

Meeting of:	Cabinet
Date of Meeting:	Thursday, 20 July 2023
Relevant Scrutiny Committee:	Corporate Performance and Resources
Report Title:	Financial Strategy 2024/25
Purpose of Report:	To review the financial pressures over the medium term and put in place a strategy for delivering the 2024/25 budget and sustainable finances over the medium term
Report Owner:	Executive Leader and Cabinet Member Performance and Resources
Responsible Officer:	S151 Officer/Head of Finance
Elected Member and Officer Consultation:	This report is to be referred to the Council's Corporate Performance and Resources Scrutiny Committee and further details of planned consultation are included in the body of the report. This report does not require individual Ward Member consultation
Policy Framework:	This is a matter for Executive decision by Cabinet. The budget in March 2023 will be a Council decision.
<p>Executive Summary:</p> <ul style="list-style-type: none"> • The report restates the Medium Term Financial Plan assumptions approved by Council in March 2023 and sets out new and emerging financial issues and sets out the Financial Strategy and process for approving the 2024/25 Budget and MTFP at Council in March 2023. • The Council agreed its new Corporate Plan – 'Working Together for a Brighter Future' in 2020 and is developing the 2023/24 Annual Development Plan alongside work on the 2023/24 Budget. Across the autumn work will commence on the development of the new Corporate Strategy and this too will align with the work on the budget. • The Financial Strategy will focus on ensuring that the Council's resources will be targeted to delivering the Council's objectives and at these challenging times ensuring services to the most vulnerable are maintained. • There is a significant funding gap in 2024/25 and across the medium term, albeit not as dramatic as the position faced by the Council when bringing forward its Financial Strategy last year. The gap for 2024/25 is forecast at £6.430M. There are forecast cost pressures of £17.020M but likely 	

funding of only an additional £10.590M coming through from Welsh Government grant, Council Tax and planned use of Council reserves.

- The key cost driver continues to be inflation with £10.939M of pressure coming through on pay awards, energy costs, care and transport contracts as the UK continues to address the persistent rising prices in the economy. On top of this are the continued demographic pressures coming through with a growing number of pupils with Additional Learning Needs and an ageing population.
- There was a two year settlement announced in March 2023 with an indicative Aggregate External Finance (AEF) increase of 3.0% for 2024/25 and signalling of growth of only 1% per annum thereafter. Indications currently suggest that there should be no expectation of any improvement in the indicative settlement for 2024/25. The Settlement is not expected to be announced until late December and the uncertainty this presents is and continues to be a real challenge for the Council and other local authorities across Wales.
- Council Tax is assumed to increase by 3.9% but this is purely for planning purposes at this stage and will be subject to a policy decision later in the process.
- The Scrutiny Committees are being requested to review the Financial Strategy (including the proposed approach to defining and developing the next iteration of the Reshaping Programme) and funding and cost assumptions and for their comments to be fed through by Corporate Performance and Resources Scrutiny Committees to report any views back to Cabinet.
- Officers will be reviewing the cost pressures across the summer and early autumn. There is an investment component to the pressures which represents a desire to continue to deliver improved services across a range of areas. This clearly remains a choice for the organisation but, in contrast, the inflationary and demographic pressures will be largely unavoidable. The headline gap excluding investment is £4.959M.
- Services will be bringing savings proposals forward across October and November against an agreed framework as described in this report. These will be subject to internal challenge in mid/late November and there will be active public participation on these proposals when they have been suitably developed.
- In parallel with work on the savings proposals for the coming financial year, Officers will be developing the next iteration of the Council's transformational change programme, Reshaping. This report sets out the framework for developing the programme and its interaction with the 'business as usual' or tactical savings proposals as a blend of approaches will be required.
- There will be a refresh of the cost and funding assumptions following the Chancellor's Budget in October/November and a budget for consultation will come forward in January 2023 which will be subject to scrutiny by all of the Council's Scrutiny Committees as well as consultation with the Public.
- A balanced budget for approval will be presented to Council in March 2024.

Recommendations

- 1.** Cabinet is recommended to note the challenging financial position faced by the Council with a funding gap of £6.430M in 2024/25 and £11.953M across the medium term.
- 2.** Cabinet is recommended to lobby Welsh Government for an appropriate settlement in the face of the continued inflationary pressures being experienced and to authorise Council Officers to do the same through appropriate networks.
- 3.** Cabinet is recommended to request officers to review the cost pressures and bring back savings proposals to address the budget gap in order for the Council to be in a position to set a balanced budget in March 2024.
- 4.** Cabinet is recommended to request officers develop proposals for a redefined transformation programme, the Reshaping Programme, to complement the Financial Strategy and contribute to the medium-term financial sustainability of the Council.
- 5.** Cabinet is recommended to refer this report to all of the Council's Scrutiny Committees and for Committees to review the Financial Strategy (including the proposed approach to defining and developing the next iteration of the Reshaping Programme) and assumptions made on costs and funding in the Medium Term Financial Plan refresh and for comments to be referred back to Cabinet for consideration.
- 6.** Cabinet is recommended to note that a further report on the Council's budget be presented to Cabinet in due course as outlined in this report.

Reasons for Recommendations

- 1.** There continue to be significant financial pressures impacting on the 2024/25 Budget and Medium Term Financial Plan 2024/25 to 2028/29 and it is essential to inform Cabinet of the magnitude of the challenge and for work to commence as early as possible on establishing a balanced budget and sustainable financial position in the medium term.
- 2.** The challenges cannot be overstated at this time and many of the cost pressures cannot be mitigated, the best possible settlement will be essential if there are not to be reductions in service provision.
- 3.** There are a number of strategies to balancing the budget other than attracting more funding and delivering savings. Costs need to be managed too.
- 4.** To enable the medium-term financial sustainability of the Council to be strengthened by a new iteration of the Reshaping Programme.
- 5.** The Council is open to clear and transparent financial reporting and an appropriate level of challenge to the management of its finances. A key element of the challenge process is through the Council's scrutiny function.

6. The budget setting is a lengthy process and it is important to bring regular updates back to Members.

1. Background

- 1.1 Council approved its 2023/24 along with its five year Medium Term Financial Plan covering the period 2023/24 to 2027/28 at its meeting on 6th March, 2023.
- 1.2 Welsh Government had provided a two year settlement and year two of this was Incorporated in the MTFP. There have been favourable settlements from Welsh Government in recent years which has largely meant there has only been a need for limited savings programmes, and whilst the 2023/24 Settlement at 8.9% was significantly better than anticipated it was in the face of unprecedented inflationary pressures necessitating a £7.387M savings programme.
- 1.3 The indicative settlement for 2024/25 is only 3% and whilst inflationary pressures are easing the decline is stalled and the 2024/25 budget setting process is likely to be as challenging as in 2023/24.

2. Key Issues for Consideration

Corporate Plan/Objectives

- 2.1 The Council agreed its current five year Corporate Plan – ‘Working Together for a Brighter Future’ in 2020.
- 2.2 In line with the duties under the Well-being of Future Generations Act the Council is committed to looking much more to the long term and will work hard to leave a sustainable legacy for future generations. There will be a focus on taking preventative actions and to involve residents in the actions that are taken, while listening to ideas, views and concerns. The Council will continue to work in partnership, recognising the benefits this brings and the importance of joining up services around peoples’ needs.
- 2.3 The Council’s four well-being objectives are set out in the Corporate Plan and complement one another to collectively contribute towards the seven national well-being goals. The Plan sets out the reasons for choosing these objectives and how they will be achieved.

[Corporate Plan \(valeofglamorgan.gov.uk\)](http://valeofglamorgan.gov.uk)

- 2.4 The four well-being objectives are:
 - i. To work with and for our communities
 - ii. To support learning, employment and sustainable economic growth
 - iii. To support people at home and in their community
 - iv. To respect, enhance and enjoy our environment

2.5 The Corporate Plan is supported by the Annual Delivery Plan and work will commence shortly to develop the 2024/25 Annual Delivery Plan and on the new Corporate Plan for 2025-2030. This is being informed by the emerging findings from the Annual Self-Assessment that will be considered by Cabinet in after the recess and which will be the subject of consultation in the early autumn.

2.6 The current Annual Delivery Plan sets out a series of three critical challenges for the organisation. These challenges are:

- **Cost of Living Crisis:** supporting our residents, local organisations and business in the face of rising costs in particular around energy, food and housing.
- **Project Zero:** responding to the climate and nature emergencies and delivering the commitments in our Climate Challenge Plan.
- **Organisational Resilience:** ensuring that we can continue to adapt and provide our services despite the financial pressures and workforce challenges that we and many of our partner organisations face.

2.7 Whilst it is recognised these challenges will evolve and change, they provide useful strategic context for the development of the Council's budget in parallel with the Annual Delivery Plan for the coming financial year.

2.8 A series of other corporate strategies are associated with the success of the Financial Strategy. These include the People Strategy setting out the way in which the workforce will be supported and developed, Corporate Asset Management Strategy setting out the direction and use of the Council's assets and a Digital Strategy to set a course for the use of digital technology as a key enabler of Council operations. Cabinet will note these reports have been refreshed and presented for approval in recent months.

2.9 Financial Strategy

Delivering the Corporate Plan

2.10 The overriding objective of the Financial Strategy is to ensure that resources are aligned to corporate objectives. Over the medium term the framework is driven by the Corporate Plan with a 2024/25 focus on the Annual Delivery Plan. The Financial Strategy is broadly in line with the one in place for 2023/24 but with a number of improvements built in across the individual elements.

Focus on Supporting the Most Vulnerable

2.11 The Council continues to operate in challenging times with the cost of living crisis broadly driven by the war in Ukraine last March still having a significant impact on many residents. The UK and Welsh Government led schemes are largely wound down but the Council continues to support partners and community organisations to enable access to information and services, and signposting residents to additional support through various channels of communication. A key component of the Financial Strategy will be to ensure, as far as possible within the financial constraints impacting on the Authority, that services providing support to the most vulnerable will be provided with sufficient resource to continue to operate as effectively as possible.

Sustainable Finances

- 2.12** It is not enough to limit attention to setting the 2024/25 budget. The Council's finances need to be managed to ensure they are sustainable over the medium term and beyond. A balanced budget will be brought forward for 2024/25 but as part of the budget setting process there will also be a focus on the shape of the Council over the medium term. One off measures will need to be part of a budget strategy but they need to be recognised as such and the necessary adjustments made to the base in future years.
- 2.13** The underlying estimates need to be robust, and all cost pressures need to be recognised and be part of the budget. This includes consideration of historical under and overspends and unrealisable savings which need to be addressed. New savings proposals need to be realistic, deliverable and subject to open and clear scrutiny.
- 2.14** Given the scale of the initial challenge in 2023/24 the focus was rightly very much on that single year but for 2024/25 there will be greater attention on financial pressures and savings across the full medium term and further information regarding the renewed approach to transformation is provided later in this report

Appropriate Level of Reserves

- 2.15** Covid-19, the war in Ukraine and the cost of living crisis serve as strong reminders of the uncertain world the Council is currently operating in, with inflation not having been as major a risk for many years as it currently is. The overall level of reserves and how they are earmarked need to be continuously reviewed. This is both to protect against unexpected costs and enable investment in services to ensure they operate as efficiently as possible in the future. It is not just about having sufficient overall reserves but ensuring that as well as covering known commitments, both revenue and capital, that they reflect the risks which the Council faces. The new risks around interest rates and inflation have been addressed through the comprehensive review of the reserves in 2023/24 but the reserves will be subject to further review as part of 2024/25 budget setting.

Generating Local Tax Revenue

- 2.16** At the heart of the Financial Strategy is the Council Tax Policy. Council Tax is a key controllable revenue stream for the Council and this policy will be developed during the budget setting process.

Fees & Charges

- 2.17** Council should look to recover all costs in its approach to fees and charges other than where it consciously offers concessions. There are a number of fees and charges which are statutory in nature and set by Government and for these the Council should ensure that the chargeable work is undertaken as efficiently as possible. A thorough review was undertaken in 2023/24 and this will be a key feature of annual budget setting.

Collective Responsibility to Manage the Finances

- 2.18** The Council has continued its excellent track record in managing its finances well as was evidenced in the Audit Wales Financial Sustainability Report, published in October 2021. A key element of this success is the collective ownership of the finances throughout the Council. The development of the Council's Financial Strategy has been led by the Corporate Resources Directorate, but has been informed, and will be delivered by, the Council's Strategic Leadership Team and all budget holders.
- 2.19** Day to day management is through the newly upgraded Oracle Fusion system and appropriate training on the system is on offer to all officers, senior managers and leaders. CIPFA's Financial Management Code came into force in 2022 and self and independent assessment will be undertaken against the criteria set out in the Code.

Accessible and Transparent Finances

- 2.20** The best decisions are based on having the best information available and the Council will strive to continue to present its finances in a way that makes them accessible and readily understandable. This is especially the case with the presentation of the use of grants and reserves.
- 2.21** Arguably more needs to be done here in respect of public participation, both through early engagement when savings proposals are being formulated and also in the publication of Equality Impact Assessments which should be in place alongside proposals when the Council consults on its budget.

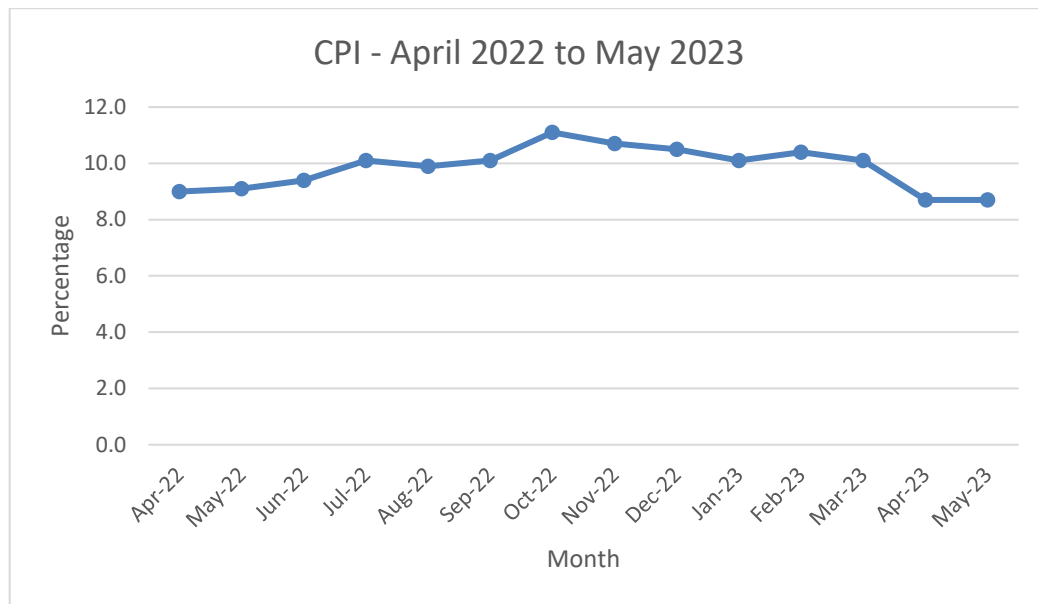
Deliver Best Value

- 2.22** Resources are certainly finite, and the Council must utilise them as efficiently as possible. There are tools and processes in place to ensure this is the case and it is important they are strictly adhered to. Of note are the Contract Procedures and Financial Procedures set out in the Constitution. It is equally important that the Council continually compares itself with its peers and benchmarks services for both performance and costs and seeks out best practice in service delivery.

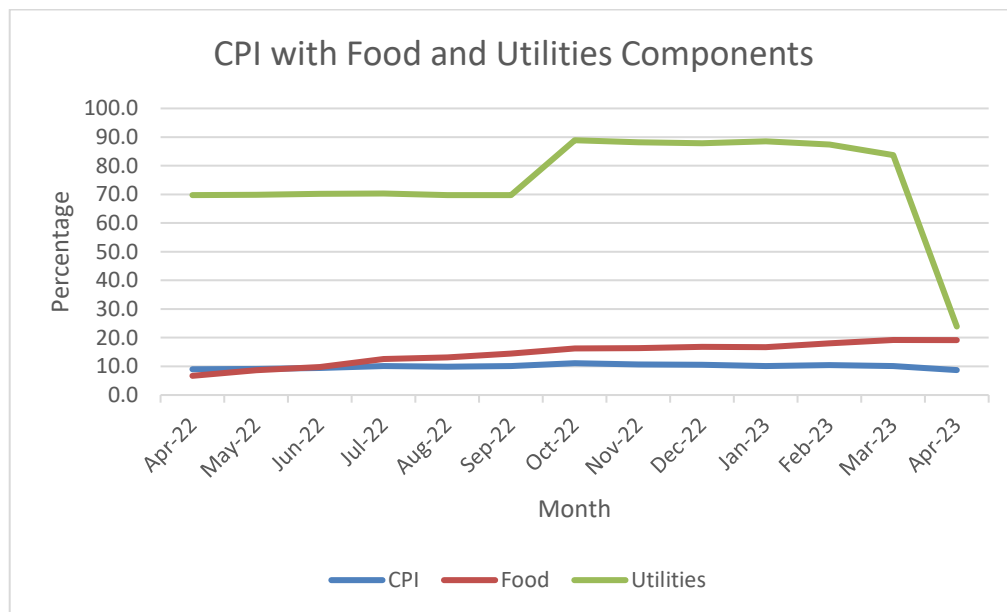
Overall Economic Position and Prospects for Local Government

- 2.23** The UK economy has continued to struggle in the wake of both Covid-19 and the Cost of Living Crisis.
- 2.24** Price rises increases have persisted in the UK far longer than anticipated proving 'stickier' than forecasts last autumn. The headline rate for April 2023 was 8.7% which masks the increases in the Food and Utility components which are significantly higher. In April, food inflation was 19.2% and utilities inflation at 83.7% and remain at levels seen over the main part of the last year. Expectations had been for a decline in May but very worryingly this inflation remained at 8.7%. The only positive note is the reduced rate of increase in utilities to 23.9%, the year on year comparison being against May 2022 when the major impact of the increase due to the Ukraine War had fed through, nevertheless this is still an increase. Chart 1a below sets out the headline rate and 1b highlights the impact on food and utility price increases.

2.25 Chart 1a – Consumer Price Index April 2022 to March 2023

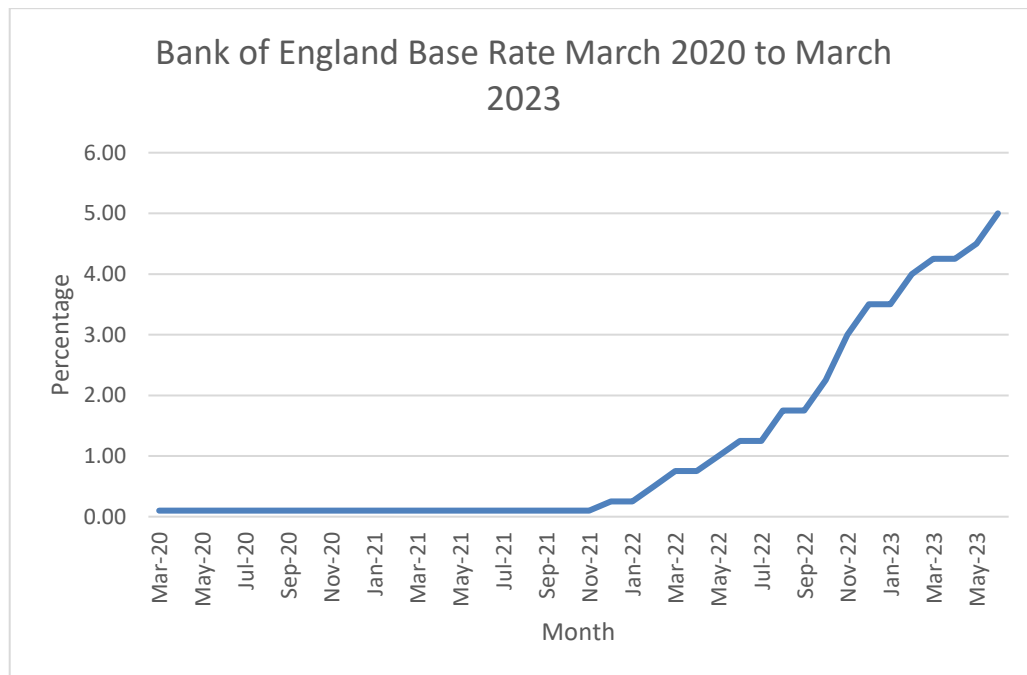


2.26 Chart 1b – Food and Utility Price Increases.



2.27 The UK has little room to manoeuvre in attempting to control inflation, which to a great extent has been imported. The Government has long since put this in the hands of the Bank of England and at these times it is being seen as a relatively blunt instrument with the Bank having belatedly started increasing rates in December 2021. There had been a much more aggressive approach from that point on with a further eleven increases across the period February 2022 to May 2023. However, given the disappointing May inflation figures the Bank of England has continued to move significantly with rises in interest rates with a further 0.5% step up to 5.0% in June as it attempts to demonstrate its resolve in this matter.

2.28 Chart 2 – Bank of England Base Rate

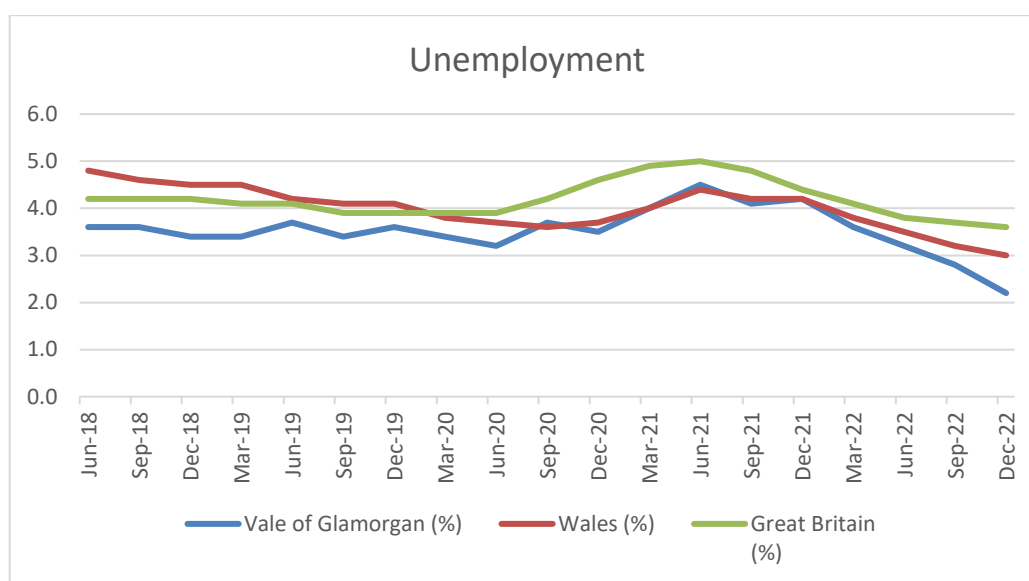


2.29 Against this backdrop the economic prospects for the UK remain poor and the forecasts for growth in the economy over the near and medium term are not good and with the most recent interest rate rise there is renewed talk of recession. The latest GDP figures for the UK for April were released on 14 June 2023 and with monthly growth of 0.2% following a fall of 0.3% the previous month. For the three months to April growth was an almost flat 0.1%. This is worrying for the public sector with concern about the options available to the Chancellor when the UK Government's budget is presented in the autumn.

2.30 How does it feel in the Vale of Glamorgan

2.31 More locally there is a mix of both positive and negative economic indicators. The Chart below sets out the unemployment rate in the Vale of Glamorgan compared with the rest of Wales in the UK. The last available comparative statistics are only available to the end of December 2022 at which point the unemployment rate for the Value of Glamorgan was 2.2% which had been at 2.0% on the position a year earlier. It shows a similar trend to the rest of the UK and Wales where there has been a steady decline since June 2021.

Chart 3 Unemployment December 2018 to August 2022



2.32 Since March 2022 there has been a steady increase in the number of people in receipt of Universal Credit. In March 2023 there were 10,362 people in receipt of UC of whom 3,989 were in employment being 6.3% of those in employment in the Vale. There is anecdotal evidence of more people in lower paid and part time work despite the generally positive picture on employment.

2.33 The housing market in the Vale of Glamorgan has remained buoyant to 31 December 2022 with the average price of a property at £280K, 8.74% greater than the £258K a year earlier. The comparator for Wales is £195K, a 5.4% increase on the year. It will be interesting to see how the market holds up in the face of increasing mortgage costs.

2.34 Refresh of Medium Term Financial Plan

2.35 Council approved a five year Plan at its meeting on 6th March, 2023. The following section rolls the plan forward to include 2028/29 and highlights some of the new and emerging financial issues. Work will take place across the summer to fully refresh the Plan, and this will be reported through the refresh report later in the autumn. Inflation remains a key concern and these costs are likely to be higher than set out below – the Teachers’ pay award for September 2022 is still unresolved and the pay offer for local government officers for 2023/24 from 1 April 2023 is only accepted by Chief Officers to date and is already more than allowed for in the MTFP.

2.36 Table 1 – Rolled Forward Medium Term Financial Plan

	2024/25	2025/26	2026/27	2027/28	2028/29
	£K	£K	£K	£K	£K
Additional Funding					
Government Grant	5,597	6,244	6,306	6,369	6,433

Council Tax	3,789	3,937	4,090	4,250	4,416
Reversal of 2022/23 use of reserves	-496	0	0	0	0
Use of smoothing Reserves	1,700	0	0	0	0
Total Additional Funding	10,590	10,181	10,396	10,619	10,848
Investment	1,471	1,470	1,154	0	
Demography	2,493	2,493	2,493	2,493	2,493
Inflation	10,939	7265	8,688	8,800	8,914
Capital Financing	80	190	224	187	0
Other Pressures	2,037	66	637	0	0
Total Pressures	17,020	11,484	13,196	11,480	11,407
Overall Gap	-6,430	-1,303	-2,800	-861	- 559

2.37 Funding

2.38 Welsh Government Grant

2.39 The indicative Aggregate External Finance (AEF) for 2023/24 and 2024/25 were announced as part of the 2023/24 settlement on 5th March 2023. At the all Wales level there was a £403.374M (7.9%) increase in AEF and for the Vale of Glamorgan an additional £16.609M (8.9%). The Vale did better than the Welsh average due to changes in relative population albeit its actual population for formula purposes was marginally down. There was not a Vale of Glamorgan specific settlement for 2024/25 but the overall funding for Wales is to increase by 3% and there is an expectation of inflation level increase in future years. The 2024/25 increase is marginally better than 2.4% had been announced as part of the previously announced three year settlement and this is due to the Barnett consequential flows flowing through from the UK Government settlement for 2024/25.

2.40 Welsh Government uses Standard Spending Assessments (SSA) to share out the available funding across 22 local authorities as part of the settlement. There are 68 different indicators that are utilised such as client based (population and pupil numbers), deprivation and sparsity feeding into Indicator Based Assessments for service blocks. Population is a key driver with the majority of the funding distributed as part of this factor on the basis of general population or a relevant specific population, for instance 81.5% of the Primary and Nursery

element of the Education IBA is through pupils in those settings. Reflecting the significant amount of development in the Vale of Glamorgan in recent years, the Council has seen significant (in comparison with others) increases in funding as a result of the increased share of the population (not dependent on an absolute population increase as declining population in other Councils has an impact). If this continues for 2024/25 then the Council may benefit from additional funding over and above the 3.0% indication (on the 2022/23 allocation) of £5.597M although additional factors such as pupil numbers and benefit claimants may also effect the sum awarded.

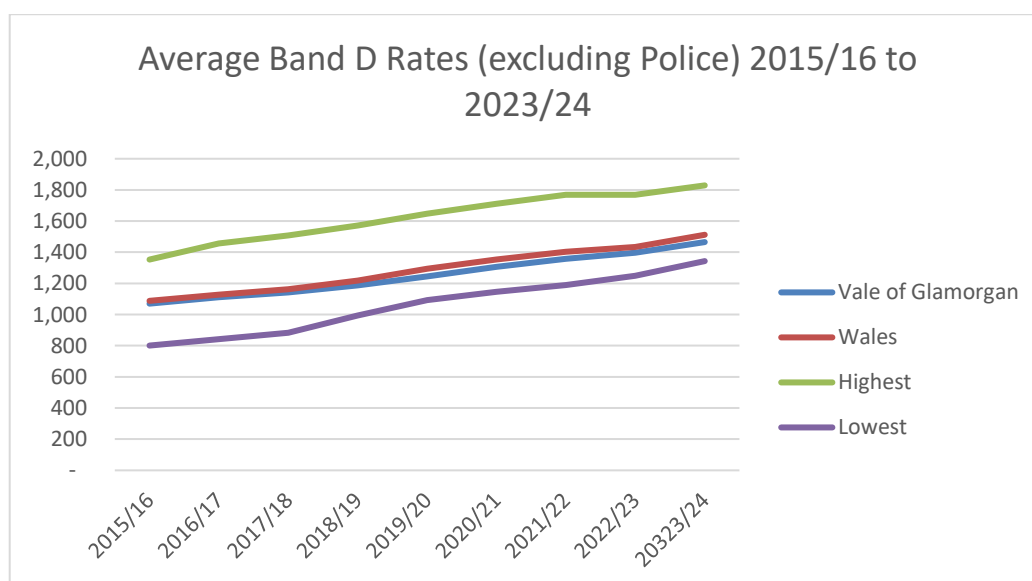
2.41 As part of the Welsh Government SSA calculation an assessment is made of how much each Council would raise at a standard level. The amount of Revenue Support Grant (RSG) to be paid to a Council is based on the SSA's estimate of costs of the standard services less the estimated income from a standard council tax level.

2.42 There is currently an expectation of inflation only increases in future settlements and for planning purposes this is currently assumed to be 3% per annum.

2.43 Council Tax

2.44 As part of the budget scenarios set out in the final budget proposals the Council has utilised an estimate of increase in Council Tax of 3.9%. This increase has been used for illustrative increase purposes only as this increase will be subject to further review and consultation. As the Council Tax equates to approximately 31% of the Council's overall budget there is a significant gearing effect on any increase. A 1% increase in Council budget would require a Council Tax increase of over 3%. Chart 4 below sets out Council Tax increases across Wales since 2015/16 and there's a general trend upwards across all councils over this period.

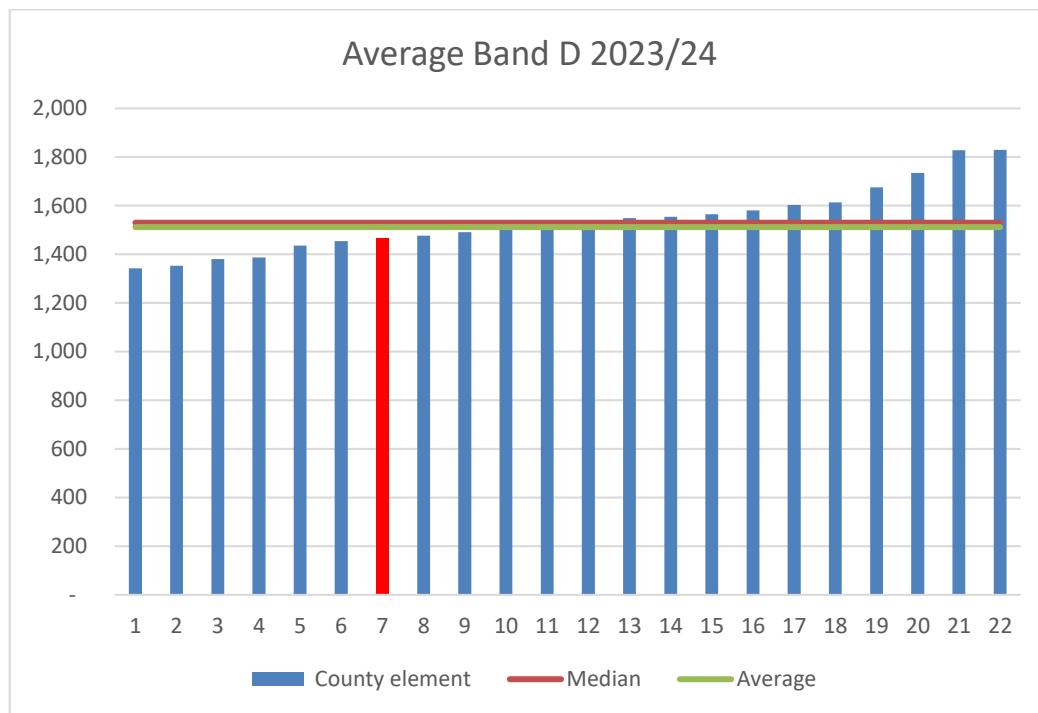
2.45 Chart 4 – Band D Council Tax



2.46 Chart 5 below sets out the Average Band D rates across Wales for 2023/24. The median for Wales is £1,530 falling at the mid point between authorities 10 and 11. The Vale of Glamorgan remains below the median at £1,465 but has moved

one place to the left compared to 2022/23, so moving further below the median. This to some extent demonstrates the desire to strike a balance between balancing the budget and protecting residents through a reasonable increase in the Council Tax in 2023/24.

Chart 5 – Council Tax Levels 2023/24



2.47 Reserves

2.48 £496K of Council Fund reserves was used to support the budget in 2023/24 and this is reversed out in 2024/25.

2.49 Part of the strategy in 2023/24 was to use earmarked reserves, established through the reserves review, to smooth out transient and one off costs.

2.50 There is a planned use of £1.7M of reserves as part of the 2024/25 budget which consists of £100K contribution from the Cost of Living reserve to support additional pressures around Free School Meals, £400K from the Energy reserve to support additional energy pressures in schools and a further £700K is planned to be utilised from the Energy reserve for corporate energy pressures. Additionally, £500K is being contributed from the Housing Strategy and Homelessness reserve to support homelessness pressures due to the expected fall out of Welsh Government grant whilst the Rapid Housing strategy and other policies to address the increase in homelessness and housing need are implemented.

2.51 Pressures

Investment

2.52 There are three key areas of Investment pressure during the period of the Plan. Firstly, to establish a resource base for children at Primary age with anxiety and autism and additional Autism satellite provision at secondary level. Secondly, the

need to further develop Welsh Immersion provision. And thirdly, are the projections associated with the need to fund the tapering down of the funding from the Regional Integration Fund for established schemes as part of the new approach which phases out grant funding over the period.

2.53 Inflation

2.54 Non pay inflationary pressures are included relating to Social Care payments to domiciliary care, residential and other external providers. Other inflationary pressures are included in respect of school transport, Children's placements and the waste contract.

2.55 As part of the 2023/24 budget a step in or delay was applied to £2M of the Social Care funding for providers to allow for a lag in the impact on commissioning rates. As these rates have now improved this step in will therefore need to be included in the base budget as part of the 2024/25 proposals.

2.56 Further significant inflationary pressures are included in respect of the pay award. However, it is anticipated that the provision for pay increases as part of the 2023/24 budget are insufficient to address the 2023/24 pay award and this will need to be increased to reflect any shortfall and correct the base budget.

2.57 The overall provision for inflation has also been adjusted to reduce some of the energy increase that was built into the 2023/24 budget as the sustained reductions in energy costs start to materialise, however these assumed reductions will need to be further reviewed in the autumn.

2.58 Demography

2.59 Demographic increases are included across the plan to reflect a number of key demographic trends: £500K for Mainstream schools reflecting an overall increase in pupil numbers and £1.2M reflecting an estimated additional 40 pupils attending special schools each year and a linked additional £152K reflecting the assumed impact of school transport costs. A further circa £650K is assumed for additional need in the Adult Social Care sector. Whilst there should be some impact on the settlement for some demographic trends, there is often a lag in additional funding and if a trend is reflected nationally or the demographic trend is not reflected in the settlement formulae then this will need to be funded from within existing resources.

2.60 Capital Financing

2.61 Borrowing costs are included within the plan for a number of Sustainable Communities for Learning schemes such as the new Secondary school proposed for St Richard Gwyn and the new primary provision in Cowbridge.

2.62 Other Pressures

2.63 Key pressures throughout the period of the plan relate most notably to the projected impact of the fallout of Welsh Government grant to address the changes to homelessness policy. Other pressures relate to the projected ongoing reduction in recoupment income from pupils placed in the Council's special schools and resource bases and a projected increase in Children's placements costs throughout the period.

2.64 Approach to Delivering a balanced 2024/25 and sustainable medium term budget.

2.65 There will be three key elements to bringing forward a balanced 2024/25 budget and sustainable medium term financial plan –

- i. Maximising funding
- ii. Managing cost
- iii. Bringing forward savings and generating additional fee and charges

2.66 Maximising Funding

2.67 The Council will work to lobby Welsh Government throughout the entire budget setting programme to drive the best possible financial settlement for the Vale of Glamorgan. This will include direct engagement with Welsh Government and also indirect through bodies such as the Welsh Local Government Association WLGA. The Council will also push for early Settlement to try and move away from the position where plans are based on a stated level of settlement of Welsh Government only to see a significant improvement at the eleventh hour. Alongside this will be the consideration of the appropriate uplift the Council Tax.

2.68 Managing Cost

2.69 An initial piece of work will be the review of the £17M of cost pressures coming through in 2024/25 as set out in year two of the Medium Term Financial Plan approved by Council in March. The cost pressures are to be reviewed across the summer and early autumn with a view to mitigating downwards. However, as noted above there are emerging pressures such as unsettled pay awards which may drive the £17M upwards.

2.70 Running alongside the review of cost pressures will be a high level piece of work to compare the Council's costs with those of its nearest neighbours. This work is to provide additional context in the budget setting process and not intended to be directive in targeting cost reduction. By its very nature, external comparison is very dependent on the quality of data so this output is informative rather than definitive. The high level comparison will be used alongside comparative data held by services and can potentially help identify more effective or efficient practice in other organisations. This work also supports the ambition in the Financial Strategy to demonstrate best value in our operations.

2.71 Savings Framework

2.72 There was a key focus on delivering savings and generating additional income in the 2023/24 budget setting round due to the significant financial challenge that emerged across the summer and early autumn in 2023. This resulted in a move away from transformation and the Reshaping Services Programme that had run from 2015 to 2019 (and to an extent the later Reshaping 2021 Programme). For 2024/25 there is an opportunity to consider rebalancing and refocussing on reshaping and transforming services to both improve service delivery and balance the budget at the same time as addressing the need for tactical savings to ensure the 2024/25 budget is balanced.

- 2.73** The Strategic Leadership Team have begun work to redefine the approach to transformation and the next iteration of a Reshaping Programme. In later years of Reshaping there was a deliberate move away from savings driven schemes to explore workstreams that sought to tackle issues impacting the way the Council operates and the needs of the community.
- 2.74** However, given the economic environment, the next iteration of the Reshaping Programme will need to reflect societal, organisational and financial drivers.
- 2.75** The following table (Table 2 – Tactical and Transformational Savings) shows the inter-relation between the tactical savings framework and the emerging themes of the transformation programme. The tactical savings would achieve ‘business as usual’ savings that will vitally contribute towards the balancing of the 2024/25 budget, whilst the transformational themes take a longer-term focus on changing the way in which the organisation works in order to address the societal, organisational and financial issues in coming years.

Tactical Savings Framework	Transformational Themes
Demand Management & Early Intervention	Target operating model
Generating Income	Strengthening communities
Service Review & Redesign	Service transformation
Wider Community	Digital innovation
Digital Strategy	Economic growth
Corporate Asset Management	
Workforce	
Contract Review/Procurement	

Tactical Savings

Demand Management/Invest in Early Intervention

- 2.76** One of the major cost drivers for the Council is the demographic growth in social care services – both for adults and children. The savings strategy will need to explore how these costs can be mitigated and part of the approach will be to explore investment in early intervention and preventative services to reduce future costs.

Generating Income

- 2.77** The Council currently generated £19.4M through sales, fees and charges annually, some of which are at statutorily set levels and some such as Inter authority recoupment income that are in decline. The Council will need to review income raised from current activity and explore whether other revenue generating opportunities exist.

Service Review and Redesign

- 2.78** Whilst not at initial 2023/24 levels, the Council is still faced with a significant financial challenge and it remains that the Council will need to consider whether it can continue to offer the full range of services provided to the community and at the same level. Consideration will also need to be given to the structure and combination of services to leverage the most value from resource that is committed.

Use of the Wider Community to Deliver Services

- 2.79** The Council worked well with the voluntary and third sector during the pandemic and recently in response to the cost of living crisis and should look to explore options to work more closely on the delivery of services and indeed whether there are services that they could actually fully take on.

Digital Strategy

- 2.80** ICT has been a great driver of change and has the potential to deliver savings in a number of ways. The Council has invested in its ICT systems such as Oracle and Microsoft and these and others have the potential to deliver operational savings. The Council has an extensive range of applications in place and the Digital Strategy which came to Cabinet for approval to consult upon in July 2023 will seek to rationalise these to reduce possible duplication and hence cost as well as identifying where digital can transform services.

Corporate Asset Management Plan

- 2.81** Work is underway on this Plan and there is a real opportunity to be more radical in the way in which the Council delivers services from its physical estate. The Council has demonstrated how effective it was able to operate during the Covid-19 lockdown and hybrid and home working as well as having environmental benefits do mean there is less pressure on corporate office accommodation.

Workforce Review

- 2.82** £196M is budgeted to be spent on employee costs in 2023/24 including agency arrangements. The organisation has experienced increased demand in some areas as a result of the impact of the Covid Pandemic, demographic trends, the Cost of Living crisis and other economic factors. The organisation is also transforming to reflect key priorities, statutory change and the need to digitalise and match the asset base to the changing needs of the Council. As service levels adapt to these factors, there is a need to consider the range of skills and capacity across different service areas. The Council will also need to consider the pressures on the current pay structure and overall employee offer as the organisation and its neighbouring authorities respond to continuing recruitment shortages in some key areas across services.

Contract Review/Procurement

- 2.83** Approximately £180M was spent with third party suppliers in 2022/23 and there is undoubtedly opportunity to deliver savings through procurement. Some of the potential savings will take time to deliver due to timing of contract renewal and in order to afford time to improve the quality of data held and to put in place a comprehensive Contract Register to enable planning for procurement to be

undertaken effectively with appropriate forward planning. This will enable the best decisions to be made on reprocurring, change of scope, in or outsourcing etc. The Council has entered into a shared service arrangements with Cardiff, Monmouthshire and Torfaen and one of the early deliverables is the comprehensive contract register and forward plan.

2.84 Transformation Themes

- 2.85** The Council has set aside resources to support this process as part of it reserves review as part of the 2023/24 budget setting, this is primarily the Reshaping Risk and Investment Reserve which was £2.523M as at 31 March 2023.

Target Operating Model

- 2.86** The way in which the Council operates in the future will need to be different from that of today, reflecting the different services, expectations and means of interacting both internally and externally. A review of the Strategic Leadership Team was undertaken in 2021/22 and developments are being made across Directorates in response. There is an opportunity to consider the operating model that is required to provide services in the future. This will enable the Council to fully understand the way in which it operates and develop a Target Operating Model to best deliver its objectives. Such a model will require design principles such as tiers of management and spans of control notwithstanding the diverse nature of the services the Council delivers.

Strengthening Communities

- 2.87** The Council has strong relationships with a range of third sector and community organisations, and this has strengthened in recent years. Work is underway in to reflect on the learning from the pandemic and cost of living crisis and articulate a vision for how the organisation can work to support communities in partnership with other organisations, including town and community councils in new ways. This will complement the work underway across different parts of the Vale of Glamorgan to reimagine how services can be provided, and communities strengthened, for example, the Public Services Board work on tackling deprivation and the Llantwit Major Food project. Place making will be a key part of this work. This theme is a strong one within the Council's Project Zero Challenge Plan which seeks to contribute to a zero carbon Wales by 2050 in addition to the Council's target to be net zero by 2030.

Service Transformation

- 2.88** This theme will consider the way that services (either individually or in combination) will be delivered in the future. This will include consideration of how demand and expectations of citizens can be effectively managed and responded to, how services are provided (and via which model) and embrace a desire to collaboratively design services with citizens, communities and partners.

Digital Innovation

- 2.89** Whilst digital innovations have the opportunity to deliver tactical financial savings, there is also a longer-term opportunity to deliver transformational change to deliver service improvements and cost savings via the Council's Digital

Strategy. The Council is currently consulting on the Digital Strategy and commencing the recruitment of a Head of Digital Services to work across the organisation to harness the strategy's ambitions.

Economic Growth

- 2.90** The Council is committed to developing sustainable communities across the Vale of Glamorgan. Leveraging the placemaking work referenced above and combined with regeneration funds, such as the Shared Prosperity Fund and the Council's Non Treasury Investment Fund, has the potential to bring in additional investment to the area, to maximise the Council's potential to contribute to economic growth, create skills for the future and support the Council's procurement strategy.
- 2.91** These transformation themes will require associated enabling activity in addition to the financial considerations. This will be supported by teams across the Corporate Resources Directorate to ensure there is appropriate HR & Organisational Development, Communications, Legal, Estates, Finance, Policy and programme management activity to deliver and ensure success.
- 2.92** Officers will develop proposals against this framework across the late summer and autumn.

Community Engagement & Participation

- 2.93** This is very much an area that will require greater attention for the preparation of proposals for the 2024/25 budget.
- 2.94** The Council undertakes continuous engagement with the community across a wide range of issues and the intelligence from this work will be factored into the budget deliberations. Of specific importance is the engagement work underway on the Annual Self Assessment and the Annual Delivery Plan. An exercise to gather the feedback from a representative sample of residents via a public opinion style survey is being prepared to help inform and shape the budget and Annual Delivery Plan. This exercise is currently being developed with Data Cymru and in collaboration with the Council's Equalities Consultative Forum, Public Participation Practitioner's Network and the network of Elected Member Champions.
- 2.95** There also needs to be an opportunity for the community to give their views on the detailed budget, especially the savings proposals. These will come forward in January and there will be both public and internal consultation in terms of work with the scrutiny committees. The approach to public consultation is under review but ideally will include a mix of face to face and online engagement across the Vale of Glamorgan with the community in general and with specific interest groups to understand the impact of proposals and will be undertaken in line with the Council's Participate Programme in delivering the Public Participation Strategy.
- 2.96** The area for improvement is participation with the community as savings proposals are formulated not just consulting on their views in the January report. Also, it is essential that there are Equality Impact Assessments in place for all

savings proposals when the report is published for consultation and that there is an opportunity for the feedback received from consultation to be reflected in final proposals and the accompanying Equality Impact Assessments.

2.97 Reserves

2.98 The size of the financial challenge faced by the Council continues to be considerable and setting a balanced budget for 2024/25 and more importantly delivering it will be as challenging as ever. The Council has managed its finances very well historically and has robust finances and reserves in place as evidenced by the report from Audit Wales in 2021, mentioned earlier in this report. A follow up review is in Audit Wales’ recently published Programme for 2023/24.

2.99 In 2023/24 the Council undertook a thorough review of its reserves to ensure that they fully aligned with the risks that the Council faces and the commitments it has made. The Council had been operating in an environment of historically low interest rates and stable prices. This position had dramatically changed, and these new risks are now covered by the Council’s reserves. Whilst perhaps not at the same scale of the exercise in 2023/24 risks and commitments do change and a further review of reserves will be a feature of the 2024/25 process.

2.100 Possible Scenarios/Sensitivity Analysis

2.101 The Council’s spend is sensitive to a number of factors including changes in Government grant, Council Tax and pay awards in particular.

2.102 The following Table sets out the impact of a 1% movement in these areas of income and spend.

2.103 Table 3 Sensitivity Analysis

Area of income spend	2023/24 Budget £K	1% Movement £K
AEF	-202,792	-2,028
Council Tax	- 91,303	-913
Teachers Pay	80,669	807
Non Teaching Pay	108,303	1,083
Borrowing	9,801	98

2.104 Next Steps

2.105 This report is being referred to the Council’s Corporate Performance & Resources Scrutiny Committees and it is being requested to review the financial Strategy, funding and costs assumptions in the MTFP refresh and approach to setting the 2024/25 budget with comments to go back to Cabinet.

2.106 A key principle of the Financial Strategy is delivering best value. To support this a piece of benchmarking work is being commissioned to compare the Council’s budget and performance a sample of comparable Councils across Wales. The insight drawn from this initial work will help focus attention on more in depth

review of some of the Council's services that can contribute to the transformation theme of service transformation.

- 2.107** Officers are working up proposals and this work will continue over the summer early autumn. No specific savings targets are being set but officers are aware of the financial context of the overall ask. This will be subjected to an internal challenge process in November before proposals are brought back to Cabinet in early January.
- 2.108** Officers will also be reviewing and prioritising the cost pressures as part of the programme of work to balance the budget. This work will also be part of the internal challenge process, this work is underway and will be reported in the Refresh report in early November, following the Chancellor's budget.
- 2.109** In addition to the engagement activity highlighted above, the Council will be developing the Annual Delivery Plan across the autumn with public consultation planned between December and January and this will provide some further insight as to the Council's priorities and therefore resource allocation.
- 2.110** The Council operates a number of shared service arrangements with neighbouring councils. Officers will engage with partners to ensure are plans are consistent and fully aligned.
- 2.111** Due to the timing of the settlement, it will be very difficult to have definitive plans in place across the autumn to share with the Schools Forum. It will be necessary to present them with a range of scenarios and possible options to enable their financial planning to be undertaken.
- 2.112** There will be some level of uncertainty until the Welsh Government Settlement is announced in late December. However, it is essential that every opportunity is taken to deliver the budget as well as approving it and a report will come forward to Cabinet in January not only to take forward public consultation but also to agree early savings to be implemented. The consultation on the budget will include Trade Unions and Public Services Board (PSB) partners.
- 2.113** As set out in the Consultation section above, the timetable will only allow for a relatively short public consultation. Officers are reviewing the arrangements to ensure that this time can be used as effectively as possible and to utilise the findings from a range of engagement and consultation activity to inform the development process throughout.

2.114 Timetable

Date	Body	Activity
Summer/Autumn 2023	Officers	Review of pressures and initial formulation of savings proposals and proposed transformation programme projects
September/October 2023	Budget Working Group	(1) Service, spend and pressures
October 2023	UK Government	Budget Statement

October 2023	Budget Working Group	(2) Initial savings for discussion
November 2023	Cabinet	MTFP refresh
November 2023	Scrutiny	Review Financial Strategy and MTFP Refresh, including outline transformation programme
Late December 2023	Welsh Government	Settlement
December 2023	Cabinet	Council Tax Base
January 2024	Cabinet	HRA Business Plan and Rent Setting
January 2024	Cabinet	Budget for consultation
January 2024	Community & Partners, including Trade Unions and Public Service Board	Consultation on budget proposals
January 2024	Scrutiny	Review estimates and savings proposals
February 2024	Cabinet	Draft Budget
March 2024	Council	Agree Budget

3. How do proposals evidence the Five Ways of Working and contribute to our Well-being Objectives?

- 3.1** The delivery of the Council's Corporate Plan and well-being objectives is significantly influenced by the available finance to deliver services. This report provides the context in which the Council will be operating in the immediate and medium term.
- 3.2** This report provides an immediate and medium-term projection of the Council's financial position, however the decisions to be taken on the Financial Strategy in the coming months will be influenced by the need to think about the longer-term implications of decisions, including the continued lobbying of Welsh Government for genuine multi-year financial settlements to enable better forecasting and projection of budgets. This is a key driver for the redefining of the Reshaping Programme to ensure a balance of tactical financial decisions and longer-term transformation.

- 3.3** The approach to setting a balanced budget described in the body of this report includes reference to collaboration and the value of this approach has been well evidenced in recent years, most notably in the response to the pandemic, where the pooling of resources (whether financial, capacity or expertise) has resulted in improved outcomes and better value for money. Additionally, the inclusion of the strengthening communities transformation theme indicates the value placed on collaboration and recognition of the integrated nature of the Council’s work within the wider public and third sectors.
- 3.4** The report sets out proposals for consulting widely on the Council’s budget, demonstrating the importance being placed on involving people in decision making and this will be further strengthened through the use of insight gained through engaging on the Council’s Annual Self-Assessment and in the production of the Annual Delivery Plan for 2024-25 as well the public opinion exercise. In understanding the views of others through this process, decisions will be taken in an integrated way – both internally and externally.

4. Climate Change and Nature Implications

- 4.1** There are no implications arising directly from this report, with climate change being one of the areas that could be the focus of .

5. Resources and Legal Considerations

Financial

- 5.1** The financial considerations are set out in the body of the report.

Employment

- 5.2** There is a significant budget gap at this stage of the budget setting process and given that salaries and wages are a major element of the Council’s overall spend there is likely to be an employment impact when savings proposals come forward in January. There is also a specific theme in the savings and framework to explore organisational design and within the transformation themes on target operating model and service transformation.
- 5.3** Where any potential employment impacts arise, the Council will follow its existing policies and procedures and ensure that there is full engagement with staff and the Trades Unions.

Legal (Including Equalities)

- 5.4** The Council is required under statute to fix its council tax for the financial year 2023/24 by March 2023 and to do so will have to agree a balanced revenue budget by the same date.
- 5.5** The Financial Strategy and process for approving the 2023/24 Budget and MTFP at Council in March 2023 is aligned to the Council's agreed Corporate Plan – 'Working Together for a Brighter Future' 2020 and the 2023/24 Annual Development Plan which is currently being developed.
- 5.6** The budget proposals as set out in the report has due regard to the requirements of the Council's Strategic Equality Plan including the Equalities Act 2010 and Public Sector Equality Duty for Wales. The subsequent development of specific proposals and strategies set out in the report will require the completion of Equality Impact Assessments. This involves systematically assessing the likely (or actual) effects of policies on individuals who have a range of protected characteristics under the Act.

6. Background Papers

None.