



AGENDA ITEM 8a

REPORT TO:	Finance and Resources Overview and Scrutiny Committee Cabinet
DATE OF MEETING:	4 December 2023 12 December 2023
PORTFOLIO HOLDER	Cllr. Charlie McCoubrey, Leader and Cabinet Member for Finance and Finance Strategy
LEAD OFFICER:	Amanda Hughes, Strategic Director, Finance and Resources
CONTACT OFFICER:	Amanda Hughes, Strategic Director, Finance and Resources
SUBJECT:	Local Government Budget 2024/2025
ELECTORAL DIVISION:	All

1. SUMMARY AND KEY POINTS

- 1.1. This report is the first in a series of reports to democracy which present the financial outlook and budget position for 2024/25. Appendix 1 details the financial pressures faced by the Council and the choices Members will need to consider before Council sets a balanced budget on 29 February 2024. At this stage the Local Government Provisional Settlement has not been announced.
- 1.2. The information in Appendix 1 together with other supporting appendices are included for Members to consider.
- 1.3. Conwy's estimated funding shortfall for 2024/2025 is £24.495 million (after the expected increase in Welsh Government funding). The report identifies options for consideration in determining a strategic direction which will allow the Council to set a balanced budget in March.

- 1.4. There is still a high degree of uncertainty and risk in the financial landscape as a result of the economic landscape, particularly in relation to pay and price inflation, and the indicative budget and Appendix 1 has been framed with this in mind.
- 1.5. Members need to recognise that the financial pressures for 2024/25 are significant and the Council has very difficult and unpalatable choices to make if it is to achieve a balanced budget position. If Council is unable to do so, then it would result in the Chief Financial Officer issuing a Local Government and Finance Act 1988 section 114 notice and potential intervention by external commissioners.

2. RECOMMENDATION(S)

Scrutiny Consideration

- 2.1 That the Finance and Resources Overview and Scrutiny Committee scrutinise the report and make appropriate recommendations.

Cabinet Recommendations

- 2.2 To note the outline budgetary position for 2024/25 and give consideration to the potential choices in recommending a balanced budget to Council on 29 February 2024.
- 2.3 For Members to note and approve the assumptions relating to pay pressures as outlined in paragraphs 5.5 to 5.18 which have been adopted in preparing the indicative budget.
- 2.3 For Members to note and accept the risks identified in section 9 within Appendix 1.

3. REPORT DETAILS

- 3.1 The details to be considered are included in Appendix 1.

4. OPTIONS

- 4.1 Included in paragraph 9 within Appendix 1.

5. ENGAGEMENT/CONSULTATION

5.1 Engagement has taken place with the following partners/stakeholder:

- Schools Budget Forum
- Strategic Leadership Team
- Senior Management Team
- Portfolio Holders throughout the budgetary process
- Members of the Budget Working Group
- Welsh Local Government Association

5.2 Consultation has been carried out with Portfolio holder, Councillor Charlie McCoubrey, whose observations are as follows:

This report clearly sets out the scale of the challenge that this Council faces in complying with our legal requirement to set a balanced budget. Our options to achieve this are set out in paragraph 6.2 in Appendix 1, but on the back of ten years of budget reductions totalling in excess of eighty million pounds this will be incredibly challenging and will require members to make a number of unpalatable decisions at a time when service pressures continue to grow.

6. RESOURCE IMPLICATIONS

6.1 Included in appendix 1.

7. CORPORATE PLAN OUTCOMES

7.1. The budget is set to allow the delivery of the Corporate Plan. Business cases for additional funding set out why the funding is required in support of the corporate plan's ambitions. Any budget reductions required, as well as the overall financial constraints, will have an impact on our ability to deliver the intended outcomes in the way that we had hoped to.

8. WELL-BEING OF FUTURE GENERATIONS ACT:

8.1 Conwy's ability to maintain the principles within the Act will need to mirror the policy intent of Welsh Government inherent within what is a reduction of funding in real terms.

8.2 Sustainability of services is of a key concern to the extent that local taxation increases do not make up for the deficit in grant in real terms which will reduce the ability to continue to deliver services at the current level of coverage and performance.

8.3 Collaboration in its many forms, particularly with Community Councils, will build on other forms of collaboration across North Wales which are

already in place as an attempt to address resilience generally in a number of key areas.

9. EQUALITY & SOCIO-ECONOMIC DUTY IMPLICATIONS

- 9.1 The indicative budget reflects our priorities, but is significantly influenced by policies introduced by decisions of the UK Government and Welsh Government in relation to resource allocation. The level of funding set out in the draft settlement is insufficient to meet both the cost pressures and service pressures being faced by Conwy. As a consequence budget reductions and Council Tax increases are still required to address the pressures on services and the increasing demand for services.
- 9.2 Against this backdrop, we have focused on aligning financial resources to our priorities through our Business Planning Framework and approached our decisions in a way that attempts to ensure that short term responses to the financial challenges do not have longer term detrimental impacts in so far as the financial resources available allow.
- 9.3 The continuation of the Council Tax Reduction Scheme continues to support those households eligible for financial support for their Council Tax.
- 9.4 The additional funding provided in the draft settlement prioritises our schools and social care in recognition of the important contribution made by those services in supporting our children and those most vulnerable in society.
- 9.5 With regard to any indicative increase in the Council Tax, this is a property based tax and is not based on the protected characteristics relating to equality and is applied consistently based on the property bands of households.
- 9.7 The response to the emerging resource shortfall will vary depending upon the level and areas put forward as budget reduction options by services.
- 9.8 An Equality Impact Assessment will form part of the response by services to the budget reductions that are required. A cumulative EQIA will also be undertaken prior to the Council's approval of the 2024/25 budget.

10. POLICIES AND PROCEDURES

- 10.1 The report is consistent with the approved Business Planning Framework.

11. RISK IMPLICATIONS

11.1 Included in detail in Appendix 1.

12. OVERVIEW AND SCRUTINY COMMITTEE COMMENTS

12.1 The recommendations from the Finance and Resources Overview and Scrutiny Committee held on 4 December 2023 will be circulated at Cabinet on 12 December 2023.

13. REPORT REVIEW GROUP (RRG) COMMENTS

13.1 RRG support the report.

Background Papers:

Appendices:

1. INTRODUCTION

- 1.1 This report sets out all the current information relating to the budgetary process and forms the basis of the indicative budget for 2024/25.
- 1.2 Welsh Government will announce the provisional local government settlement (the provisional settlement) for 2024/25 on the 20 December 2023. As we have not yet received the settlement, an estimate has been made for the purposes of this report.
- 1.3 The final local government settlement will be announced in early March 2024. As in previous years, it is expected that the support will be largely the same as the provisional settlement.
- 1.4 In determining the settlement, Welsh Government calculates a standard spending assessment for each local government body by applying a set of needs indicators through a funding formula. This calculates an amount that each body, theoretically, needs to spend on services in a consistent manner across Wales. From this, Welsh Government deducts an expectation for Council Tax income, with the balance provided as Aggregate External Finance (AEF). The AEF is made up of two elements, the revenue support grant (RSG) and non-domestic rate grant (NDR).
- 1.5 The AEF is the major source of funding for local government and in 2023/24 represented 72.38% of what Welsh Government assessed was needed to deliver services as represented by the standard spending assessment in Conwy. It is therefore the most important financial driver for the ability to spend on services for local government.

2. BACKGROUND

- 2.1 We continue to be affected by the economic conditions, particularly inflation, and increasing demand which have brought about a range of budgetary pressures and much uncertainty that is still prevalent.
- 2.2 It is evident that local government across the UK is subject to significant pressure and there have been a number of Councils who have issued a Local Government and Finance Act 1988 section 114 notice, which essentially declares the Council 'bankrupt'. Whilst a number of the high profile cases have had poor financial management at their heart, it is increasingly evident that other well run Councils are now facing significant issues as a result of the lack of funding being directed to Local Government. This is a risk that Conwy also faces.
- 2.3 This report provides the financial outlook 2024/25 so that Members fully understand the significant challenges that we face and can consider the financial direction needed for the remainder of the budgetary process.
- 2.4 It should be noted that this report only considers that part of the Council Tax which relates to Conwy County Borough Council. The elements of the total Council Tax payable by households that relate to the Police and Crime Commissioner for North Wales and the Town and Community Councils are outside the scope of the report. Their precepts are billed and collected by Conwy as the billing authority for the county.

3. THE PROVISIONAL LOCAL GOVERNMENT SETTLEMENT 2024/25

- 3.1 Welsh Government has previously published its Wales level indicative core funding allocations for 2024/25 which showed an uplift in AEF funding of £169m across Wales, which is an increase of 3.06%.
- 3.2 As we have not yet received the draft settlement, for the purpose of this report an assumption has been made that Conwy will receive an increase in its settlement of £4.965 million (2.5%). This is less than the average expected across Wales, as Conwy historically receives lower than the average, and in addition the settlement in 2024/25 will reflect the impact of the second year of the reduction as a result of the census.
- 3.3 It had been hoped that the Chancellor of the Exchequer's recent autumn statement might have provided an indication of further resources for public services given the significant pressures. However, that does not appear to have been the case and the £305 million consequential for Wales was already in Welsh Government's planning assumptions.
- 3.4 We will receive the draft settlement on 20 December 2023 and at that point we will have details of the likely settlement and whether or not the original indicative £169 million is increased or not (there is generally little difference between the draft and final settlement).

4. CURRENT ESTIMATED RESOURCE SHORTFALL

- 4.1 The Council set a balanced budget for 2023/24 in March 2023. In doing this the planned level of spending equalled the anticipated income streams into the Council as well as planned use of balances. At the time of writing this report and following the mid-year revenue monitoring report it is currently forecast that the 2023/24 budget will be overspent by £3.8 million. This is predominantly as a result of higher inflationary pressure and service demand. Corrective action is being undertaken to seek to bring the net position back within budget. However, the underlying pressures are ongoing into 2024/25.
- 4.2 In looking forward to setting a balanced budget for the 2024/25 financial year, the Council faces considerable inflationary and service pressures, which it will need to consider and balance against the available funding.
- 4.3 The resource shortfall will need to be addressed by a combination of making budget reductions (service cuts, efficiencies and raising additional income), increasing Council Tax and applying non-recurring funding (reserves and balances).
- 4.4 However, the Council still has one of the lowest level of reserves and balances in Wales and this may be eroded further if the forecast overspend in the current 2023/24 financial year cannot be retained. The use of balances cannot be seen as an easy fix to avoid difficult decisions about service prioritisation or council tax increases and should be used only as a last resort and for specific purposes.
- 4.5 Reserves must never be used to fund recurring budget activity. Once gone, the funding shortfall remains and the Council's financial standing permanently eroded

and its resilience weakened. To the extent that Members do consider using reserves, it must be for one-off expenditure only, or as a bridge to finance temporary spend as savings plans are implemented. However, such plans would need to be well advanced, not speculative.

- 4.6 As a result, the Chief Financial Officer (Strategic Director Finance and Resources) would impel Members to think very carefully about the use reserves and balances in 2024/25 to balance the budget and to look for other means to address the budget gap.
- 4.7 In September 2023, Cabinet approved the Business Planning Framework 2024/25. In accordance with the agreed timetable, services have submitted revenue business cases which reflect the additional risks, issues and service needs identified for 2024/25. These total around £15 million. Given the scale of the likely budgetary pressure, services have been asked to minimise business cases to those that are unavoidable or absolutely necessary to meet service pressure.
- 4.8 At the time of writing this report, the business cases are still subject to detailed scrutiny by both the senior leadership team and the budget working group. Therefore, the exact quantum of the business cases may change as a result of those processes. The next report will clarify the total pressure and provide the specific details of the business cases for consideration.
- 4.9 In addition to service pressures, there are significant pressures as a result of pay and inflation.
 - Members will recall, that in setting the 2023/24 budget, a late adjustment was made because the National Employer announced its April 2024 pay offer for Local Government Staff after Cabinet had recommended a budget to Council. As a result the shortfall in the sums set aside (£720,000) had to be funded from balances in 2023/24. This now needs to be built into the base for 2024/25 onwards.
 - In settling the September 2022 Teachers Pay deal, Welsh Government made a further consolidated award to Teachers of 1.5%. Since September 2022, this has been funded from a specific grant. However, the grant will no longer be available from April 2025, despite this being a permanent and therefore ongoing increase. Consequently, this also needs to be built into the base budget for 2024/25.
 - Equally further provision needs to be made for expectations around pay for 2024/25.
 - The Independent Remuneration Panel for Wales (IRPW) has proposed increases in the basic salary of elected members.
 - Inflation still remains high, albeit falling and there is still therefore significant inflationary pressure in relation to contracts linked to CPI or RPI, particularly in services delivered by Social Care and Environment, Roads and Facilities (ERF). It is expected that inflation will fall further, which will hopefully alleviate further pressure for subsequent years.
- 4.10 The latest estimated resource shortfall is £24.495 million, which is set out in detail in Table 1.

TABLE 1

	£'000	Comments
Resource Shortfall		
Represented by:		
AEF increase	-4,965	Based on the provisional settlement
Pay pressures – teaching staff (schools and non-schools) and youth workers	4,407	Full year effect of additional 1.5% awarded in September 2022, full year effect of September 2023 pay award (5%), increments for 2024 and part year effect of September 2024 pay award (estimated at 5%)
Pay pressures – local government staff	7,625	Element of April 2023 pay award funded from balances in 2023/24 and April 2024 pay award (estimated at 6%)
Pay pressures – elected members	100	Effect of IRPW proposals
Capital Financing – borrowing and interest costs	2,792	Impact of interest rate increases on borrowing costs and full effect of approved capital programme
Capital Financing – borrowing and interest costs	292	Impact of borrowing costs on £6m 2024/25 capital programme
Levies	1,211	Increase in externally determined levies including North Wales Fire and Rescue Authority
PFI unitary charge	150	To fund the PFI unitary charge over the life of the payments
Other pressures (net)	-435	A mixture of pressures not detailed above
Council Tax	-1,682	Increase in Council Tax premium and increase in Council Tax base
Business cases	15,000	Revenue business cases for recurring spend
Total	24,495	
Risk:		
Teachers Pension Increase	2,500	Assumed that funding will be provided

5. REVENUE BUSINESS CASES AND OTHER PRESSURES

- 5.1 The revenue business cases submitted by services amount to around £15 million. As this report is before Members earlier than has been the case historically, the business cases are still subject to rigorous challenge by both the Senior Leadership Team and Members at the next Budget Working Group. Consequently the final details will be included in the next report on the budget.
- 5.2 However, services are clear on the need to submit only absolutely essential business cases given the current economic climate. It is also fair to say that a number of the business cases relate to inflationary pressure dictated by contractual arrangements, as well as other demand led service pressure.
- 5.3 The resource shortfall of £24.495m, assumes that all business cases are supported and funded, and Members will need to carefully consider the needs identified within the overall financial equation as we move to setting a balanced budget for 2024/25.
- 5.4 In addition to the revenue business cases relating to the pressures identified by services, the Council also faces other pressures. As a range of these pressures are based on accounting estimates, Members will need to satisfy themselves that

they are content with the assumptions used in estimating these costs. This is particularly relevant in relation to pay.

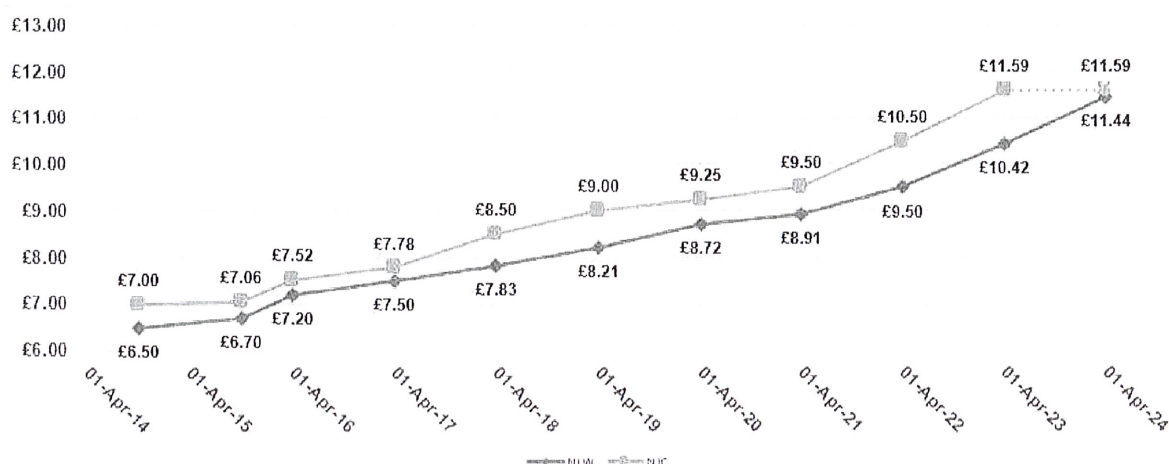
- 5.5 As set out in Table 2 and discussed in paragraph 4.9 above, we face pay pressures of £12.132m which far exceeds the likely additional AEF that Conwy will receive in 2024/25.
- 5.6 It is worth noting that in its latest fiscal outlook (November 2023) the OBR's average earnings forecast for 2024/25 is 3.7%, which is lower than the budget assumptions used for 2024/25. This is because the LGS pay settlement has to keep pace with the increase in the National Living Wage and the Teachers pay settlement is often higher than other Local Government staff on similar pay levels.
- 5.7 The pay awards for 2023/24 have now been settled, with Teachers receiving their uplift in November and NJC staff receiving it in December. Following January's salary payments we will be able to re-assess the actual cost compared to budget and this will also allow the 2024/25 estimates to be updated. However there is still considerable uncertainty on the likely pay awards in 2024/25. It is essential that we set aside an appropriate and prudent amount in the budget for the pay awards. The impact of under estimating the pay awards can be considerable on the following year's budget, whereas any over-estimate can be used to supplement balances in year and against future year's budget deficits.
- 5.8 As a Council we have very limited influence on the nationally agreed pay awards for our staff groups. Whilst there are a number of different pay agreements that affect our staff, the two key agreements from a budgetary perspective are, the Teachers pay agreement and the Local Government Services pay agreement (LGS).
- 5.9 The Teachers Pay agreement is set by Welsh Government. Previously they have based their decision on recommendations from the Independent Welsh Pay Review Body (IWPRB). However, the IWPRB's reports to date only cover up to the September 2023 pay award, and there are no current indications about September 2024. From a WLGA survey, Treasurers across Wales have modelled budget pressures using an average of 4.5% (range between 3% and 6.5%).
- 5.10 In light of the survey information and given that Teachers pay awards have generally been higher than other public sector pay settlements, an assumption of 5% has been included in the budget estimate. To the extent that this is understated (or overstated), every 1% costs £533,000 (£310,000 part year effect in 2024/25).
- 5.11 The LGS pay award is negotiated by the National Employers for local government services. From the outset, the National Employers established a principle that local government should not be a minimum wage employer, and has always therefore ensured that the lowest rate of pay in local government is above the National Living Wage (NLW).
- 5.12 As at 1 April 2023, following the 2023/24 pay agreement which removes the bottom point from April 2023, the new lowest pay scale earns £11.59 per hour which compares to the NLW of £10.42 (payable from 1 April 2023). As the pay awards are always settled after the applicable date, the pay award in any year has to have regard to the NLW likely to be set applicable from the April in the following year.

5.13 When the National Employer made its pay offer, which was subsequently agreed, applicable from April 2023 which resulted in the lowest paid worker earning £11.59, they were anticipating a National Living Wage from April 2024 of between £10.82 and £11.35 (based on the Low Pay Commissions recommendations).

5.14 In his autumn budget the Chancellor set the national living wage for April 2024 at £11.44. Whilst this is obviously good news for low paid workers, it erodes the anticipated headroom between NJC pay and the NLW by April 2024. This will put upward pressure on the NJC pay expectations for April 2024.

5.15 Table 2 sets shows the NJC minimum wage point against the NLW, since its introduction in 2014.

Table 2:



5.16 As with Teacher's pay, there is now an absence of information in terms of future forecasts for the NLW, which is a key driver for NJC pay. The Government has issued the Low Pay Commission (LPC) with a second remit asking for evidence to inform future wage policy beyond 2024. The LPC will submit this evidence by the end of 2023, which may assist in firming up the Council's pay assumptions for 2024/25 before the budget is set.

5.17 Given continued inflationary pressure, the current budget forecast funds a NJC pay award of 6%. This is based on an assumption that the NJC minimum point will be raised to £12.59. As in the past two years, it is expected that the pay offer will be a cash amount to be added to each pay scale, which would equate to £1,625 per scale point, which works out at an average of 6% across the Council's workforce. To the extent that this is understated (or overstated), every 1% costs £1.15 million.

5.18 Members should also be aware of one other area related to pay. Following its latest actuarial revaluation, the Teacher's Pension Scheme has increased the rate of employer contributions by 5%. This will increase the cost of Conwy's pension contributions by £2.5m. Indications from Welsh Government are that this will be funded by a specific consequential that will flow to Wales from UK Government. However, this has not been confirmed with certainty and there is also a risk, that even if funded, the sum distributed to Conwy will not cover the full cost to the Council. For the purposes of the forecast provided in this report, it has been assumed that there will be no additional budget pressure on the Council's budget.

- 5.19 Another significant pressure in the budget is the cost of capital financing, particularly as a result of increases in interest rates on the cost of borrowing. The budget allows for the costs of the approved capital budget to date. It also allows for the borrowing costs relating to a 2024/25 capital programme of £6 million, which equates to the likely level of capital funding provided in the settlement. To the extent that Members approve a capital budget in excess of £6 million, additional cost will need to be built into the budget and further savings or increases in council tax will be necessary. It is anticipated that interest rates will fall in subsequent years which will alleviate some of the pressure.
- 5.20 The other pressures relate to a range of specific pressures and inflationary rises, net of a reduction in the cost of the Council Tax Reduction Scheme (CTRS).

6. ADDRESSING THE RESOURCE SHORTFALL

- 6.1 In simple terms, there are just two ways to address the resource shortfall – reduce the forecast expenditure or increase the forecast resources.
- 6.2 The forecast expenditure could be reduced by either reducing the demand from new business cases or implementing budget reductions. The forecast resources can be increased by either raising Council Tax or using reserves and balances to contribute to balancing aspects of the budget, albeit the use of reserves is not recommended. Members will need to consider a combination of all these methods.

Business Cases:

- 6.3 The previous section of the report sets out that the estimated resource shortfall of £24.495m assumes that all business cases are fully funded.
- 6.4 As already set out work is still ongoing to fully assess the scale of the pressures as currently set out in the business cases. The final business cases will be set out in detail in the next report. It is for Members to then consider whether or not they are fully supported in the budget.

Budget Reductions:

- 6.5 As Members are well aware, services have faced significant and relentless pressure to absorb increasing costs over the past few years. Table 3 shows the impact over the past decade:

TABLE 3:

	Schools £'000	Schools	All other Services £'000	All other Services	Total £'000
2023/2024	3365	5%	8,205	SC 2.5% Rest 10-15%	11,570
2022/2023	975	1.5%	2,048	All 1.5%	3,023
2021/2022	0	0%	2,155	SC 1% Rest 2%	2,155
2020/2021	1,544	3%	6,759	SC/ERF 5% Rest 7-10%	8,303
2019/2020	2,644	4%	5,966	SC 4% Rest 6-8%	8,610
2018/2019	1,310	2%	4,858	SC/ERF 3% Rest 5%	6,168
2017/2018	1,700	3%	7,705	ERF 4% Rest 5-7%	9,405
2016/2017	1,646	3%	7,023	SC 3% Rest 7-9%	8,669
2015/2016	1,558	3.4%	8,000	ERF 6.5% Rest 5-13%	9,558
2014/2015	1,246	2.70%	6,707	SC/ERF 3.8% Rest 6.3%	7,953
2013/2014	0	0.04%	5,133	SC 4% Rest 4-6%	5,133
Total	15,988		64,559		80,547

- 6.6 Following approval of the budget planning framework and in light of the financial outlook at the beginning of the autumn, the Leader and Portfolio Holders, gave a strategic steer for services to plan on the basis of the need to absorb further budget pressures of 10% of their opening budget position.
- 6.7 Despite these budget reductions, designed to absorb financial pressure, it is important for Members to appreciate that the net position in service budgets demonstrates cash investment into services. Investing in staff, via pay awards, and investment in services as a result of business cases, has resulted in service budgets increasing in cash terms despite the budget reductions. However, it is evident that despite cash increases there have been underlying reductions in service capacity and provision.
- 6.8 Members will be aware that the budget and potential scope for reductions have been discussed in detail at a number of Member led Budget Working Groups. Following those sessions, services along with the relevant Portfolio Holders have, and are continuing to firm up savings proposals. Details will be provided in subsequent reports.
- 6.9 After a decade of absorbing financial pressure, it is evident that all services are now finding it incredibly difficult to identify ways to achieve efficiencies, alternatives in service delivery or additional ways to generate income.
- 6.10 In order to set a balanced budget for 2024/25, Members will be faced with some very stark options in terms of service delivery and will no doubt be faced with making unpalatable choices. Further cuts will impact directly on the Council's ability to deliver statutory duties.

- 6.11 The reality of the situation is that the longer term impacts of the pandemic and the current economic crisis is putting untenable pressure on services and will continue to do so for the foreseeable future.
- 6.12 In the coming months, the Council will need to really focus its attention on actions that will drive down future pressures and yield the necessary financial savings in order to protect services into the future and seek to put the Council on a firmer financial and operational footing into the medium term.

Reserves and Balances:

- 6.13 Members will be acutely aware that Conwy holds the lowest level of reserves and balances across Wales. This remains the case despite an improvement in the level of reserves held at 31 March 2023 as compared with the pre-pandemic position. However, unless corrective action can be taken, it is likely that a significant proportion of our reserves will be utilised to balance the 2024/25 current year outturn position.
- 6.14 The Council is required to maintain adequate financial reserves to meet the needs of the organisation. Audit Wales has consistently reported its concern over the Council's low level of reserves and balances, as part of their financial sustainability assessments. In their most recent report, published in July 2021, they state that 'The Council... needs to plan more for the medium to long-term and focus on improving resilience'.
- 6.15 It is the responsibility of each Chief Financial Officer (in Conwy, the Strategic Director, Finance and Resources) to advise the Authority on the level of reserves it should hold. Levels need to be prudent and not excessive and should reflect the strategic, operational and financial risks that are faced. The pandemic and economic conditions in the current year has shown how important it is to maintain balances to protect the authority when unforeseen events occur.
- 6.16 The reserves and balances, which can be used for revenue purposes, are shown in summary in Table 4 below.

6.17

TABLE 4

Description	Balance as at 1 April 2023 £'000	Comments
School Balances	10,294	Delegated Schools balances – for use in supporting schools budgets Schools expect to use a significant proportion of their reserves to balance the 2023/24 budgets
Service Balances	5,914	Earmarked for specific purposes within services – some intended use to support 2023/24 and 2024/25 budget
Corporate Earmarked Reserves (specific risks)	6,754	General earmarked reserves set aside for specific purposes and or to mitigate specific risks. Includes the insurance reserve, digital transformation reserve, home to school transport reserve, winter maintenance reserve etc.
Corporate Earmarked Reserves (overall risks)	7,461	General earmarked reserves set aside for overall purposes and to mitigate whole authority risks. Includes the budget recovery reserve, the pay pressures reserve, loss of hardship fund and the one off 2023/24 business case reserve. It has already been identified that £720,000 will be used in year to finance the shortfall in the 2024 pay budgets (as agreed by Council in March 2023), and subject to the outturn position further calls on these reserves may be necessary.
Earmarked Grants Reserve	1,084	Unspent grants monies as at the year end, for use in accordance with the grant terms and conditions.
General Balances	4,168	General balances held for unforeseen risks. For an authority of Conwy's size this should be at a higher level and the Council's reserves policy sets a requirement of 5% of its net budget. It stands at just 1.5% of the overall net budget.
Total	35,675	

6.18 On 22 August 2023, Cabinet scrutinised the reserves and balances held across the Council and were satisfied that the earmarked reserves being held by services (including schools) were reasonable and being held for appropriate purposes. This was equally the case for the corporately held earmarked reserves, many of which are being held for specific purposes or in mitigation of certain risks faced by the Council.

6.19 As such, the only reserves being held for more general purposes in table 4 are, the corporate earmarked reserves held for overall risks and the general balances, which together equate to £11.629m. However, Members are aware that as a result of pay and price inflation and other service pressures, the Council may be overspent in the 2023/24 financial year unless corrective action can be taken, and therefore that will need to be funded from reserves.

6.20 It must be remembered that reserves and balances are 'one-off' and funding recurring expenditure from reserves has the effect, of firstly eroding reserves very quickly, but more critically compounding resource shortfalls in future years.

- 6.21 The Strategic Director, Finance and Resources, would impel Members that the Council does not use revenue reserves and balances to support recurring expenditure in the overall budget for 2024/25. This is of particular importance given the inherent risks faced in the budget as set out in Table 9 below.

Council Tax:

- 6.22 In balancing the overall budgetary equation, a significant contribution will need to be made from an increase in Council Tax. Table 5 sets out the additional resource that would be generated from varying rates of Council Tax increases.

TABLE 5:

	5% increase (net) £'000	7.5% increase (net) £'000	10% increase (net) £'000
Council Tax	3,550	5,325	7,100

Note: the effect of the Council Tax increase in 2024/25 is net of the additional Council Tax Reduction Scheme entitlement.

- 6.23 Given the scale of the budget shortfall, unless the Council make further cuts, which would likely lead to the Council not meeting its statutory duties, then Members are faced with needing to decide on a significant increase in Council Tax. Table 6 sets out some options:

TABLE 6:

	Council Tax increase 5% £'000	Council Tax increase 7.5% £'000	Council Tax increase 10% £'000
Resource Shortfall	24,495	24,495	24,495
Funded by:			
Council Tax	3,550	5,325	7,100
Budget Reductions	x	x	x
Adjustment to Business Cases	x	x	x
Remaining Shortfall/ (Surplus)	20,945	19,170	17,395
% of service budgets	9.4%	8.6%	7.85%

- 6.24 The effect of the potential increase on households who occupy 62% of the property bands in Conwy is shown in table 7:

TABLE 7:

	Without Single Person Discount and Council Tax Reduction (CTR)		With Single Person Discount but without CTR		With 100% Entitlement to CTR
	Per Annum £	Per Week £	Per Annum £	Per Week £	£
5% increase					
Band D	79.03	1.52	59.27	1.14	0.00
Band C	70.25	1.35	52.68	1.01	0.00
Band B	61.47	1.18	46.10	0.89	0.00
7.5% increase					
Band D	118.54	2.28	88.90	1.71	0.00
Band C	105.37	2.03	79.03	1.52	0.00
Band B	92.20	1.77	69.15	1.33	0.00
10% increase					
Band D	158.05	3.04	118.54	2.28	0.00
Band C	140.49	2.70	105.37	2.03	0.00
Band B	122.93	2.36	92.20	1.77	0.00

- 6.25 A 1% increase or decrease in Council Tax equates to £15.81 per annum for households and increases or decreases the net Council Tax income (after the effects on Council Tax Reduction) by £710,000.
- 6.26 Conwy has around 55,800 dwellings subject to Council Tax, of which around 21,400 are subject to a single person discount (SPD) or equivalent. Around 10,500 households are in receipt of and are supported by the Council Tax reduction scheme (CTRS), some of whom will be in receipt of SPD.

7. FINANCIAL OUTLOOK BEYOND 2024/25

- 7.1 In determining the budget for 2024/25 Members must also bear in mind the outlook for the subsequent years. There is no formal indication from Welsh Government about future funding allocations in subsequent years. However, Wales Fiscal Analysis calculations suggest that AEF will decline in 2025/26 and 2026/27, which has been reflected in Table 8. Should there be a change in Government following a general election in 2024, there may be some changes in due course, albeit this is far from guaranteed.
- 7.2 Table 8 sets out the anticipated forecast for 2025/26 and 2026/27 which has been based on current economic forecasts. However, Members will be aware that there has been significant economic volatility over the past year, which has seen much change in economic forecasts over time. If this volatility continues, it may well be that the assumptions used in the forecast set out in Table 8 will need to be updated and will impact on the anticipated resource shortfall.

TABLE 8:

	Anticipated shortfall 2025/26 £'000	Anticipated shortfall 2026/27 £'000
Additional Pressures:		
Teachers Pay Award, Increments and pension increase	3,483	2,692
NJC Pay Award	4,879	3,172
Members allowances	80	50
Capital Financing costs and Interest rate reductions	-776	-806
Service Pressures	9,619	8,950
Estimated Budget Need	17,285	14,058
Total		
Reduction in AEF (Wales Fiscal Analysis calculations)	360	900
Increase in Council Tax base	-125	-125
Resource Shortfall	17,520	14,833
Council Tax increase (for every 1%)	745	780

- 7.3 As can be seen, the Council continues to face significant shortfalls in 2025/26 and 2026/27 and will need to quickly act to implement modernisation and other transformation projects aimed at driving down financial pressures. This is the only way the Council can protect its services.
- 7.4 As set out earlier in the report services are already struggling to identify budget reductions and schools are of the view that any level of reduction would have a severe negative impact. A 1% Council Tax increase raises approximately £710,000 in additional income and it can therefore be seen that Members will need to continue to consider a combination of Council Tax increases and budget cuts to balance the 2024/25 budget.
- 7.5 As explained above, any use of reserves and balances to fund recurring expenditure would simply compound the position.

8. THE RISKS TO CONWY WITHIN THE BUDGET ASSUMPTIONS AND THE CHIEF FINANCE OFFICER'S STATEMENT

- 8.1 The indicative budget for 2024/25 is not risk free. This section of the report sets out the inherent risks within the overall budget and provides a commentary on the level of the most significant risks and the means by which the identified risks can be mitigated if they arise.

TABLE 9:

Nature of Risk	Likelihood	Potential Scale	Mitigation
Pay awards exceed the sums allowed in the budget	Moderate	£1.15m per 1% increase for LGS staff and £533,000 for teaching staff	In year service cuts and/or reserves and balances (ongoing budget implication)
Teachers Pension Increases not funded	Moderate	£0 - £2.5m	In year service cuts and/or reserves and balances (ongoing budget implication)
Inflation and interest rates may outstrip the allowance in the budget	Low	£1m - £2m	In year service cuts and/or reserves and balances (ongoing budget implication)
Council Tax collection levels may fall below that provided for	Moderate	£200,000 per 0.25% non-recovery	In year service cuts and/or reserves and balances
Expenditure on the Council Tax Reduction Scheme may be higher than projected	Moderate	£580,000 per 5% increase	In year service cuts and/or reserves and balances
Budget reductions may not be delivered by services	High	£1m per 10% not delivered	Specific monitoring and reporting of budget reduction delivery. Additional in year service cuts to be identified should there be an overspend (through non-delivery).
Increased service pressures in excess of budget, particularly in relation to Homelessness and Social Care	Moderate	£1m - £2m	In year service cuts and/or reserves and balances (ongoing budget implication)
Severe weather related damage and storm damage	High	£2.5m to £5m	Engage with WG to provide capital resources for our infrastructure
Other significant unforeseen events may occur – weather and non-weather related	Moderate	£475,000	Engage with WG to apply for funding in excess of the support threshold through EFAS of £475,000

- 8.2 In addition to the risks in Table 9 above, there is always the potential for services, and demand-led services in particular, to present the authority with a financial problem through being unable to contain their expenditure within their cash limited budget.
- 8.3 The indicative budget does its best to take account of the above risks, but this does demonstrate the importance of maintaining prudent reserves and balances to protect the authority and its services to the people of Conwy. Of particular concern, is the volatility in relation to inflation and pay inflation in particular, as well as interest rates which will impact directly on the Council's borrowing costs.
- 8.4 Table 9 indicates that additional pressures would inevitably involve further in year budget reductions as well as using one off reserves and balances to support the budget. This would probably mean that we would need to bring forward cuts that will be required in any case for 2025/2026 and beyond which will further compound the difficulties faced in those years. However, few cuts remain that can be realised

in short timescales, which demonstrates the need for the Council to quickly turn its attention to its strategic considerations.

Local Government and Finance Act 1988 section 114 notice

- 8.5 The greatest risk of all is that of financial failure and the inability to set a balanced budget, which would include a Section 114 report issued to Members to address such failure should it arise. A Section 114 report arises when it is clear that the expenditure incurred and to be incurred is likely to exceed the resources available.
- 8.6 Members will be aware that a number of English Councils have issued s114 notices, most recently Birmingham City Council. Whilst most s114 notices to date have had some element of financial mismanagement at their centre, it is becoming increasingly the case that other well run Councils are facing potential s114 notices because of the insufficiency of government funding to cover the pay and price inflationary pressure being faced as well as increased service demand, including new unfunded pressures as a result of changes to government policy.
- 8.7 Conwy will only be able to set a balanced budget in 2024/25 by Members making difficult and unpalatable choices. There is therefore a real risk that Conwy may find itself in such a position. Every piece of advice available indicates that we must do everything we can to avoid such a scenario.

9. OPTIONS FOR MEMBERS TO CONSIDER FOR THE DRAFT BUDGET

- 9.1 The indicative budget is based on an expectation of the provisional Settlement and known information at this time. As highlighted in the report work is still ongoing to finalise the overall financial position and to fully assess the forecast resource shortfall.
- 9.2 The final Settlement will not be published until early March 2024 but it is not anticipated that the final Settlement will vary significantly from the draft settlement which will be published in December 2023.
- 9.3 It is essential that Members now understand the severity of the financial position we face in order that appropriate steps can be taken and a draft budget be prepared for further consideration in line with the compressed budgetary timetable resultant from the late announcement of the draft settlement.
- 9.4 It is considered that introducing non-recurring revenue reserves into the budgetary position would be a significant financial risk for the Council especially given their low levels and the number of risks still facing the Council. It is therefore strongly advised not to introduce this as an option.
- 9.5 After that, it is for Members to determine the most appropriate balance between the level of supported business cases, the level of budget reductions and the Council Tax increase.
- 9.6 Before Members determine their preferred option the following points need to be carefully considered:

- Any business case that is not supported will reduce the overall revenue shortfall of £15 million and therefore result in a lower amount needing to be found from budget reductions and Council tax increases.
- 1% of Council Tax (net of CTRS) equates to £710,000. Therefore 1% less in Council Tax increases the need for budget reductions by that amount, and vice versa.
- All services are really struggling to find the indicative budget reductions of 10% after years of relentless cuts, many not having achieved the ask as yet. Schools, via the schools budget forum and at the schools budget working group, have expressed their grave concerns over potential reductions.
- Based on the financial outlook for 2025/2026 and 2026/2027, the Council will be facing further significant resource shortfalls which will require further budget cuts and council tax rises.
- The Council still faces a range of financial risks as set out in Table 9 and paragraphs 8.5 to 8.7.

10. NEXT STEPS

- 10.1 Members will receive further reports on the indicative budget position before needing to recommend a budget to Council.
- 10.2 The report on the 'Recommended budget 2024/25: Council Tax and associated resolutions' will be presented to Council on 29 February.
- 10.3 It would be helpful therefore if Members considered the relative balances between the different aspects of the budgetary equation at this stage and recognise that very difficult choices are ahead in working to a balanced budget position.

11. CONCLUSIONS

- 11.1 It is unlikely that Conwy will receive a better settlement than expected following the Chancellors Autumn 2023 budget statement but we await the draft settlement in December 2023. The level of both pay and price inflation as well as service pressures continues to be significant and far in excess of the likely additional funding resulting in Conwy still facing a very considerable resource shortfall.
- 11.2 Members have the difficult task of determining the appropriate balance between Council tax and budget reductions for 2024/25 but also ensuring that it is set in the context of the Council's financial outlook for the coming years.
- 11.3 If Members are unable to set a balanced budget in 2024/25 then the Chief Financial Officer will have no choice but to issue a Local Government and Finance Act 1988 Section 114 notice to Members. This could well result in intervention in the running of the Council and local choice would be removed as Commissioners work to address the budget position.