

<b>Report to</b>	Governance and Audit Committee
<b>Date of meeting</b>	24 <sup>th</sup> July 2024
<b>Lead Member / Officer</b>	Cllr Gwyneth Ellis Lead Member for Finance Performance and Assets, Liz Thomas, Head of Finance and Audit
<b>Report author</b>	Liz Thomas, Head of Finance and Audit
<b>Title</b>	Update to Medium Term Financial Strategy and Plan for 2025/26 – 2027/28.

## **1. What is the report about?**

1.1. The report provides an update to the Medium-Term Financial Strategy and Plan for 2025/26 – 2027/28.

## **2. What is the reason for making this report?**

2.1. Part of the role of the Governance and Audit Committee is to seek assurance that the Council has effective and robust processes in place for setting balanced budgets. The report updates the Committee on

- proposed budget strategy for setting the budget for 2025/26 as set out in the Medium-Term Financial Strategy (MTFS)
- financial projections for the 3-year period 2025/26 to 2027/28 in the high-level Medium Term Financial Plan (MFTP).

## **3. What are the Recommendations?**

3.1. The Committee considers and provides feedback for Cabinet on the updates listed in 2.1 above.

## 4. Report details

4.1. The Committee has agreed to receive periodic updates of the MTFS and MTFP 2025/26 – 2027/28 throughout the year. The first iteration was considered by the committee in April with a summary of the committee's feedback to Cabinet listed in Appendix 1.

### **Medium Term Financial Strategy and Plan 2025/26 – 2027/28 – Appendices 2 and 3**

- 4.2. Appendix 2 sets out the current budget projections for 2025/26 – 2027/28 along with the assumptions that underpin the projections. At this stage in the budget process the MTFP shows broad estimates of known pressures along with the impact of estimated increases in Council Tax and funding from Welsh Government. The table includes a range of assumptions to provide a low, medium and high estimates 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.
- 4.3. Appendix 3 is the MTFS which sets out the Council's strategic approach to the management of its finances and outlines the financial issues that will face the Council over the next three years.
- 4.4. This is the second iteration of these documents and has been compiled with data and information available as at early July 2024. These documents will be subject to further refinement, including updates on various workstreams, as the financial year 2024/25 progresses.
- 4.5. 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. The scale of the financial challenge facing the council should not be underestimated. Key points are:
- Pressures are difficult to forecast but are currently ranging from £12m to £24m in 2025/26 with a mid-range of £18m. Similar ranges are forecast for 2026/27 and 2027/28.

- 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 in the absence of anything else.
- Assumptions made about Council Tax increases range from 6% - 12% for 2025/26 with a 5.5% long term average thereafter for both years. 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 £12m. Member discussions around the level of Council Tax will be held in the autumn.
- The council should be planning to take action to reduce the projected net expenditure by c£18m in 2025/26 to set a balanced budget. That reduces to c£12m were a Council Tax increase in the region of 9% to be supported.

4.6. Changes made to the MTFP are highlighted in yellow in appendix 3 for the ease of members of the committee and are summarised below;

- The assumptions around the timing of implementing a new pay grading structure has been pushed back in line with commitments made in the employers' final offer regards the 2024/25 pay award. This had been reflected in the MTFP
- Risks – updates on pay awards, and Council Tax reforms
- Budget Reductions, Savings and Efficiencies section – narrative has been subject to further refinement.
- Transformation section – updated in line with the development of the transformation programme.
- Introduction of capital section.
- Review and update to Reserves and Balances section.

## **5. How does the decision contribute to the Corporate Plan 2022 to 2027: The Denbighshire We Want?**

5.1. 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?**

6.1. As set out within the budget reports to date for 2024/25. Financial and other implications for future budgets will become clearer as we progress the budget strategy.

## **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.

7.2. A similar process will be implemented for 2025/26 budget setting.

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

8.1. A Communication Plan has been developed for the budget to ensure that the following groups are consulted at the appropriate times: Governance and Audit Committee, SLT, Cabinet, Group Leaders, all Council Members, the School Budget Forum, Trade Unions, our employees, local businesses, and our residents.

## **9. Chief Finance Officer Statement**

9.1. The Council, along with all other Welsh councils, faces unprecedented financial challenges. The aim of the MTFS is to ensure that the council delivers future balanced budgets. Setting out the projections and strategy 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 2025/26.
- 10.2. A detailed section on risk is included in the MTFS in appendix 3.
- 10.3. As highlighted previously to the committee there are risks regarding the capacity of the Finance team that Members need to be aware of. The team have been working with Audit Wales on the audit of the 2022/23 accounts, and the closure of the 2023/24. Usually there is very limited capacity for anything else other than closedown the accounts during April and May. This year however there was the added complexity of a new financial system being introduced from 1st April. As with the introduction of any new system that effects hundreds of users across all our financial systems there will be some disruption before things settle down.
- 10.4. Monthly finance updates from the new financial year are normally up and running by June. Whilst progress has been made in developing automated budget monitoring from the new system it will not be in place until September. This is a risk to the Council in not being able to fully report forecast spend against budget during the first few months of the financial year. To mitigate the risk, the finance team are reviewing budgets manually, focusing on high risk areas, to update Cabinet on areas of significant risk of overspend and have worked with all Heads of Service to update the savings tracker.

## **11. Power to make the decision**

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