

**RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL**

**CABINET**

**18<sup>TH</sup> SEPTEMBER 2023**

**MEDIUM TERM FINANCIAL PLAN 2023/24 TO 2026/27**

**REPORT OF THE DEPUTY CHIEF EXECUTIVE AND GROUP DIRECTOR – FINANCE,  
DIGITAL AND FRONTLINE SERVICES IN DISCUSSION WITH THE RELEVANT  
PORTFOLIO HOLDER, COUNCILLOR C LEYSHON**

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**1. PURPOSE OF THE REPORT**

- 1.1 This report provides Members with an update on the Medium-Term Financial Plan (MTFP) for 2023/24 to 2026/27, based on current modelling assumptions in advance of formulating the detailed budget strategy proposals for 2024/25 during the autumn.

**2. RECOMMENDATIONS**

- 2.1 It is recommended that the Cabinet:
- i. Note the current position modelled in respect of the ‘Medium Term Financial Plan 2023/24 to 2026/27’ and receive further updates in the autumn as part of the annual budget setting process; and
  - ii. Note that the MTFP will be presented to Council in September and will be reviewed by the Overview and Scrutiny Committee in line with their terms of reference alongside our budget consultation arrangements.

**3 REASONS FOR RECOMMENDATIONS**

- 3.1 The need to keep Members informed of the budget modelling work being undertaken as part of the Council’s Medium Term Financial Planning arrangements. This work is in advance of the Provisional Local Government Settlement, due from Welsh Government later this year.

**4. BACKGROUND**

- 4.1 Each year as part of the Council’s robust financial management arrangements, an update on the Medium-Term Financial Planning assumptions is provided to Members in advance of the detailed budget strategy work in the autumn.

- 4.2 The Public Sector has faced a sustained period of real term reductions in funding levels for a number of years and unprecedented challenges lie ahead for services across local government as a result of on-going difficult economic conditions, high levels of inflation and the widespread implications of the conflict in Ukraine. These conditions are resulting in sustained increases in demand and costs associated with many Council services, in particular Social Care Services, and the need for us to continue to provide additional support to our residents, businesses and communities as they deal with the impact of on-going increases in energy, food and other costs.
- 4.3 Locally, this Council has demonstrated its ability and willingness to invest in services over a long-term period, linked to our priorities as set out in the Council's Corporate Plan "Making a Difference - 2020 – 2024", in order to meet the changing needs of our people and communities. The significant 'additional' investment already agreed by Members during recent years is providing real improvements across many areas including Schools, Town Centres, Roads and Parks and Play Areas, alongside specific packages of financial support, funded by the Council and Welsh Government, to help families through the cost of living crisis.
- 4.4 Whilst investment through the use of one-off funds has been very positive, the Council recognises that it must still address projected base budget shortfalls and make difficult decisions to balance its ongoing revenue budget into the medium term. This report provides an updated view on the range and scale of the significant challenge faced and the arrangements being put in place to address the budget gap across the planning period, recognising that this follows on from the Council needing to address the most significant budget gap it has ever faced, at £38M for the current year, through a wide range of budget reduction measures.
- 4.5 Welsh Government, as part of its 2023/24 settlement, provided an indicative all Wales settlement level for the next financial year (2024/25) at +3.1%. Members will note the UK Government Budget is scheduled to be announced in autumn 2023 and will be a key driver and determinant of any additional funding being made available to devolved nations for 2024/25 and also the prospects for settlement levels over the medium term.

## **5. CURRENT MODELLING ASSUMPTIONS**

- 5.1 The detailed modelling assumptions are included as part of the updated 'Medium Term Financial Plan 2023/24 to 2026/27' and is attached at **Appendix 1**. The updated plan sets out the detailed basis of the medium-term strategy with references to revenue spending, capital plans, income levels and reserves.
- 5.2 Key assumptions used in the construction of the revenue budget modelling to 2026/27 are shown below:

### 5.3 Income

- Local Government settlement levels have been modelled on a range of planning scenarios:

Year	Potential Settlement	Potential Settlement	Potential Settlement
2024/25, 2025/26 and 2026/27	3.1%, 2.0% and 2.0% annum	3.0% per annum	4.0% per annum

- Council Tax increases are currently being modelled at 3.90% per annum.
- Specific grant funding from Welsh Government assumed to continue in respect of the Social Care Workforce Grant (£3.668M for 2023/24).
- Fees and charges uplifted by medium term inflation only (other than where exceptions have already been agreed by Cabinet).

### 5.4 Expenditure

- Service area pressures reflected which arise from statutory requirements, demand led pressures, demographics etc.
- Modelled uplifts included for pay and non-pay inflation (with agreed pay awards for teaching staff for 2022/23 and 2023/24 included on the basis of being fully funded by Welsh Government).
- Authority wide requirements reflected including Capital Financing, Levies and the Council Tax Reduction Scheme.
- Schools budget is modelled to cover, in full, pay and non-pay inflation plus specific budget pressures (and in the context of the projected range of local government settlement levels).

## 6. CURRENT MODELLING OUTCOMES

- 6.1 The modelling uses a number of assumptions which are all subject to change and will be reviewed as part of the detailed budget strategy work underway. Due to current uncertainty at a UK Central Government level around public sector funding levels, paragraph 5.3 sets out a range of modelling assumptions for Welsh Government funding levels for financial years 2024/25, 2025/26 and 2026/27. The variability of the potential level of the Settlement from Welsh Government has a significant impact on the budget gap, at £4.7M per 1%, and Figure 1 illustrates the outcome of the range of modelling assumptions currently applied.

Figure 1 : Modelled Budget Gap 2024/25 to 2026/27

Budget Requirement	2024/25	2025/26	2026/27
	£'000	£'000	£'000
<b>Additional Budget Requirement</b>			
<b>Additional Budget Requirement</b>	46,920	41,715	38,710
<b>Additional Resources</b>			
Council Tax	6,409	5,100	5,299
Transition Funding	-9,105	0	0
Social Care Workforce Grant	0	0	0
WG Resource in line with WG indicative settlement for 2024/25 (+3.1%) and a Council assumption of settlement levels: 2025/26 +2% and 2026/27 +2%	14,611	9,719	9,913
WG Resource at +3%	14,140	14,564	15,001
WG Resource at +4%	18,853	19,607	20,391

Remaining Budget Gap at Welsh Government Settlement Levels	3 Year Budget Gap			
	2024/25	2025/26	2026/27	
<b>+3.1% increase for 2024/25, +2.0% increase for 2025/26 and +2.0% increase for 2026/27</b>	<b>35,005</b>	<b>26,897</b>	<b>23,498</b>	<b>85,400</b>
<b>3% increase per year</b>	<b>35,477</b>	<b>22,052</b>	<b>18,410</b>	<b>75,938</b>
<b>4% increase per year</b>	<b>30,764</b>	<b>17,008</b>	<b>13,020</b>	<b>60,792</b>

Note: a 3.90% Council Tax increase per year is assumed as part of the modelled gap

6.2 As shown above, all of our planning assumptions result in a significant budget gap being faced by the Council. The extent of the impact on our services is clearly going to be largely and directly determined by the level of funding the UK Government provides to Welsh Government and thereafter the settlement level local authorities in Wales receive from Welsh Government.

6.3 The indicative all Wales settlement level provided by Welsh Government for 2024/25 of 3.1% is, as referred to above, informed by and reliant on the forecasted funding level to be provided by the UK Government. It is clear that this position is significantly out of line with inflationary and service pressures being faced across local government.

## 7. **BALANCING THE BUDGET**

7.1 The Council continues to focus on the budget gap position over the medium term and has successfully implemented a strategy of early identification and delivery of base budget reducing measures in-year. This has enabled the

Council to deliver financial savings early and to replenish the Medium-Term Financial Planning and Service Transformation Reserve which has been used proactively as part of the budget strategy for a number of years.

- 7.2 Whilst our priority and focus is on protecting and supporting residents, communities and businesses, this is set in the context of the Council facing a budget gap of £35M for the next financial year and follows on from the £38M budget gap in the current year, as referenced in paragraph 4.4. The significance of the year-on-year funding shortfalls will mean that the Council's priority and focus will be extremely challenging to continue to deliver at the same levels as in previous years.
- 7.3 As the above clearly demonstrates, in the absence of additional funding from UK Government and thereafter Welsh Government, the Council faces a significant budget gap for next year and across the medium term. It is clear, that the indicative funding allocation in no way reflects the reality of today and that UK Government urgently needs to provide assurance to Welsh Government / Local Government that additional funding will be forthcoming. In the absence of such assurance, and to enable this Council to discharge its statutory duty to set a balanced budget for the financial year 2024/25 by the 11<sup>th</sup> March 2024, then once again all options to reduce council spend and generate income will need to be considered. This is at a time when residents are continuing to face cost of living challenges with significant pressures on household budgets.
- 7.4 In this regard, we must now, in the absence of any indications of additional funding being provided to local government, embark on further reviews across all our services to urgently identify options which can be considered to close the budget gap being faced. Whilst our valued services and jobs will be safeguarded wherever possible, it is inevitable that there will be a need to make cuts in service levels and jobs in order to close the budget gap we face, unless or until we receive assurances as to likely more positive funding levels next year and into the medium term.
- 7.5 As part of our service and financial planning arrangements, opportunity must be taken to ensure we continue a programme of transformation and service delivery changes which we have made across many, if not all of our service areas, in recent years. The Council continues to make step changes in our working arrangements, supported by a number of key strategies including Office Accommodation Strategy, Climate Change Strategy and Digital Strategy, and are providing the direction and focus to deliver more efficient and effective services to residents.
- 7.6 In line with the above, the areas we will explore include the continued: maximisation of efficiency saving opportunities including on-going review of workforce requirements and resources; delivery of our Social Services Transformation Programme (including our Residential Care Homes for Older People Strategy and Children's Services Residential Transformation Strategy); review of our base budget requirements at both a service level and an authority wide level including our built assets; maximisation of opportunities to invest for

the long term and collaboration with others and progress the delivery of our climate change ambitions; and, as a last resort, proposals to reduce service levels. In parallel, there will be a continued focus on the principles of Digitalisation, Commercialism, Early Intervention and Prevention, Independence and being an Efficient and Effective Organisation.

- 7.7 We have for many years sought to prioritise funding for schools, ensuring they have been treated favourably in comparison with other council services and providing additional resources for inflationary pressures (pay and non-pay), pupil number movements and other cost pressures being felt across our schools, and alongside this, the requirement to deliver a budget efficiency target. In light of the aforementioned position, schools will need to be prepared to contribute to closing the funding gap we face, as the sector has done in previous years.
- 7.8 As work develops through the areas described in 7.6, this will be reported to Members as appropriate.
- 7.9 Greater certainty will be available on the level of savings required post the Provisional Local Government Settlement later in the year. The position will be reported to Members as soon as possible after the settlement publication and as referenced above, the continued focus across a medium-term planning period is paramount.

## **8. RESERVES**

- 8.1 The Council's Medium Term Financial Plan includes its Reserve Policy, setting out the important part reserves play in the overall financial management and financial standing of the Council.
- 8.2 The Council holds a number of categories of reserves, these being one-off funding allocations set aside for specific purposes and are continuously monitored as part of financial management and budgetary control arrangements to assess changes in risk and potential liabilities. This process also identifies reserves that can be released and made available to provide additional one-off investment in priority areas and infrastructure, subject to elected Member approval.
- 8.3 In addition to the above, the Council has also used reserves prudently as part of supporting its annual budget strategies over a number of years. Importantly, the approach recognises that due to their one-off nature, the use of reserves do not represent a sustainable strategy and more permanent changes / reductions to the base budget must be made to address budget gaps. By way of example, as set out in the Medium Term Financial Plan, to balance the budget based on modelled Welsh Government annual settlement levels at 3.1% for 2024/25 and 2% per year for 2025/26 and 2026/27, using reserves alone would require the use of over £182M of reserves and the Council would still have a need to reduce its base budget by over £85M at the end of this period.

## **9. EQUALITY & DIVERSITY IMPLICATIONS / SOCIO-ECONOMIC DUTY**

- 9.1 There are no immediate equality and diversity or socio-economic duty implications to consider as an Equality Impact Assessment will be an integral part of the budget strategy itself that will be reported on later in the year.

## **10. CONSULTATION**

- 10.1 There are no specific consultation requirements at this time.

## **11. FINANCIAL IMPLICATIONS**

- 11.1 The financial modelling assumptions and implications are set out in the detail of the report. At this stage, the Council or Cabinet is not being asked to make any new financial decisions in respect of the Medium-Term Financial Plan.

## **12. LEGAL IMPLICATIONS**

- 12.1 There are no legal implications aligned to this report.

## **13. LINKS TO CORPORATE AND NATIONAL PRIORITIES AND THE WELL-BEING OF FUTURE GENERATIONS ACT**

- 13.1 The report supports our Corporate Plan cross-cutting priority of 'Living within our Means'.
- 13.2 The Medium-Term Financial Plan is a key enabler for the delivery of the Council's Corporate Plan and its obligations to support wider partnership objectives.

## **14. CONCLUSIONS**

- 14.1 This report and the accompanying 'Medium Term Financial Plan 2023/24 to 2026/27' sets out the current position on the financial challenges facing the Council in the medium term. The report notes, that subject to the level of funding from Welsh Government, a significant budget gap is likely to be faced in 2024/25 and for the following two years.
- 14.2 The report also sets out that the current indicative funding allocation for 2024/25 in no way reflects the demands and pressures facing local government. Consequently, in the absence of any assurances from UK Government and thereafter Welsh Government of additional funding, Rhondda Cynon Taf CBC must embark on further reviews across all its services to urgently identify options which can be considered to close the budget gap being faced and

enable the Council to discharge its statutory duty to set a balanced budget for the financial year 2024/25 by the 11<sup>th</sup> March 2024.

- 14.3 To support this work, the Council will continue the proactive strategy it has adopted in recent years to identify a range of budget saving options for consideration and reporting to Members as part of the 2024/25 budget setting process.

**Other information**

Relevant Scrutiny Committee – Overview and Scrutiny Committee



**LOCAL GOVERNMENT ACT 1972**

**AS AMENDED BY**

**THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985**

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Item:

## **Background Papers**

- Medium Term Financial Plan 2022/23 to 2025/26  
<https://rctcbc.moderngov.co.uk/documents/s36973/Appendix%201.pdf?LLL=0>
- Council Performance Report (Quarter 4 (Year-end) 2022/23)  
<https://rctcbc.moderngov.co.uk/documents/s41942/Report.pdf?LLL=0>
- Budget Strategy 2023/24, Capital Programme 2023/24 to 2025/26 and Council Tax Resolution 2023/24  
<https://rctcbc.moderngov.co.uk/ielistDocuments.aspx?CId=163&MId=50004241&Ver=4&LLL=0>

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