

REPORT OF DIRECTOR OF CORPORATE SERVICES

CABINET

18th September 2023

BUDGET OUTLOOK 2024/25 to 2026/27

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1. PURPOSE OF REPORT

The purpose of this report is to:

- 1.1. Update Cabinet on the current financial outlook
- 1.2. Review and agree our financial model assumptions
- 1.3. Agree savings targets and key deadlines for taking forward the budget preparation

2. BACKGROUND

- 2.1. The current three year Medium Term Financial Plan (MTFP) was agreed by Council on 1st March 2023 and was based on estimates of known commitments at that time, and formulated in the context of the Welsh Government (WG) financial settlement for 2023/24, including an indicative settlement for years 2 of the plan and estimates for other key inputs.

At the time of budget setting, it was noted that the greatest risk to the MTFP was inflation, and in particular its impact on nationally agreed

pay settlements as well as the uplift in commissioned care costs, linked to increases in the foundation living wage.

2.2. This picture remains true, with the additional changes to the external environment which will have a significant bearing on our budget going forward, most notably:

2.2.1. The headline rate of inflation is now clearly falling, though forward forecasts still remain highly uncertain

2.2.2. An unresolved position regarding the April 2023 NJC pay offer (details below), with the Employers offer already estimated at £3m above current budgeted figures

2.2.3. A risk of further dispute regarding the Teachers September 2023 offer (revised to 5% at the time of writing – details below)

2.2.4. Reduced energy prices not only reducing our corporate costs, but they have also materially reduced the cost of the UK Government price cap mechanism, thus improving public finances

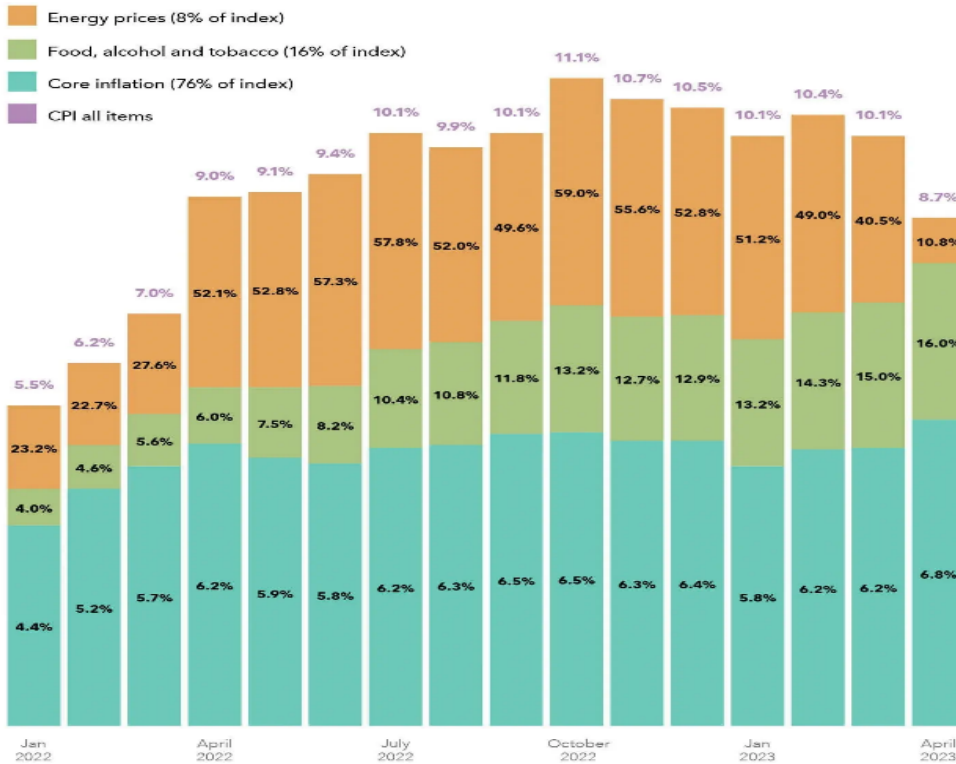
3. CURRENT POSITION

GENERAL INFLATION

UK inflation has remained stubbornly high for longer than economic forecasters predicted. Whilst it now shows signs of reducing and current stands at 6.8%, largely driven by falls in energy prices (including road transport fuel), the core level of inflation has persisted due to sustained increases in food costs and core inflation.

The Chart below illustrates the movement in key components month by month.

Consumer price inflation ICAEW chart of the week



3.1. The Bank of England Monetary Policy Committee, responsible for targeting 2% inflation, has raised interest rates at successive meetings in 2023, with the base rate standing at 5.25% at the time of writing.

3.2. Following the disastrous Kwarteng/Truss mini-budget, UK public sector finances have stabilised under the current chancellor. The short to medium term picture has improved significantly due to reduced forecasts costs of the energy price cap mechanism, driven by falling international commodity prices. However, budgets remain tight – with Westminster expectations that national pay awards are largely met out of existing departmental allocations.

This approach impacts Welsh Government inasmuch as it will not generate any Barnett consequential – in August 2023, the First Minister called it “the toughest financial situation we have faced since devolution”.

3.3. Our previous inflation assumption for 2024/25 was 3%. Every 1% is worth more than expenditure budgets, but clearly this also impacts upon nationally agreed pay settlements as well as input figures when the real living wage is calculated.

Worst Case	Most Likely
5%	4%

N.B. PAY, COMMISSIONED CARE AND ENERGY TREATED SEPARATELY

ENERGY & FUEL

3.4. The 2023/24 budget includes nearly £15m for Electricity, Gas and Oil. As wholesale commodity prices have fallen, the forecast is for a reduction of c. 15-20%, with nearly three quarters of volumes purchased for 2024/25, indicating a saving which could be as high as £2-3million. However Crown Commercial Services (CCS) have notified us of a risk of escalating distribution charges which could offset some of this benefit.

3.5. Likewise, Diesel prices, which reached nearly £2/litre at their peak in 2022, have now fallen back to around £1.50/litre, indicating a possible saving of c. £0.3million based on fleet fuel budgets

Worst Case	Most Likely
£1.5m	£2m

TO BE MONITORED MONTHLY TO IDENTIFY FURTHER REDUCTIONS AS PRICES ARE FIRMED UP

STAFFING COSTS

3.6. The April 2023 employers pay offer for NJC staff was only made in late February 2023, with an estimated budget shortfall for 2023/24 of c.£3million. Unions have rejected the offer, but it appears there has been insufficient support to reach the legal level required for strike action, leaving the position uncertain.

As £1.5m of the estimated pay award costs is expected to be funded from general balances in 2023/24, it will be necessary to build this into base budgets from 2024/25. Beyond this, our working assumption is that future pay awards match our MTFP general inflation assumption, preserving the real terms value of wages over the longer term.

Additionally, budget preparation will need to include a detailed calculation of the value of “incremental drift” – that is, the budget

growth needed as individual officers move up spinal pay points on grades. It is estimated that this value is likely to be small, though this will be confirmed by detailed work to be carried out in Autumn to confirm this.

- 3.7. The Teachers pay offer for September 2023 is 5% in line with the MTFP agreed by Council in March, with assumption of 4% for September 2024 in line with NJC.

For 2023/24, the enhanced pay offers agreed by WG in March 2023 are funded by grants. For 2024/25 onwards, we would expect this sum to be fully built into the settlement on a full year basis. If this is not the case, it will represent a reduction in the settlement value which will need to be factored into decision making.

BASE CASE ASSUMPTION – BUILD IN £1.5M “CATCHUP FOR 2023 NJC OFFER AND INCREASE 2024/25 AWARDS IN LINE WITH INFLATION FORECASTS

Worst Case	Most Likely
5%	4%

PRESSURES

- 3.8. Commissioned care budgets have historically been linked to the National Living Wage. Last year saw a step increase, mandated by WG, to the sector paying the Foundation Living Wage which was implicitly funded through an increase in Revenue Support Grant. Next year’s calculation (published November) is based on everyday living costs, and is therefore likely to lead to another significant increase based on increased in household energy, food and fuel costs.

ASSUMPTION – NLW INCREASE TO £11.50 (60p/6.4% INCREASE) TO BE MET FROM EXISTING GROWTH ALLOCATION.

- 3.9. Teachers pensions employer contributions are widely expected to increase significantly in 2024/25, either in April or September. We are unlikely to have details until late in the budget process, therefore we are relying on experience from the previous increase in 2019, when employers contributions increased from 16% to 23.6%. At that time the increase was provided in the form of a specific grant in the first year and subsequently built into the settlement. It is estimated that the rate could rise as high as 30%, which could represent an increase of c. £5million to Carmarthenshire. There is a further risk that through distribution formulae, individual Local Authority allocations may not fully match liabilities.

ASSUMPTION – INCREASE FULLY FUNDED, THEREFORE NO IMPACT ON CORE BUDGETS

- 3.10.** Within departmental budgets, Childrens services and Learning Disabilities/Mental Health in particular experienced significant a high level of overspend in 2022/23. Monitoring of the initial position is that these pressures appear to be persisting into 2023/24, with departmental expenditure currently forecasted at more than £7m overspent and a draw on school balances approaching £9m. As the picture becomes clearer, this is likely to require consideration as part of the 2024/25 budget setting.

MAINTAIN A WATCHING BRIEF

CORPORATE CONTINGENCY

- 3.11.** The contingency budget for 2023/24 stands at £1.3m, of which £1m will be permanently required for NJC pay (paragraph 3.5 above refers). This leaves £0.3m which can be released

ASSUMPTION – THIS IS NO LONGER REQUIRED AND CAN BE RELEASED

COUNCIL TAX PREMIUM – SECOND AND EMPTY HOMES

- 3.12.** In March 2023, County Council agree in principle to apply a premium to both second and empty homes, commencing in April 2024. The public report provided indicative figures on potential additional revenue, ranging from £1.6million to £3.8million, depending on the average banding and level of premium charged.
- 3.13.** The exact level of income is highly uncertain – as a policy tool to encourage more properties to returned to mainstream usage, it is desirable for the number of properties in scope to reduce significantly, which would of course reduce the resuting revenue. It is therefore considered prudent to include £1million additional revenue for 2024/25.

ASSUMPTION – INCREASE REVENUE OF £1MILLION IN 2024/25, UNHYPOTHECATED TO ANY SERVICE AREA.

WELSH GOVERNMENT FUNDING

3.14. The Welsh Government funding envelope indicative budget allocations provided an increase 3% 2024/25. Given the persistence of core inflation and continued wage pressures, this is likely to prove particularly challenging. The First Minister’s statement in August indicated that Welsh Government budgets are “up to £900m lower in real terms than when that budget was set... in 2021”.

3.15. Whilst the UK Chancellor presented the Spring Budget as a good news story - with Wholesale Energy price reductions as well as an improved economic forecast from the OBR – the only meaningful consequential for WG was childcare funding. Current spending commitments for the coming years are very small increases, with “even tighter plans ... pencilled in beyond ... the next election” (Institute for Government).

Whilst persistent inflation could provide improved tax receipts to UK Government, it may be the case that this is outweighed by the sharp increase in the cost of public sector borrowing as interest rates rise.

In a worst case, it is possible that WG could revert to the settlement figure of 2.4% indicated previously, though it is considered unlikely that this would coincide with higher inflation

Worst Case	Most Likely
2.4%	3%

4. CURRENT FINANCIAL OUTLOOK & FINANCIAL MODEL

Budget development always involves assumptions which are refined as the situation evolves and information becomes clearer. As described above, the key assumptions we need to revisit are:

- Pay award levels - both for NJC and Teachers
- Savings accruing from energy and fuel reductions
- The value of financial gain from Council tax premiums, and how that is directed

- Pressures allowed for in the budget – particularly childrens services and commissioned care
- WG settlement levels
- Corporate Contingency
- Local priorities and spending decisions

5. FINANCIAL MODEL

The financial model has been extended by one year and so covers the three year period up to 2026/27. The most important part for any financial plan or model is the underlying assumptions, these are summarised in the table below for the next financial year:

BUDGETARY ASSUMPTIONS 2024-25

Driver	Previous Assumption	Revised MOST LIKELY	Revised WORST
Pay (NJC & Teachers)	3.0%	4.0%	5.0
General Inflation	3.0%	4.0%	5.0
Commissioned Care	£11.50	£11.50	£11.50
Energy & Fuel	£1.4m reduction	£2m reduction	£1.5m reduction
Teachers Pensions	Nil	Nil	Nil
NJC April 2023 Catchup	Nil	£1.5m	£1.5m
WG Funding	2.4%	3.0%	2.4%

- 5.1.** Service specific grants continue to account for around £100 million and it is assumed that EITHER any further reductions are contained within the AEF reduction above OR that activity/expenditure is reduced in line with grant funding. Many grants have historically been “cash flat” in previous years, meaning that inflation, continues to eroded the real terms value year on year. This is again raised as an acute risk given the current rate of inflation.
- 5.2.** As for all Local Authorities, the treatment of delegated school budgets has a significant impact on the scale of savings proposals across every other service area. Given the possible scale of budget reductions required, consideration will need to be given to applying

an element to schools' delegated budgets. Without this, any savings figure required would result in an even larger impact on other service areas.

- 5.3.** The MTFP approved by County Council in March 2023 included a £2m budget reduction in 2023/24, and beyond that, £750k savings in schools linked to the review of our primary schools footprint as well as further departmental efficiencies from central support functions – given the value at stake, it is critical that these savings are taken forward. This would not see an adverse funding outcome for delegated budgets, but is instead about capturing the financial benefit of an overall more efficient schools system and the support services behind it.

CAPITAL PROGRAMME

- 5.4.** The 5 year capital plan was approved by Council in March 2022. Alongside revenue budget development work, a review of existing and new capital projects will be undertaken to inform future development of the five year Capital Programme. It is likely that any projects approved for the Levelling Up Fund (see paragraph 3.6 above) may require match funding which will need to be identified.
- 5.5.** Significant and rapid increases in both materials and labour costs in the construction sector is likely to put further pressure on the future capital programme.
- 5.6.** Depending upon how acute the revenue budget pressures are, consideration could be given to a temporary pause on validation of funding for capital charges and revenue implications of capital. Whilst possible, this change would have a clear knock on impact upon the capital programme, which would need to be downsized. This will need to be carefully considered, but could provide £900k of additional funding.
- 5.7.** The financial model assumes growth pressures of £7.5m per annum for every year. Based on the scale of bids received in previous years, it is imperative this level is retained at this stage in the budget development process and could even need to be increased as pressures become clearer.

With household budgets continuing to be squeezed by the cost of living crisis, the Authority will not again want to restrict any increase to the minimum level possible – the council tax assumptions for planning purposes are therefore suggested as:

FINANCIAL MODEL ASSUMPTION – 4.0% INCREASE.

5.8. Based upon the above assumptions a financial model has been constructed (see table below) which highlights the impact of the proposed changes, and identifies the likely budget shortfall. Comparative figures from the current MTFP are included for information.

Summary of Financial Model

	Current MTFP			
	2023/24 FINAL	2024/25 DRAFT	2024/25 MOST LIKELY	2024/25 WORST CASE
Previous Year's Budget	415.9	450.3	450.3	450.3
General Inflation	5.4	3.5	4.6	5.8
Pay Inflation	14.3	8.0	10.7	13.1
Other (inc levies)	1.2	1.9	2.3	2.3
Growth – Energy & Fuel	9.4	-1.4	-2.0	-1.5
Growth pressures	12.2	7.5	7.5	7.5
Saving Proposals	-8.0	-6.4	-7.9	-12.2
Net Expenditure	450.3	463.4	465.4	465.4
Revenue Settlement	338.4	346.5	348.6	348.6
Council Tax Receipts	111.9	116.8	116.8	116.8
Council Tax increase	6.8%	4.0%	4.0%	4.0%

5.9. Key points:

- 5.9.1. There is significant uncertainty over inflationary forecasts, consequential public sector pay awards, and how they are funded
- 5.9.2. However, even in our most likely scenario, our current savings proposals fall well short of what would be required next year.
- 5.9.3. Officers are need to develop **concrete and deliverable** proposals to meet the most likely case savings requirements of **£7.9million – proposals to be agreed by cabinet member**
- 5.9.4. Specific service reductions to be identified to reach **an overall target of £12.2 million** (i.e. £4.3m more) – agreed by cabinet member, should additional savings be necessary, recognising these will involve difficult choices.

6. BUDGET PREPARATION FOR 2024/25

- 6.1.** The financial model tabled above will be updated as and when more information becomes available, key amongst which will be the provisional settlement, currently expected from WG in December 2023, in particular subject to any changes in Chancellor's Autumn Statement which is normally during November. A timetable is provided at Appendix A.
- As part of the current Medium Term Financial Plan, Departments are requested to update their efficiency/service rationalisation proposals for 2024/25 and 2025/26 and to consider possible areas to target for 2026/27. To support the process, it is critical that the Departmental service Director will agree proposed areas for cost reduction proposals in conjunction with the Cabinet Portfolio member.
- 6.2.** Officers will continue to refine the budget projections taking account of inflation factors, the collection rate and reviewing the potential for the use of reserves etc.
- 6.3.** Following positive feedback from Members on the value of the in-person Member seminars in January 2023, it is planned to be convened in January 2024.
- 6.4.** Public consultation on the budget proposals to take place as early as possible following the Welsh Government Provisional Settlement
- 6.5.** Scrutiny Committee consultation in January 2024.

7. RECOMMENDATION(S)

It is recommended that:

- 7.1.** The Cabinet receives the initial budget outlook and considers the level of Council Tax rises and the level of budget reductions across all services that it considers appropriate for developing the Medium Term Financial Plan.
- 7.2.** Cabinet endorses the proposed approach to identifying the required savings
- 7.3.** Cabinet notes the proposed approach to the Budget Consultation