

Governance & Audit Committee

Financial Update

19th July 2022



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2021/22 Outturn

Directorate	Directorate Position (£000)
Corporate Management	0
Economic Development:	
Economic Development	(54)
Recycling & Neighbourhood	0
Education & Lifelong Learning	476
People & Communities:	
Housing, & Communities	(762)
Performance & Partnerships	(128)
Adult Services	(121)
Children's Services	0
Planning, Transport & Environment	0
Resources:	
Governance & Legal Services	430
Resources	(95)
Total Directorate Position	(254)
Capital Financing	123
General Contingency	(3,000)
Summary Revenue Account	3,131
Total Council Position	0

→ Bottom line Directorate position



Updated Budget Gap

Elements of 2023/24 Budget Gap	Mar 2022 £000	Updates £000	Revised £000
Employee Costs	21,375	(7,825)	13,550
Price Inflation	7,175	10,221	17,396
Capital Financing	4,803	(675)	4,128
Commitments	1,120	100	1,220
Demographic Pressures	5,523	3,328	8,851
Emerging Financial Pressures	3,500	0	3,500
AEF – Indicative All Wales +3.5%	(19,065)	0	(19,065)
Earmarked Reserves	(500)	0	(500)
TOTAL	23,931	5,149	29,080

Employee Costs

- TPS actuarial review now likely to impact in 2024/25 per LGA
- Pay assumptions updated for 9% RLW increase

Price Inflation Updates

- Energy - CCS indicative prices increased significantly since March. Figures assume £0.75m contribution from reserve (as some fall back in prices expected 24/25). Reserve will need top-up to allow this.
- Updated RLW assumptions – now 9%
- Full year effect of price increases on large SS contracts effective in the latter part of 2022/23 (when inflation now predicted to be very high)
- School Transport – fuel, drivers etc.
- Fuel - updated assumptions based on latest info

Capital Financing

- Earmarked Reserve created at Outturn 2022/23 - covers a £675k two year limited pressure on schools asset renewal (GF contribution)
- This position does not include any update to the Capital Programme

Demographics

- Pupil numbers - net increase overall (primary down, sec up)
- Children’s Services – increased to reflect emerging in-year pressure - total of £2.5m now included. Indications may be as much as £5.5m in year – inclusion of £2.5m assumes savings are delayed not permanently unachieved.
- School Transport



Medium Term

Budget Gap	Medium Term Budget Gap				
	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	TOTAL £000
Employee Costs	13,550	20,615	12,595	12,630	59,390
Price Inflation	17,396	6,477	5,976	4,896	34,745
Capital Financing	4,128	2,168	2,036	3,259	11,591
Commitments	1,220	504	1,202	546	3,472
Demographic Pressures	8,851	4,711	7,968	8,197	29,727
Emerging Financial Pressures	3,500	3,500	3,500	3,500	14,000
Funding	(19,565)	(13,531)	(14,433)	(14,794)	(62,323)
Total Budget Gap	29,080	24,444	18,844	18,234	90,602

Outline Strategy	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	Total £000
Council Tax modelled at 3%	(4,931)	(5,079)	(5,232)	(5,388)	(20,630)
Savings	(24,149)	(19,365)	(13,612)	(12,846)	(69,972)
Total	(29,080)	(24,444)	(18,844)	(18,234)	(90,602)



Areas for Ongoing Review: Crucial given current context

- Pay Awards - current year award not yet agreed, plus any indications for 2023/24
- RLW - Sept announcement will be critical
- Inflation - energy, food, fuel - need continuous monitoring as things can change quickly
- Capital financing - cost of borrowing and roll forward of capital programme
- In year issues - including performance of income funded areas and extent of reliance on £10m COVID budget
- NDR Revaluation - figures are purely a guestimate until Valuation Office conclude their valuations by Dec/Jan
- Universal Free School Meals when further clarity on roll out arrangements / take-up and adequacy of funding
- School Transport issues
- Demand - especially in Children's Services given early indications of the in year position
- Funding - position includes +£19m AEF - need to be alert to any early indications this may be at risk
- Arrangements for Post-16 ALN – funding responsibility for which is due to transfer to LG next year – still a lack of clarity
- Adult Services - refresh of cost of care exercise for OP due this year for 23/24 implementation



Risk

- Current climate is highly uncertain - further risks around energy, pay awards, and prices - particularly care costs with their link to the Real Living Wage.
- We will have certainty around one of these key variables (RLW) in Sept. They could move against us, or (at least some), may move in our favour.
- We cannot control these large scale inflationary issues (although it will be important to take proactive mitigating actions wherever possible.)
- We are likely to need the £3.5 million allowed for emerging pressures to cope with these unprecedented inflationary issues - This means there will be no flex in the gap to address further issues arising during the year
- It will therefore be crucial to avoid adding to the gap with things that are more influenceable than inflation. This will require:
 - Highly effective budgetary management in the current year
 - Achievement of in-year savings - and where they are not on track, robust, immediate plans to bring them back on course
 - Careful management of income-funded areas, early escalation of issues, and development of clear policies for 2023/24 that fully consider post-pandemic recovery as well as inflationary cost-base issues.
 - Minimising reliance on the COVID-19 budget in 2022/23 – i.e. in order that this could potentially be reduced/repurposed towards new issues
 - Development of a robust set of savings proposals for 2023/24 over the summer so that we are as prepared as possible by September.
 - A thorough handle on known issues ASAP, with consideration of remedial actions rather than a reliance on corporate funding



Development of our Capital Programme

- Targeted risk based review of specific schemes in programme rather than full review.
- Service demand re existing schemes and inflation pressures – Manage within existing budgets for asset renewal schemes
- No schemes where deemed to be ‘Primarily for Yield’. Risk to PWLB borrowing access.
- Spend existing budgets allocated first approach, particularly for first year 2023/24, Supports slippage reduction and delivery capacity
- Grant First approach in any other new requests for funding – Social Prosperity Fund / Levelling Up / WG / Other.....
- Early Cabinet consideration of business cases likely to result in inclusion of capital schemes in programme and approve business case – per capital strategy
- Options to review and reduce existing commitments if interest rates / costs increase significantly
- Consider options to push delivery of schemes to future years, if significant impact on scheme costs, delivery capacity
- Identification of Revenue budget and MTFP implications



Future Work

- Budget Monitoring Requirements 2022/23 – Month 4 reported in September
- Budget Strategy Work 23/24:
 - Services to immediately commence work on savings approach to enable work to take place during the summer for September review By Cabinet of options
 - Ongoing review of sensitivity to income funded areas
 - In year performance associated with Covid recovery
 - Full review of cost base in the context of inflationary pressure & development (by relevant directorates) of outline strategy to address this
 - Early consideration of consultation to allow time to adjust approach and improve engagement, particularly with younger citizens
- Early consideration and development of Capital Programme requirements

