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| Report to | Governance and Audit Committee |
| Date of meeting | 22 nd January 2025 |
| Lead Member / Officer | Lead Member for Finance, Performance and Strategic Assets / Head of Finance and Audit |
| Report author | Head of Finance and Audit |
| Title | Update on 2025/26 Revenue Budget Setting |

1. What is the report about?

Updating Governance and Audit Committee on the Welsh Government's (WG) Provisional Funding Settlement for Local Government 2025/26 and its implications for setting a balanced budget for 2025/26.

2. What is the reason for making this report?

Regular medium-term financial updates have been reported to Governance and Audit Committee throughout the year, as part of the role of the Governance and Audit Committee in seeking assurance that the Council has effective and robust processes in place for setting balanced budgets. The Council is legally required to set a balanced budget before the start of each financial year and to set the resulting level of Council Tax. Cabinet, at its next meeting on 18th February 2025 will consider a report to set a balanced budget and Council Tax for 2025/26. This report will then be considered by Council at its meeting on 20th February 2025.

3. What are the Recommendations?

3.1 The committee considers and provides feedback to Cabinet prior to the 2025/26 budget being set.

4. Report details

4.1 Provisional Funding Settlement for Local Government 2025/26

4.1.1 The Provisional Settlement for 2025/26 was received by the Council on 11th December 2024. The Council's provisional AEF (Aggregate External Finance, which consists of the Revenue Support Grant[RSG], and our share of the non-domestic rates pool[NDR]) from WG for 2025/26 equates to £215.222m.

4.1.2 WG have produced tables so that funding levels in 2024/25 and 2025/26 can be compared on a like for like basis across all Welsh councils. The restated 2024/25 figure has been slightly amended by WG since its initial publication. The council's 2025/26 funding compares with a restated 2024/25 AEF of £205.729m. A headline increase of £9.493m or 4.6%.

4.1.3 It is important to understand the detail behind the restated 2024/25 AEF, as it has an impact on 2025/26. Following the UK Gov budget in October 2024, Welsh Government allocated additional in year funding to Local Government, which is summarised in the table below.

| 2024/25 Adjustments to AEF | £m |
|----------------------------|--------------|
| Teachers Pay | 0.619 |
| Teachers Pensions | 2.069 |
| Non-teaching Pay | 1.799 |
| Total | 4.487 |

This has been amalgamated into the base budget, but as this is a recent movement it has had the effect of increasing the funding in 2025/26 over and above the 4.6% quoted. The true impact of the provisional settlement is an increase of £14.427m or 7% (the council's 2025/26 funding compared with the original 2024/25 AEF of £200.795m).

4.1.4 Denbighshire's increase compares favourably to the Welsh average of 4.3% and follows increases in pupil numbers and free school meals data being used in the formula to distribute funding. We must recognise though that there is also a corresponding increase in demand for services as a result.

4.1.5 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.

4.1.6 The UK government's Autumn Statement referred to changes in rates and threshold for employers' National Insurance Contributions from 1st April 2025. The increase in contributions will impact on the costs of employees the council directly employs and will also impact indirectly through increased supplier costs and, the cost of commissioned care from care providers in particular. The increase in the direct costs of employers' contributions is certain and will be included in the council's cost pressures for 2025/26. An estimate of indirect costs will also need to be included. Some uncertainty remains around funding for this cost pressure from both UK and Welsh Governments; WG expect funding to be provided by UK government during the first half of 2025/26 financial year following assessment of costs of public sector workers in Wales. This means we will not know the position with regards to funding for the increase in employers National Insurance until after our budget for 2025/26 has been set.

4.1.7 The Final Settlement is expected in March. Given the range of increases (across different Council's) WG state that they are open to considering providing additional floor funding at final budget and this would protect council's that have received a lower percentage increase in funding. 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.

4.1.8 The provisional settlement provides no indication of what future year settlements are likely to be, though the WG states it is expecting multiyear settlements following the UK governments Spending Review during the first half of 2025. They hope to be able to provide a more than one-year indicative local government settlement in future years which will assist medium term planning.

4.1.9 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 continues to move grants into the settlement. As a result there have been 'transfers in' and 'transfers out' included in the draft settlement. Grant funding ceases to be ringfenced for a specific purpose or initiative, with any grant 'transferring into' the settlement alongside the ongoing responsibility to deliver that

initiative. Homelessness grants have 'transferred in' which relates to the 'No-one left out' (NOLO) approach and the discretionary homelessness prevention grant.

4.1.10 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 resolve the financial challenges the council faces in setting a balanced budget in 2025/26, which will still require a combination of savings and increases in Council Tax.

2025/26 Budget Setting

4.2 Budget Pressures

4.2.1. Our medium-term financial updates reported to various committees throughout the year have explained that demand for services from our communities is growing and that the complexity of needs has intensified in areas such as education, children's services and adult social care. Whilst the headline rate of inflation has eased it continues to have an impact on the council by increasing costs of service delivery by exerting pressure on pay, commissioned care, food and fuel prices etc.

4.2.2. The current pressures being included in the 2025/26 budget total £21.325m. This equates to 8% of the 2024/25 budget and is the 3rd year consecutive year of pressures in excess of £20m. Details are listed in Appendix 1. Work continues on refining the budgetary pressures for inclusion with the final budget setting report, in particular on the adult social care budget.

4.2.3 The majority of the pressures faced by the council are outside of its control, for example pay inflation is set nationally, the council must also fulfil its statutory duties to provide demand led services such as social care, etc.

4.3 Setting a balanced budget in 2025/26

4.3.1 The current estimate of additional budget requirement for 2025/26 is £21.325m. This is more than the increase in funding the council will receive from the settlement from Welsh Government. A draft settlement of around 11% would have been required to fund all these pressures. Setting a balanced budget in 2025/26 will therefore still require a combination of savings and an increase in the level of Council Tax.

4.3.2 As previously reported the approach to setting balanced budgets over the next few years set out within the MTFS is the need to both identify savings and invest in transformational projects. To deliver savings in 2025/26, target percentage service

reductions have been issued which services have been working towards achieving whilst balancing the impacts on service delivery, many of which are statutory. Early savings proposals were included in an update report to Council in November 2024 that Lead Members and Heads of Service considered sufficiently developed totalling £4m. Work has been ongoing since to provide further savings for setting the 2025/26 budget, all of which will be considered by Cabinet and Council in February 2025 meetings.

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.

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?

7.1. A Well-being Impact Assessment (WIA) was completed for each major savings proposal in setting the 2024/25 budget. All assessments were collated and reviewed by strategic planning and performance officers to highlight any themes and patterns emerging to provide 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. These were collated to form an overall WIA of the combined budget reduction measures. This has been updated throughout 2024/25.

7.2. A similar process is being implemented for 2025/26 budget setting.

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

In addition to regular reports to the Governance and Audit Committee and Performance Scrutiny Committee the budget process has been considered regularly 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 The Council, along with all other Welsh councils, has been facing unprecedented financial challenges. The aim of the council's Medium Term Financial Strategy and Plan that has been reported regularly to different committee's to ensure that the council delivers future balanced budgets. Setting out the details and implications of the WG provisional settlement in this report will help ensure that the council is informed and prepared to set a budget at this challenging time.

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 A detailed analysis of risk and steps that will be taken to mitigate those risks will be provided in the final budget report to Cabinet in February 2025.

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.