

Meeting of:	Cabinet
Date of Meeting:	Thursday, 18 July 2024
Relevant Scrutiny Committee:	All Scrutiny Committees
Report Title:	Financial Strategy 2025/26 to 2029/30
Purpose of Report:	To set the strategy for development of the Council's 2025/26 Budget and 2025/26 to 2029/30 Medium Term Financial Plan
Report Owner:	Executive Leader and Cabinet Member for Performance and Resources
Responsible Officer:	Head of Finance/Section 151 Officer
Elected Member and Officer Consultation:	Senior Leadership Team
Policy Framework:	This is a matter for Executive decision by Cabinet. The budget in March 2025 will be a Council decision.
<p>Executive Summary:</p> <ul style="list-style-type: none"> • The report restates the Medium Term Financial Plan's assumptions approved by Council in March 2024 and sets out new and emerging financial issues and sets out the Financial Strategy and process for approving the 2025/26 Budget and MTFP at Council in March 2025. • A new Corporate Plan 2025/26 to 2029/30 is being developed and a draft will be consulted on in the autumn. • 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 for the most vulnerable are maintained. • There is a significant funding gap in 2025/26 and across the medium term with little prospect for improved funding following the election of the new Government. • The gap for 2025/26 is forecast at £9.392M. There are forecast cost pressures of £14.177M but likely funding of only an additional £4.233M coming through from Welsh Government grant, Council Tax and planned use of Council reserves. • The key cost driver continues to be inflation with £8.768M of pressure coming through on pay awards, care and transport contracts despite assumptions of inflation returning to Bank of England target levels. On top of this are the continued demographic pressures coming through with a growing number of pupils with Additional Learning Needs and an aging population. 	

- There was a single year settlement announced in March 2024 and no direct indication of the level of settlements in future years. Based on the Welsh Government's Fiscal Review from late 2023 there is a working assumption of 1% per annum growth from 2025/26 onwards.
- Welsh Government working on its five year plan which will be developed alongside a similar timescale to the Council's own plans.
- 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.
- Corporate Performance and Resources Scrutiny Committee is being requested to review the Financial Strategy and funding and cost assumptions and for their comments to be fed back to Cabinet.
- Officers will be reviewing the cost pressures and existing savings commitments across the summer and early autumn.
- Services will be bringing Reshaping transformation proposals forward across October and November against an agreed framework as described in this report along with an expectation that these will need to be supplemented by tactical savings. 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.
- There will be a refresh of the cost and funding assumptions following the Chancellor's Budget in possibly October/November and a budget for consultation will come forward in January 2024 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 2025.

Recommendations

- 1.** Cabinet is recommended to note the challenging financial position faced by the Council with a funding gap of £9.392m in 2025/26 and £34.497M across the medium term.
- 2.** Cabinet is recommended to lobby Welsh Government for an appropriate settlement in the face of the continued inflationary pressures on schools and social care provision and authorise Council Officers to do the same through appropriate networks.
- 3.** Cabinet is recommended to request officers to review the cost pressures and savings commitments across the summer.
- 4.** Cabinet is recommended to request officers develop proposals against the 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 the Council's Corporate Performance and Resources Scrutiny Committees to review the Financial Strategy 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 2025/26 Budget and Medium Term Financial Plan 2025/26 to 2029/30 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. A significantly better settlement than is currently forecast would 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.** Given the financial challenges, clear and regular reporting is essential.

1. Background

1.1 2024/25 Budget Setting

1.2 The Council approved its 2024/25 with the and Council Tax charge at its meeting on 4th March 2024. It was possibly the most challenging budget setting process since the early years of the austerity programme put in place by the Cameron Government in 2010. The Council has a £7.676M savings programme to deliver at the same time as managing a significant level of pressures which could not be accommodated. There was also a huge challenge in setting Council Tax with an increase of 6.7% during the ongoing Cost of Living crisis which was slightly below the average increase across Wales but unavoidable as the Council sought to protect schools and social care with Welsh Government grant only increasing by 3.4%.

1.3 Of concern is the continued short term nature of settlements at a time when it is more important than ever to be able to plan for the medium term. There was only a single year settlement from Welsh government with no clear indication of future funding levels.

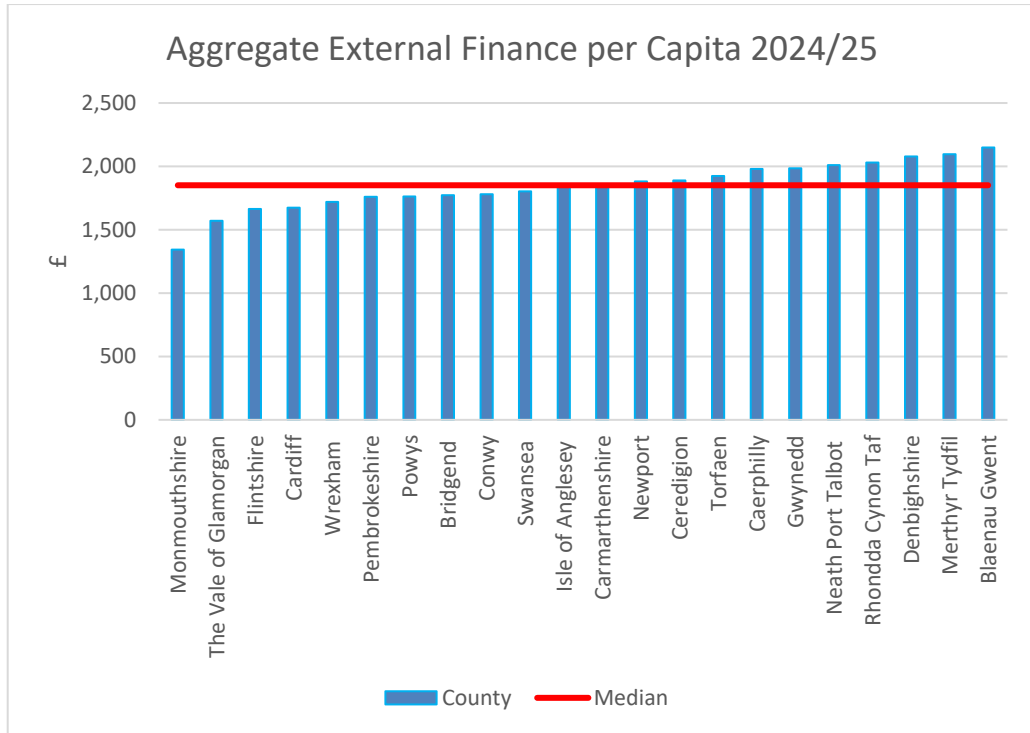
1.4 It is a gloomy time for local government with the future prospects poor given the challenging UK economy following a period of high inflation, with continued higher interest rates and little growth.

1.5 Financial Overview

1.6 The Vale of Glamorgan is a relatively low spending Council with low levels of Welsh Government Grant and Council Tax.

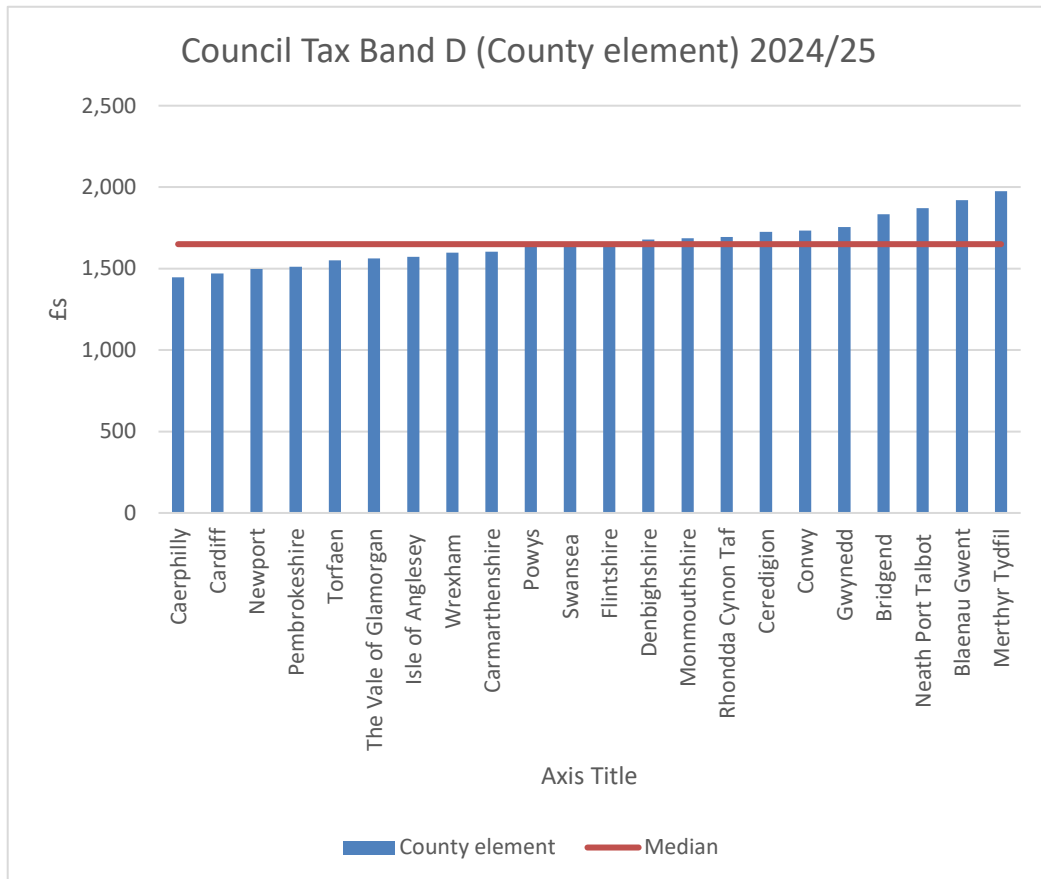
1.7 The Vale of Glamorgan had the second lowest level of grant from Welsh Government of the 22 Welsh counties. The low level of funding exists in place against all of the service blocks feeding into the overall grant and the Council has had to spend above these notional levels to ensure an appropriate level of resource is available to deliver services, especially in the schools sector.

Chart 1 – Aggregate External Finance Per Capita



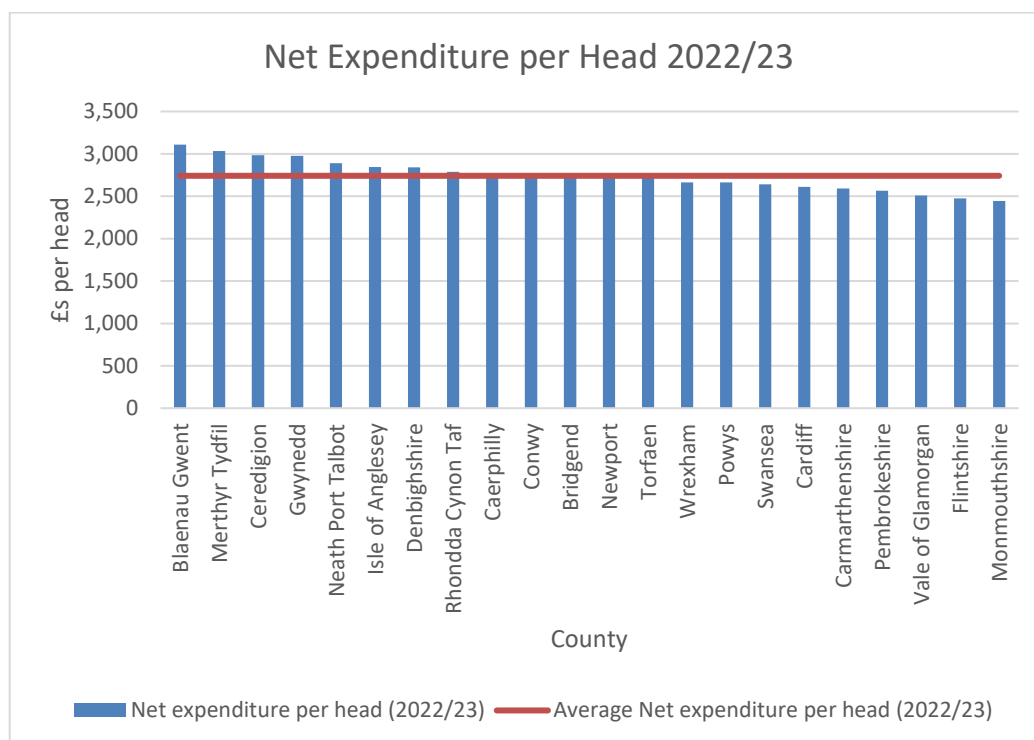
The Vale of Glamorgan continues to be one of the lower taxing Welsh counties and for 2024/25 is the sixth lowest of the 22 Welsh counties. The Council has moved down the ranks despite the 6.7% increase with a number of councils, especially in North Wales having increases in the region of 10%.

Chart 2 – Council Tax



1.8 For 2022/23 The Vale of Glamorgan had the third lowest spend of the 22 Welsh counties. Spend was £2,507 per head of the population, the highest was £3,109, the lowest £2,445 and the average £2,742. The position was also very similar at a service level with spend typically at the lowest quartile level other than housing and Education Services where spend was closer to median.

1.9 Chart 3 – Net Expenditure per head of Population



1.10 The Council delivers a very diverse and extensive range of services with Education, Housing and Council Tax Support committing 81% of the Council’s budget. In 2024/25 Budget Setting there was a focus on schools and social care with 70% of the spend being budgeted for these services and this represented a further relative increase in resources to these services compared to 68% of the Council’s budget in 2023/24.

1.11 Table 1 – Spend per Council Service

Service	Description	Net Spend 2024/25	% of Base Budget
		£000	%
Schools	Delegated spend for primary, secondary and Special schools including Additional Learning Needs Provision	119,566	39%
Social Care	Support services for vulnerable Adults and Children and Young People in our Community.	96,243	31%

Corporate Services and Policy	HR and Payroll; Finance including Council Tax, Rates and Benefits; Legal and Democratic Services; and also ICT and Office Accommodation costs total £5M.	14,541	5%
Learning & Skills	Central support for schools and arts and cultural provision.	13,872	4%
Council Tax Reduction Scheme		11,460	3%
Waste and Recycling	The cost of Waste and Recycling Services	9,489	3%
Borrowing Costs	Capital financing costs and investment income	7,622	2%
Fire Levy	Payment of the levy to South Wales Fire & Rescue Service	8,311	3%
Highways	The cost of Highways and Engineering including Flood, Drainage and road maintenance	5,658	2%
Other Neighbourhood Services	Leisure, Parks, Street Cleansing and Supported Bus Services	6,473	2%
School Transport	Transporting Children and Young People to Mainstream and Special sector schools	5,769	2%
Regeneration and Planning	Includes management of the Planning function including development of the LDP, Regeneration, Country Parks and Tourism services.	3,163	1%
General Fund Housing	Community Safety and Homelessness provision	3,390	1%
Democratic Costs	Democratic Costs	1,666	1%
Regulatory Service	Food safety, animal welfare	1,638	1%
Total		308,861	100%

2. Key Issues for Consideration

2.1 Corporate Plan Objectives

- 2.2 The Council agreed its current five year Corporate Plan – ‘Working Together for a Brighter Future’ in 2020.

- 2.3** 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. The current Plan sets out 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 continues to work in partnership, recognising the benefits this brings and the importance of joining up services around peoples' needs.
- 2.4** 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)

- 2.5** 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
- 2.6** The Council is now embarking on developing its new Corporate Plan for 2025 taking the Council through to 2030. The new draft Pan will come forward to Cabinet at the end of September and approval sought for a period of eight weeks' consultation. Officers are actively working to ensure better alignment between the preparation of performance related documents and the formation of the budget, especially growth and savings and the reflecting available resources in other plans.
- 2.7** 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.

2.8 **Financial Strategy**

- 2.9** The Financial Strategy is broadly in keeping with the Strategy adopted over the past two years.

Delivering the Corporate Plan

- 2.10** The overriding objective of the Financial Strategy is to ensure that resources are aligned to corporate objectives. The development of the Council's budget will take place at the same time as new Wellbeing Objectives are being developed and approved in parallel to enable this to happen.

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 an impact on many residents with the high levels of inflation which persisted through 2024/25. The UK and Welsh Government led schemes are fully 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 2025/26 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 2025/26 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 2024/25 the focus was rightly very much on that single year but for 2025/26 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 reviews of the reserves in 2023/24 and 2024/25 but the reserves will be subject to further review as part of 2024/25/26 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 and Charges

- 2.17** The 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 follow up review is currently underway). 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 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

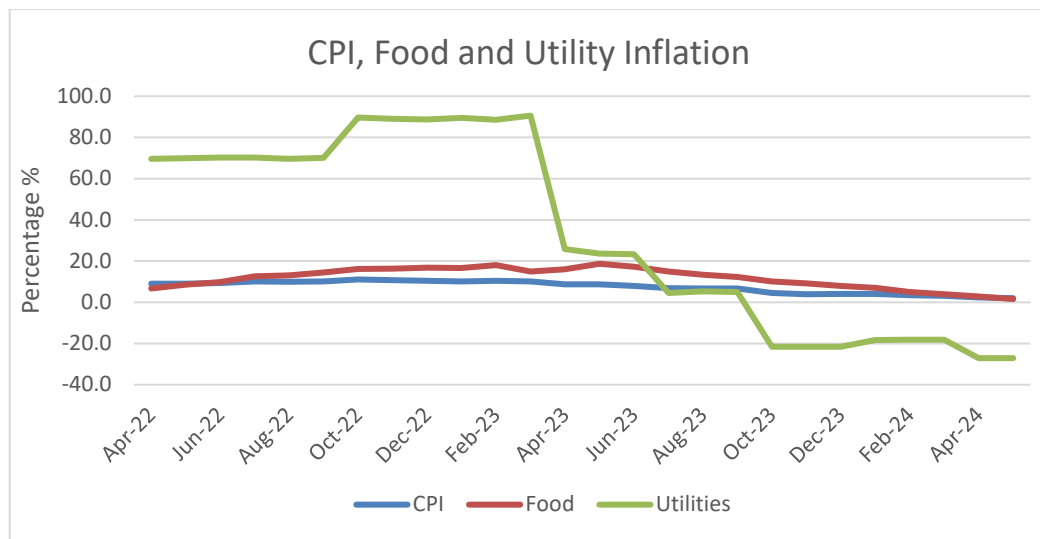
- 2.20** The best decisions are based on having the best information available and the Council will strive to continue to present its finances in a way that makes them accessible and readily understandable. This is especially the case with the presentation of the use of grants and reserves.
- 2.21** 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 are required to be in place alongside savings 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.
- 2.23** Overall economic position and prospects for local government

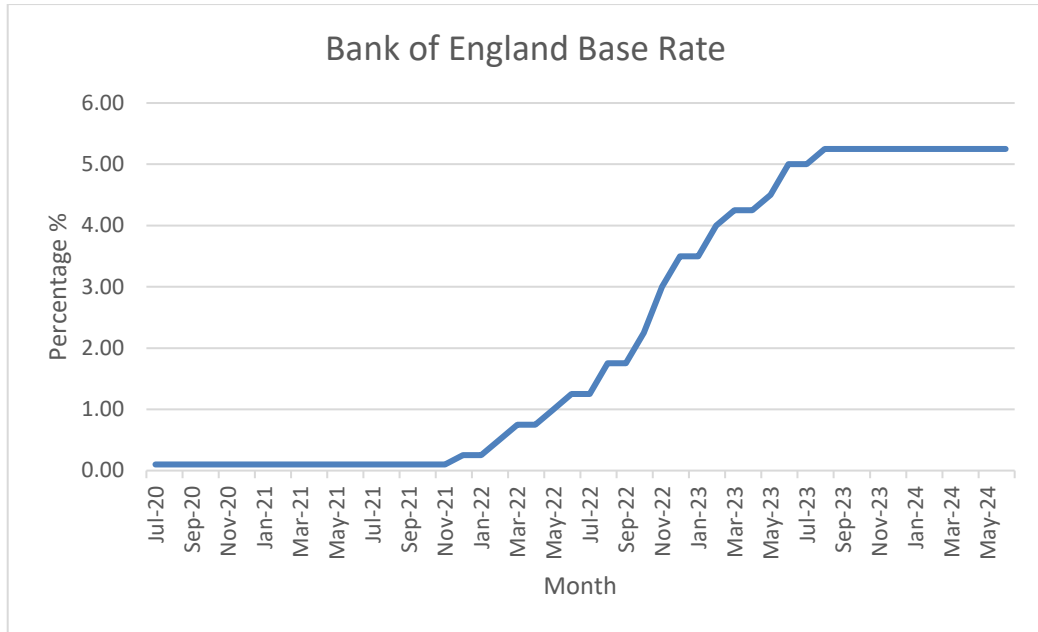
- 2.24** The UK continues to operate in tough economic conditions and this creates a major challenge for the Government following the 4th July General Election.
- 2.25** Inflation has been the real driver of the challenge with its impact on interest rates and GDP. Higher rates of inflation have persisted in the UK economy much longer than anticipated, before returning to the Government’s 2% target in May 2024. Whilst energy costs started easing in the late autumn, food costs continued to grow and were still up at 7% at the start of the year. The slowing of consumer price inflation to 2% in May 2024 is positive news but there is still upward pressure for pay awards and fuel costs which are expected to pick up in the autumn.

2.26 Chart 4 – CPI April 2022 to May 2024



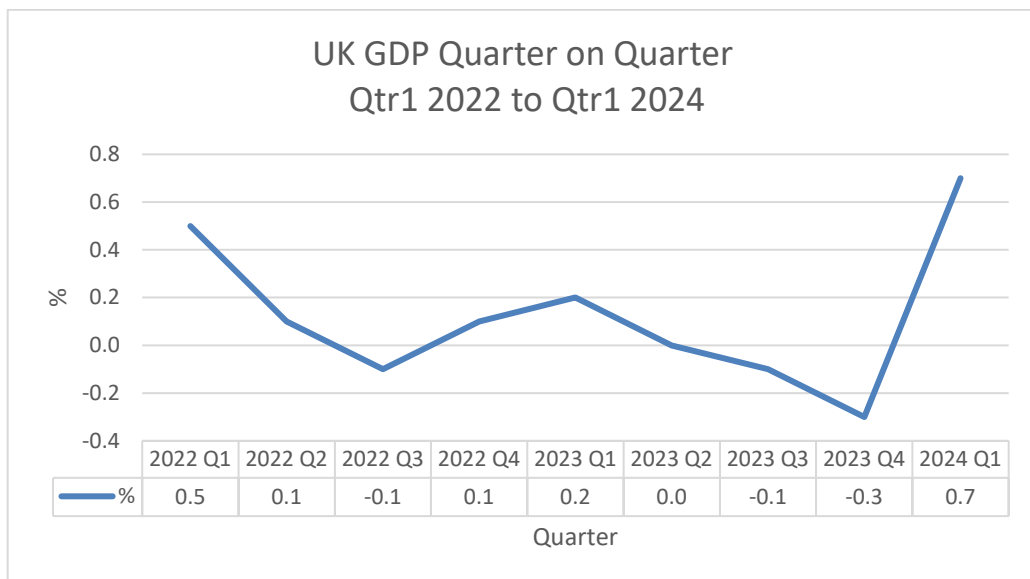
2.27 Persistent inflation meant the Bank of England has held firm on its interest rate strategy. The Bank of England Base Rate has remained at 5.25% since April 2023 which has been a noticeable drag on growth. The Monetary Policy Committee which was split on holding the rate at is 20 June meeting next meets on 1 August and there are increased expectations of a 0.25% reduction despite some of the inflation risks above.

2.28 Chart 5 – Bank of England Base Rate



2.29 Growth in the UK economy has been a great concern as the economy has flirted with recession for much of the past two years. This has naturally impacted on the availability of funding for the public sector and local government in particular at a time of increase demand for services especially the impact on schools and social care as a fall out from the Pandemic.

2.30 Chart 6 – UK GDP



2.31 The Welsh Government commissioned a Fiscal Analysis ahead of the General Election assessing the impact on the public sector dependent on which party formed the Government following the General Election. The Labour Government had committed to the previous Government’s fiscal rules which limits options for additional support for local government.

2.32 The report does provide some additional clarity on the baseline position based on the Spring 2024 UK Budget which is for a nominal average increase of 0.6% per annum across the period 2025/26 to 2028/29. The report cites both nominal

and real terms numbers but not comprehensively across sectors and individual years.

2.33 Table 2 – Funding

	2025/26	2026/27	2027/28	2028/29	Average
	%	%	%	%	%
Nominal	-0.8	1.3	0.9	1.1	0.6

2.34 Both major parties had been optimistic in their predictions of future economic growth in their manifestos. The Labour Government has commissioned an in depth review of the public finances ahead of the summer recess of Parliament and this work will doubtless underpin future funding announcements.

How does it Feel in the Vale of Glamorgan

2.35 Life in the Vale

2.36 The Council launched its Let’s Talk about Life in the Vale Survey in August 2023. It was run on behalf of the Council by independent researchers at Data Cymru. The survey was different to other Vale wide surveys that the Council had run in the past. It didn’t simply ask how satisfied people are with Council services. Instead, there was a genuine attempt to understand what life is like for people living in the Vale and how public services affect this.

2.37 The survey asked about people’s experience of trying to influence decisions in their community. This is to help to give as many people as possible the opportunity to participate and become involved in the decision-making process, shape what the Council does and how it does it. There was a wealth of data and much of this fed into deliberations on setting the budget for 2024/25 and the finances across the medium term.

2.38 4,009 residents responded to the survey across the Vale, 40.3% from Barry and a broadly equal proportion of the remainder from the eastern and western Vale. The largest section of responders (23.1%) was in the 55 to 64 age group and 10.2.% live in the most deprived wards.

2.39 Cost of Living is a significant issue for residents. Over 60% had purposely not put their heating on in the last six months, 62.8% had purposely not put the heating on and only 44% said they could pay an unexpected but necessary payment of £850.

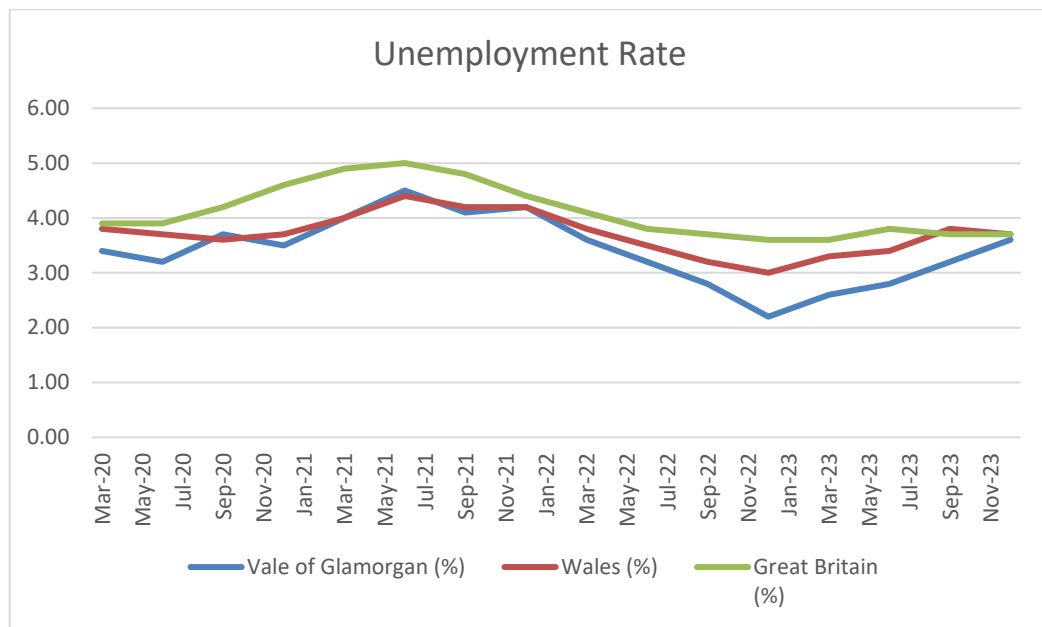
2.40 Residents were asked about their priorities and to rank their importance. The top priority for 41.7% of the population was ‘Easily accessible care and health care services when I or my family need them’ and 78.8% ranked this in their top three priorities. Second at 27.2% was ‘buy or rent a good quality home’ and 59.0% ranked this in their top three. It is reassuring that these are areas that the Council is focussing resources on through its Financial Strategy and it will be important for the Council to consider this particularly when allocating resources in the coming years. The Let’s Talk data is a key consideration in the development of the Corporate Plan which Cabinet will note is being produced in parallel with the Council’s Budget proposals.

2.41 Of concern was the response that 57% of respondents disagreed or strongly disagreed that the Council delivers good value for money. Given the per capita spending profile of the Council described above, and in light of the limitations on spending given pressures in social care and education, this will require specific thought when developing budget proposals and how these are communicated with our residents.

2.42 Employment, Benefits and Housing

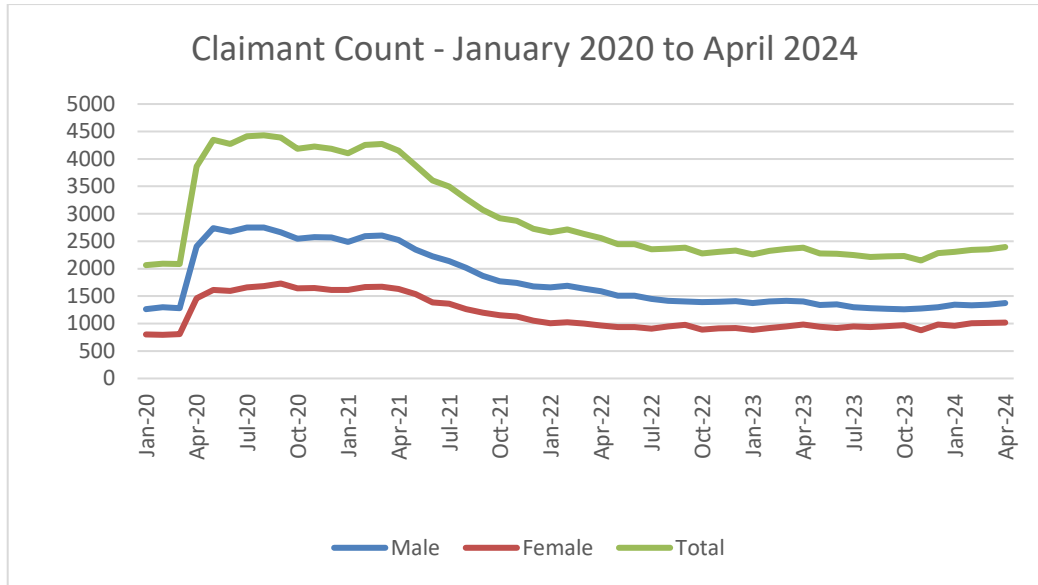
2.43 The Chart below sets out the unemployment rate in the Vale of Glamorgan compared with the rest of Wales and the UK. The last available comparative statistics are only available to the end of December 2024 at which point the unemployment rate for the Value of Glamorgan was 3.6% which had been at 2.2% on the position a year earlier. It now shows unemployment in the Vale at a similar level to the rest of the UK and Wales albeit there having been a lag since June 2021.

2.44 Chart 7 – Employment



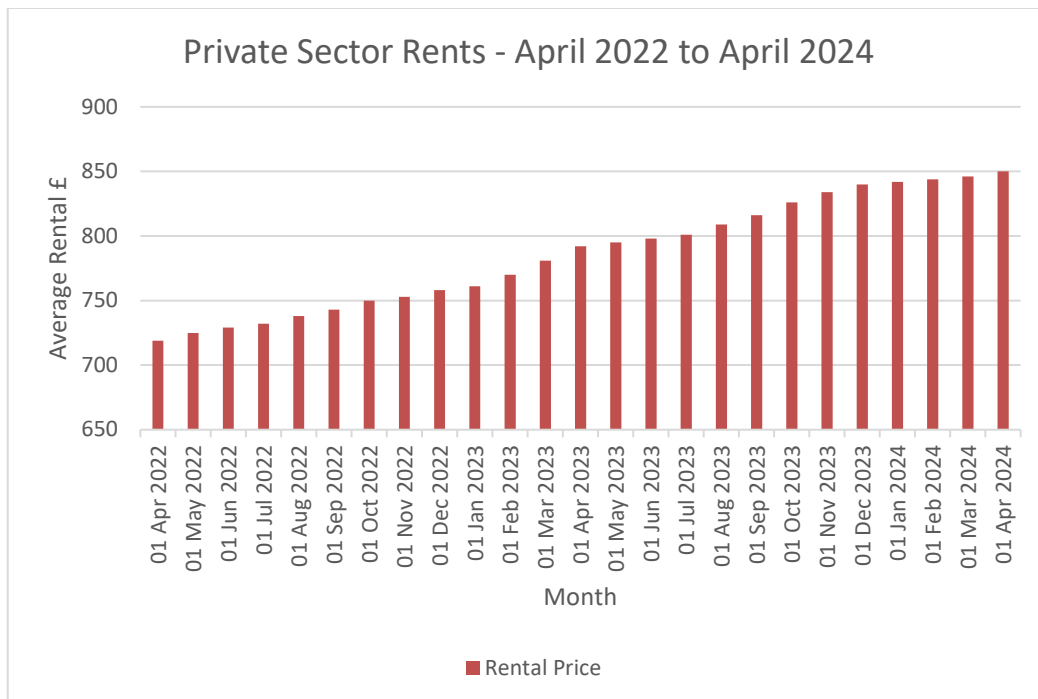
2.45 Despite the growth in unemployment the claimant count has been relatively static over the past twelve months. There is very little movement in the total of 2,380 at April 2023 and 2395 in April 2024 and similar patters for male and female claimants.

2.46 Chart 8 – Claimant Count



2.47 Housing is a specific area of challenge for the Vale of Glamorgan with relatively high number still in temporary accommodation since the pandemic and changes to government Regulation. There continues to be a shortage of accommodation available and the impact of this is very evident in the private rental sector where rent levels continue to rise at a significant pace. The average cost of private rental accommodation in the Vale of Glamorgan in April 2024 was £719, just two years late the figure was £850, an 18.2% increase.

2.48 Chart 9 – Private Sector Rents



2.49 The Vale continues to have the second highest level of average house values across Wales at £290K as at May 2024. There is though wide variability in the house prices year on year across Wales with prices in the Vale only up 0.2% twelve months earlier. There are an equal number of counties seeing increases

and decrease – the highest increase being 40.0% and the greatest decrease being 13.7%.

Refresh of Medium Term Financial Plan

2.50 The following table rolls forward the five year plan approved by Council in March. There are no changes to the assumptions at this stage with a full review being undertaken over the summer and early autumn to be reported through to Cabinet in October. However, the narrative below does assess the risks with current assumptions and highlight some potential areas where there may be movement.

2.51 Table 3 – Refreshed Five Year Medium Term Plan

	2025/26	2026/27	2027/28	2028/29	2029/30
	£000	£000	£000	£000	£000
Additional Funding					
Government Grant	2,095	2,116	2,137	2,158	2,180
Council Tax	3,937	4,090	4,250	4,416	4,588
Use of Smoothing Reserves	-1,799	-500	-445	0	0
Total Funding	4,233	5,706	5,942	6,574	6,768
Investment	1,262	1,000	0	0	0
Demography	2,635	2,543	2,543	2,543	2,543
Inflation Pay	3,658	3,731	3,805	3,882	3,960
Inflation Non Pay	5,110	5,075	5,075	5,075	5,075
Capital Financing	285	496	187	0	0
Other Pressures	1,227	365	252	623	623
Total Pressures	14,177	13,210	11,862	12,123	12,201
Grant Transfer In	0	0	0	0	0
Overall Gap	9,944	7,504	5,920	5,549	5,432
Savings	-552	700	0	0	0
Gap	9,392	8,204	5,920	5,549	5,432

Funding

Welsh Government Grant

2.52 There was only a single year settlement for 2024/25 so there is no definitive information on funding levels for any years in the refreshed Medium Term Financial Plan. The March report relied on intelligence coming through from the Wales Fiscal study undertaken by Cardiff University on behalf of the Welsh Government and there is an assumed 1% increase across the plan which was the middle line albeit that the Fiscal Study had also identified a more pessimistic line of 0%.

2.53 There is a further Fiscal Study that was published ahead of the General Election based on the Chancellor’s spring budget which is more pessimistic. There will be greater clarity when the new Government presents its spending plans, a forensic review of the public finances is already underway.

2.54 The Welsh Finance Minister wrote to all Councils on 10 June to set out the Government approach to developing its own financial plan and this work follows a similar timing to the Council’s budget work.

Council Tax

2.55 There is a planning assumption of 3.9% across the plan period, this ultimately being a decision for Council. There is currently no allowance for property growth and the impact on the introduction of the second homes premium from 1 April 2024 and the ongoing impact of the empty properties’ premium will need to be evaluated further, the initial assumptions being relatively prudent. Also, the Collection Rate is subject to further review too; it is currently at 97.1% which is above current performance level albeit they are continuing to improve.

Reserves

2.56 There is no planned run down of the Council’s General Fund balance but there is a continuation of the approach to smooth out temporary pressures through the use of smoothing reserves. The table below sets out the assumptions forward years and also includes the first two years of the introduction of the approach for clarity.

2.57 Table 4 – Use of Smoothing Reserves

	2023/24	2024/25	2025/26	2026/27	2027/28
	£000	£000	£000	£000	£000
Corporate Energy	1,200	700	0	0	0
School Energy	1,200	400	0	0	0
Homelessness	200	1,460	945	445	0
Cost of Living	200	100	0	0	0
Risk, Reshaping and Investment	0	84	0	0	0
Total Use of Smoothing Reserves	2,800	2,744	945	445	0
Movement in Use of Reserves	0	-56	-1,799	-500	-445

2.58 Homelessness remains an area of concern for the Council’s budget and this is a specific area that is under continuous reserves.

2.59 The Council’s overall strategy for reserves is covered in greater detail below.

Pressures

Investment

2.60 There is minimal investment built in to the future years of the Plan. For 2025/26 there is £162K for further ALN Provision £100k for the transfer of Council Tax and

Benefits systems to a cloud based solution and £1.0M for the potential tapering of the Regional Integration Fund with a further £1.0M in 2026/27. The future of RIF has been an area of uncertainty for a number of years with the tapering having, thankfully, been rescheduled on a number of occasions.

Inflation Pay

- 2.61** Price inflation has gradually moved in line with the Government's target of 2% and this has been the basis of the pay growth across medium term. However, the pay awards for 2024/25 are still not agreed and there will potentially be a need to build in extra provision in the event of under budgeting.

Inflation Prices

- 2.62** There are likely to be significant non pay inflationary pressures too across the medium term. Most notable are those across Children's and Adult Social Care provider fees which are in the order of £4.8m in 2025/26 alone but there will also be inflationary pressures in waste and school transport services too.

Demography

- 2.63** It is anticipated that there will continue to be growth in Children's placements as well as the increases in Adult Social Care with the aging population and adults with complex care needs living longer.

Capital Financing

- 2.64** There are insufficient capital resources to meet all of the costs on the Sustainable Communities for Learning Programme and borrowing is necessary to take forward the St Richard Gwyn and Ysgol Iolo schemes requiring £1905K in 2025/26 and a further £224K in 2026/27. Additionally, there are borrowing commitments against the Cardiff Capital Region programme of works.

Other

- 2.65** There are a range of other pressures, including expanding ALN provision, reduced out county income, highway repairs and IT network provision.

Savings

- 2.66** There are existing full year savings and new savings of £1.684M offset by £1.132M reversal of one off policy savings in 2024/25. These savings commitments will be reviewed alongside the cost pressures across the summer and early autumn.

Approach to Delivering a Balanced Budget

- 2.67** There will be three key elements to bringing forward a balanced 2025/26 budget and sustainable medium term financial plan, which is similar to recent years but there will be a much greater focus on transformation and reshaping in line with the work outlined to the report to Cabinet in January 2024.
- i. Maximising funding
 - ii. Managing cost

- iii. Bringing forward savings and generating additional fee and charges with a focus on transformation through the Reshaping Programme

Maximising Funding

- 2.68** The Council will continue to work with and 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 some level of movement at the eleventh hour. Alongside this will be the consideration of the appropriate uplift the Council Tax. Clearly, these are challenging demands in the context of new UK Government.

Managing Cost

- 2.69** An initial piece of work will be the review of the £14.177M of cost pressures coming through in 2025/26 as set out in year one of the rolled forward 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 figure 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.

Reshaping and Transformation

- 2.71** The approach to Reshaping - A Future Transformation Programme was approved by Cabinet in January and the following paragraphs reproduced from that report, a link to the full report is included in background papers at the end of this report.
- 2.72** The framework contains five interrelated themes:
- Target Operating Model
 - Service Transformation
 - Strengthening Communities
 - Digital Innovation
 - Economic Resilience
- 2.73** These themes will be used to identify, develop and deliver individual streams of activity within the overarching Reshaping Programme.

Target Operating Model

- 2.74** This theme considers issues around the Council's processes, people, structure, governance and technology and how the organisation should look and function to deliver our priorities and core activity.
- 2.75** The Council's Target Operating Model (TOM) is the way in which the overall strategy of the organisation (via the new Corporate Plan) will be delivered in strategic terms. Defining the organisation's TOM will take the objectives of the Reshaping Programme and vision of the organisation for Strong Communities with a Bright Future and enable a set of organisation-wide principles to be developed on issues such as structure, delivery models that will/will not be acceptable, the Council's strategic approach to partnership working, how people are managed and developed, as well as decision making, performance and scrutiny approaches. The TOM will provide the direction and enabling activity to deliver the work involved in the other transformation themes, supported by key Council strategies such as the People Strategy, Digital Strategy, Medium-Term Financial Plan, Corporate Asset Management Strategy and forthcoming Data Strategy. This theme is both about 'what' we do and also 'how' we do it.

Service Transformation

- 2.76** A key component of the transformation programme will be in considering how individual services can be transformed to make them more sustainable in the medium to longer term.
- 2.77** This theme will take the principles defined by the TOM and apply them to individual services (or combinations of services). Consideration will be given to the best model for operating services, such as in collaboration with partners, by internal reorganisation, the role of digital technology and other service delivery models such as social enterprise, not for profit arms-length trading and others.

Strengthening Communities

- 2.78** This theme will develop the Council as an enabler and facilitator rather than direct provider of some services as well as defining how the organisation interacts with partners.
- 2.79** Work to strengthen our communities is integral to how we transform as an organisation and there are a range of activities underway to take forward this work, reflecting our role as an enabler and facilitator as well as a provider of services.
- 2.80** This theme will be important as the financial position of the Council means that in the future some services may not be possible to deliver directly (and indeed, as has been seen, are sometimes more appropriately and effectively delivered by others with support of the Council, for example, the previous service transformation to create community libraries which ensured libraries continued to be viable within individual communities).

Digital Innovation

- 2.81** The digital innovation theme will involve the Council seeking to ensure that digital innovation is at the heart of what we do and secures efficiency across the board.
- 2.82** The newly adopted Digital Strategy sets out four areas of digital activity:
- Community & Involvement
 - Organisation & Processes
 - People & Skills
 - Data & Insight
- 2.83** This work will be progressed as outlined in the Digital Strategy and provide significant opportunity to support the other themes, notably Service Transformation and Strengthening Communities.

Economic Resilience

- 2.84** The theme of economic resilience is centred around the Council's role in supporting economic resilience in how to 'level up' and ensure that a place-based approach is effective in the creation of sustainable communities with good employment.
- 2.85** Areas of focus within this theme will include the Council's response to the UK Government's Levelling Up and Transforming Towns funding, alongside the use of Council assets to support economic resilience. The TOM will influence this theme in the Council's approach to working with Capital Region partners in the attraction of business to the county to support sustainable and high-quality jobs.

Tactical Savings

- 2.87** Whilst the ambition is to balance the budget through the delivery of the reshaping programme, the magnitude of the challenge cannot be underestimated and there is every likelihood that some measure of traditional savings and service reduction will be required.
- 2.88** Since January, the Council has been mobilising the Reshaping Programme, including developing individual workstreams and projects. Project governance arrangements are being put in place, alongside additional resources to support the delivery of different schemes.

Reserves

- 2.89** The size of the financial challenge faced by the Council continues to be considerable and setting a balanced budget for 2025/26 and more importantly delivering it will be as challenging as ever. The Council has managed its finances very well historically and continues to have robust finances and reserves in place as evidenced by the report from Audit Wales in 2021 and as mentioned earlier in this report there is a follow up review underway which will be published in the late summer/early autumn.
- 2.90** There was a greater than planned reduction in reserves of 4.465M during 2023/24 than planned albeit an improved position at year end compared to the forecast at the end of the third quarter. The impact of this is addressed in the

Revenue Outturn 2023/24 Report also in this agenda but was also considered during 2024/25 Budget Setting given the Quarter Three forecast.

- 2.91** The review of reserves is a standing feature of the Council’s budget setting and areas of focus will undoubtedly be social care, housing and schools. School reserves are an issue across Wales with two authorities needing to offset net deficits against other Council reserves.

Possible Scenarios/Sensitivity Analysis

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

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

- 2.94** Table 5 - Sensitivity Analysis

Area of income/spend	2024/25 Budget £K	1% Movement £K
AEF	-209,781	-2,098
Council Tax	-99,080	-991
Teachers Pay	85,144	851
Non Teaching Pay	110,086	1,101
Borrowing	9,472	95

Next Steps

- 2.95** This report is being referred to the Council’s Corporate Performance and 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 2025/26 budget with comments to go back to Cabinet.

- 2.96** 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.

- 2.97** 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. These will be subjected to an internal challenge process in November before proposals are brought back to Cabinet in early January.

- 2.98** 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, possibly following the Chancellor’s budget

which would be ordinarily presented at that time of the year although it is noted that an earlier than usual Budget may be presented this year.

- 2.99** As set out above the Council is developing its new Corporate Plan 2025 to 2030 and there will be an eight week consultation on the draft Plan in late September and also in the Annual Delivery Plan or equivalent which will outline the priorities for 2025/26. These will provide essential insight as to the Council’s priorities and therefore resource allocation.
- 2.100** 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.
- 2.101** In common with recent years there will be challenges with the uncertainty of 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. Consideration is also being given to ensuring representation of schools directly in the discussions at Strategic Leadership Team in the formulation of budget proposals.
- 2.102** 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.
- 2.103** As set out in the Consultation section above, the timetable will only allow for a relatively short public consultation. Officers are continually reviewing the arrangements and this is 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.

Timetable

Date	Body	Activity
Summer/Autumn 2024	Officers	Review of pressures and initial formulation of proposed transformation programme projects and savings proposals.
September/October 2024	Budget Working Group	(1) Service, spend and pressures
October 2024	UK Government	Budget Statement
October 2024	Budget Working Group	(2) Initial savings for discussion
November 2024	Cabinet	MTFP refresh

November 2024	Scrutiny	Review Financial Strategy and MTFP Refresh, including outline transformation programme
Late December 2024	Welsh Government	Settlement
December 2024	Cabinet	Council Tax Base
January 2025	Cabinet	HRA Business Plan and Rent Setting
January 2025	Cabinet	Budget for consultation
January 2025	Community & Partners, including Trade Unions and Public Service Board	Consultation on budget proposals
January 2025	Scrutiny	Review estimates and savings proposals
February 2025	Cabinet	Draft Budget
March 2025	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 new Corporate Plan for 2025 to 2030 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.

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 2025/26 by March 2024 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 2025/26 Budget and MTFP at Council in March 2025 will be aligned to the Council's agreed Corporate Plan 2025 and the 2025/26 Annual Development Plan (or equivalent) which are 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

[Reshaping - A Future Transformation Programme \(valeofglamorgan.gov.uk\)](http://valeofglamorgan.gov.uk)