Children's Services Placements – demand is difficult to forecast, complexity of needs coupled with inflation have driven up costs significantly in recent years. WG have set a priority of eliminating private profit from the care of looked after children, this could have an impact on the market in Wales.
- Adult Social Care – care fees and an increase in the number of complex cases could be in excess of budgeted levels.
- Homelessness – The general lack of social and affordable housing coupled with changes in legislation during the pandemic has seen a significant increase in the number of people presenting as homeless in recent years. This has led to significant additional cost, particularly in relation to temporary accommodation. Whilst there are a number of workstreams being progressed with positive results to reduce the costs and numbers in temporary accommodation the situation can change quickly.
- Council Tax Reforms – WG has plans to reform the way CT is calculated and charged, this has the potential to impact on how much funding the council receives.

## **Funding Additional Pressures**

The net revenue budget is funded from Aggregate External Finance (AEF) (75%) and Council Tax (25%). The AEF is made up of Revenue Support Grant (RSG) and Non Domestic Rates Pool funding (NDR).

### Aggregate External Funding - Projected funding from Welsh Government.

The 2024/25 funding settlement from Welsh Government provided no future indication of funding as it has done for the past 2 years. Future funding within the MTFP is based on assessments by Wales Fiscal Analysis at slightly negative reductions of -0.3% in 2025/26, -0.5% in 2026/27, and 0% in 2027//28 in the absence of anything else.

In recent years draft settlements have not been announced until mid-December. Given a general election will be held at some point this year, there is unlikely to be any certainty regards funding settlements. It is essential that we continue advocating for more resources from national governments especially considering increasing demand in services or rising costs as a result of policy decisions. It is worth noting that a 1% increase in AEF equates to an additional £2m in funding.

### Council Tax

In 2024/25, Denbighshire's Band D Council Tax is £1,679 which compares to the Welsh average of £1,631 and the North Wales average of £1,666. Across Wales, Band D Council Tax varies between £1,446 (Caerphilly) and £1,975 (Merthyr Tydfil) and in North Wales between £1,572 (Ynys Mon) and £1,755 (Gwynedd). The Band D Council Tax of our immediate neighbours is £1,733 at Conwy and £1,658 at Flintshire. We are the 3<sup>rd</sup> highest in North Wales.

Assumptions made about Council Tax increases in the MTFP range from 6% - 12% for 2025/26 and a 5.5% long term average thereafter for both years though it is important to note that no decisions have been made yet. A mid-range assumption of a Council Tax increase of 9% for 2025/26 yields an additional £6.8m but only addresses a third of the funding gap, the remaining gap is substantial at £14.5m.

To the extent that increases in AEF and Council Tax are insufficient to meet the financial demand, then the Council is faced with the need to make budget reductions, generate income or use its one-off reserves and balances to fund any remaining resource shortfall.

### Budget Reductions, Savings and Efficiencies

Given the scale of the council's current financial position and the cumulative impact of finding annual efficiencies over the past decade, no service can be protected from reductions in budget and a need to transform the way services are delivered, this unfortunately includes front line services. Prioritisation of services will need to feature in future discussions. The council is faced with stopping or reducing some services in areas that are less of a priority or are discretionary in nature. Given the scale of the challenge, we are also faced with reducing the levels of service provision for those services that we have a statutory duty to deliver. The strategy will be to limit the impact of budget reductions on front line services providing services to the most vulnerable in our communities, those needing social care and in our schools.

It is important to understand that there are some budgets within the overall net revenue budget where it is not possible to implement any savings, for example the Levy to the North Wales Fire and Rescue Authority, Members' allowances etc. Furthermore, that the council cannot operate without support services functions, however they will need to be reshaped so that they operate effectively and as efficiently as possible.

The scope for efficiencies is limited given the scale of budget reductions over the past ten years, which has delivered a wide range of efficiencies. However, technologies and other practices continue to evolve, and we therefore need to work hard to identify and deliver further efficiencies where we can in order to preserve services for residents.

There is a need to develop a more transformational approach to the council's need to reduce its costs (see below). Our approach to transformation is a priority and is under development but it will take time and investment. For the next few years, the approach will be for all services to model how a percentage service reduction could be achieved and what services will look like as a result. The combined percentage reduction to budgets will equate to the council's funding gap. Percentages will be considered early on in the annual budget setting process and will be treated in a broad sense. It will not be appropriate to apply a consistent level of budget reductions across all services.

To assist with the approach outlined above the following tasks will be completed:

- An exercise is being developed aimed at providing Members with high level information on all activities and associated costs to determine what are Members collective service priorities.
- A small exercise with services will be undertaken early in the budget process to capture the full year effect of some savings that are only part year in 2024/25 and any small-scale efficiency type savings that Heads of Service are able to offer up. We will aim to conclude this work and report back as soon as we can in the year.

Budgetary control measures introduced covering recruitment, and use of overtime and agency will continue into 2025/26.

### Fees and Charges

Annual work on fees and charges has always been undertaken every year as part of budget setting, however a more focused review of fees and charges is planned. The fees and charges policy will be reviewed and updated as necessary. This will indicate which fees are statutory and which are not. The workstream will be led by the Finance team who will aim to conclude the work and report back to Cabinet in October. The workstream could identify opportunities to generate or maximise income which will need to feed through to the transformation agenda.

### Schools

There is a need to consider the position of the delegated schools' budget as early as possible in the process so that this can be communicated clearly with schools and they can plan accordingly. The approach will be to continue to fully fund inflationary pressures including pay awards, pension contributions, energy, etc and demography, and then apply a budget reduction. In 2024/25 this equated to a gross increase to schools of £7.616m before we applied savings of 3% which equated to £2.7m. The net position was an increase of £4.916m a 5.82% increase in the schools' budget. The schools' budget is our biggest budget, the council cannot fund all inflationary pressures without expecting our schools to contribute to the savings effort. The additional level of funding the council received from WG in broad terms at 3.8% in 2024/25, did not cover inflationary costs

including that of our schools. The impacts of decisions and changes in 2024/25 will need to be assessed and considered in reaching decisions on the percentage reduction for schools in 2025/26.

### Reserves and Balances

The table below set outs the useable reserves held by the Council as at 1 April 2023. However, activities during 2023/24 will already have meant some of the reserves have been spent by now. The council is currently forecasting a net 2023/24 in-year overspend which will need to be funded from earmarked reserves. The level of overspend is currently £2.7m (March Finance update to Cabinet). Balances will be confirmed for 1<sup>st</sup> April 2024 as part of year end close down and will be reported to Cabinet as part of year end reporting 2023/24.

<b>Useable Reserves</b>	<b>1<sup>st</sup> April 2023 (£m)</b>	<b>Purpose</b>
Council Fund balance	5.577	Sums set aside for more general purposes to meet any unforeseen costs pressures and unexpected events outside of the council's control.
Earmarked Revenue Reserves – Services	14.994	Sums set aside for specific purposes to support Service needs.
Earmarked Reserves - Corporate	16.669	Sums set aside for specific purposes to support corporate needs.
Earmarked Revenue Reserves - Schools	8.939	School reserves which are delegated to school governing bodies.
Housing Revenue Account Reserve	1.566	Housing reserves which are ringfenced for housing purposes as required in law.
Earmarked Capital	19.240	Capital monies set aside for funding ongoing capital schemes per the Capital Plan.
Capital Reserves (capital receipts reserve and capital grants unapplied account reserve)	15.122	Capital receipts and grants to fund ongoing capital schemes per the Capital Plan. These sums generally cannot be used to support Revenue expenditure.
<b>Total Useable Reserves</b>	<b>82.107</b>	



The Council Fund balance currently stands at £5.6m. The current convention is to keep a minimum £5m unearmarked reserve, to meet any unforeseen cost 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 is 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.

There is no determined level of reserves that is necessary for councils to hold as that is a matter of judgement for each council to make. £5m has been the level for some years and as the council's net revenue budget has increased (due to high levels of inflation) in recent years its value has been eroded. £5m is 1.84% of the current net revenue budget (2024/25) and consideration needs to be given during the year to reviewing the policy. Given the scale of the financial challenge it will not be feasible to plan to build our general balance by earmarking budget. A target level could be set however, with intentions to increase the balance should any opportunity arise, e.g., from windfall income etc.

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 grants 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 including its budget mitigation reserve which will fund the current in year overspend. In setting the 2024/25 budget the council approved targeted use of corporate earmarked reserves to cover one-off exit costs, and as mitigation for risks from ongoing discussions around reviewing the council's pay structure which is necessary given the unprecedented financial position faced.

Over the next few months, a workstream to review the council's policy for reserves will be undertaken and this will include a review and challenge of both corporate and service reserves held to confirm that they are still needed. This may identify modest reserves that could be transferred into setting a reserve to fund 'invest to save' projects that require modest amounts of upfront costs to unlock savings proposals going forward. The timescales for concluding this work would be a report to Cabinet in July.

## Transformation

Whilst we are developing a transformation agenda with the primary purpose being to reduce the costs to the council, this will take some time to develop and, in all probability, may not materialise in time for 2025/26 budget setting.

High level discussions to develop the transformation agenda have been taking place in recent months at Corporate Executive Team (CET) and Strategic Leadership Team (SLT) levels and informally with Cabinet around the broad themes set out below;

- Reducing Demand
- Collaboration & Partnership
- Regional Working
- Alternative Delivery Models
- Income Generation and Maximisation
- Internal Initiatives

These are initial themes that may evolve as work to refine them continues. A series of workshops around the budget and transformation (see timetable below) for all Members is planned, with the first in the diary for early June for Members initial input into the council's approach to transformation.

## Processes for keeping Members informed and Governance of the Budget

The process for setting the 2024/25 budget evolved during the last financial year reflecting the severity of the budgetary situation.

Heads of Service came forward with proposals for budget reductions following discussions with Lead Members. Proposals were categorised into 2; Major Savings Proposals and Non-Strategic Savings.

Each Major Savings Proposal was reviewed by CET for deliverability before being reported informally to Cabinet for political challenge/acceptability. If a project was informally supported by Cabinet, the relevant Lead Member ensured that all Members were advised of the project by sharing a brief report and a Wellbeing Impact Assessment. Each project was the subject of a virtual Teams meeting for all Members so the proposal could be

further explained, and any initial questions answered. Some projects needed to be reported to Scrutiny and were the subject of a public consultation. Final decisions were taken as appropriate e.g. at Cabinet, Lead Member Delegated Decision, Head of Service delegated decision etc.

Heads of Service also proposed a range of non-strategic efficiencies/smaller scale reductions to budgets. These efficiencies/reductions to budget were discussed with Lead Members and in most cases were progressed via a Head of Service delegated decision.

These processes for sharing information with Members will continue going forward as in general feedback from Members has been that they did feel informed about the budget.

Regular Council Workshops/Member Briefings will be arranged to update Members on development of MTFS (overall budget approach), latest projections in MTFP, progress on delivery regarding closing the budget gap and the transformation agenda.

There will also be more reporting to update the MTFS and MTFP this year, with updates for Cabinet planned in July, October and January, before the budget is set a month later in February. These reports will be the subject of agenda items for Governance and Audit Committee for assurance that the council has robust processes in place to make effective decisions in a timely manner to deliver balanced budgets in future and a scrutiny committee to review those decisions. It is also planned to debate budget setting proposals at Council much earlier on than in recent years and a report is planned for November. Final budget proposals will need to be approved with Council Tax setting at a Council meeting in February, when the settlement from WG is known.

### Communications Plan

The communications plan for the budget is as follows:

- Elected Members – as per processes for keeping Members informed section (above).
- The Leader, Chief Executive and Corporate Director Governance & Business meet regularly with Group Leaders, who update their Groups. Groups can invite Chief Executive, Corporate Directors and Section 151 Officer to any of their meetings to discuss the budget proposals.

- Employees - Regular updates on budget are provided at the monthly Staff Council meetings. Staff roadshows are taking place 12th March – 1st May to give employees an opportunity to better understand the Council’s financial position and to ask questions / offer feedback. Further briefing sessions will be arranged as necessary.
- Trade Unions - Senior Officers meet regularly with the Unions to update them on saving proposals.
- Schools - Senior Officers attend the School Budget Forum on a regular basis to update them on saving proposals, particularly regarding implications for schools.
- Public / residents - Major projects have and will continue to be subject to specific public consultation e.g. reduction in library opening hours, and public conveniences. Engagement with the public last year focused on developing budgetary information on the council’s website which was shared through our social media channels. Further work is needed this year to develop our residents understanding of the council’s financial challenges and the impact it will have on our ability to deliver services.
- City, Town and Community Councils – We plan to hold an information session with all of our City, Town and Community Councils to fully brief them of the council’s financial situation in June. Further briefing sessions will be arranged as necessary.

Wellbeing impact assessments were completed on all major savings proposals along with an overarching assessment for the whole of the budget. This is being updated periodically as proposals are refined and reported to the Strategic Equalities and Diversity Group.

### Timetable

Table below includes a timetable of budget activity likely from now until the summer recess;

<b>Budget Activity</b>	<b>Date</b>
Staff Roadshows - Budget	12 <sup>th</sup> March – 1 <sup>st</sup> May
Members Budget Workshop - Governance and Business	13 <sup>th</sup> March
Members Budget Workshop – Economy and Environment	15 <sup>th</sup> March

Members Budget Workshop – Social Service and Education	11 <sup>th</sup> April
Cabinet – Medium Term Financial Strategy (including MTFP update) and assessment of financial resilience report.	23 <sup>rd</sup> April
Governance and Audit Committee - Medium Term Financial Strategy (including MTFP update) and assessment of financial resilience report.	24 <sup>th</sup> April
Budget discussion with Chairs and Vice Chairs of Scrutiny	20 <sup>th</sup> May
Performance Scrutiny – Medium Term Financial Strategy (including MTFP update) and assessment of financial resilience report. (Proposed – tbc with Chairs and Vice Chairs of Scrutiny)	6 <sup>th</sup> June
Members Budget Workshop - Transformation	6 <sup>th</sup> June
Members Budget Workshop – MTFS / MTFP update	July (TBC)
Cabinet MTFS / MTFP update	30 <sup>th</sup> July
Governance and Audit Committee MTFS / MTFP update	24 <sup>th</sup> July
Performance Scrutiny MTFS / MTFP update (Proposed – tbc with Chairs and Vice Chairs of Scrutiny)	26 <sup>th</sup> September
Members Budget Workshop – MTFS / MTFP update	October / November
Cabinet MTFS / MTFP update	22 <sup>nd</sup> October
Governance and Audit Committee MTFS / MTFP update	20 <sup>th</sup> November
Performance Scrutiny MTFS / MTFP update (Proposed – tbc with Chairs and Vice Chairs of Scrutiny)	28 <sup>th</sup> November
Full Council – Early debate – Budget 2025/26	12 <sup>th</sup> November

## **Conclusion**

The Medium Term Financial Plan (MTFP) sets out the financial forecast for the next three years. It is based on a range of assumptions, most of which at this stage are uncertain and are likely to change. However, the level of uncertainty, both in terms of the UK economic outlook, funding from Welsh government and service demands, leaves us with significant risk. As a result of the volatility, the plan will be reviewed and updated on a regular basis.

Whilst the plan does not provide us with any real certainty, it nonetheless does provide a clear indication of the direction of travel and scale of the financial pressures, to determine actions and strategic considerations we need to take in the immediate term (to set the 2025/26 budget) and mid-term (to set the 2026/27 and 2027/28 budgets) and sets out the need for transformation.