

NEATH PORT TALBOT COUNTY BOROUGH COUNCIL

CABINET

19th OCTOBER 2022

MEDIUM TERM FINANCIAL PLAN 2022/23 TO 2027/28

REPORT OF THE CORPORATE DIRECTORS' GROUP

FOR INFORMATION

Purpose of the report

This report provides Members with an update on the Medium Term Financial Plan outlook (MTFP) for 2023/24 to 2027/28, based on current modelling assumptions in advance of formulating the detailed budget strategy proposals for 2023/24 during the autumn and winter.

Introduction

Members will receive a revenue budget monitoring report at this meeting. That report indicates that there is a significant budget pressure that has arisen in-year (circa £10 million) predominantly because of a pay increase in excess of what has been funded in the local government settlement and increased costs as a result of general inflation. Officers are working to identify measures that will reduce the in-year pressure in a sustainable manner. Some £7 million of measures have been identified at the time of writing with all council budgets being reviewed to reduce the pressure further, although we also cannot rule out further pressures given the volatile economic environment.

As part of the Council's robust financial management arrangements, work is also underway to develop the Council's Medium Term Financial Plan for the period 2023-24 to 2027-28. The initial stages of this exercise involves making assumptions about costs and income patterns over the next period. This is a key stage in the process and will inform the detailed budget strategy work that will be developed over the autumn and winter months.

This report is the first formal report on progress.

Background

The Public Sector has faced a sustained period of real term reductions in funding levels for over ten years with Neath Port Talbot Council securing reductions in the revenue budget of circa £100 million in real terms since 2008. As well as finding genuine efficiencies and economies in the cost of services and functions, as has been the case in other councils, the scale of austerity measures imposed by the UK Government has also seen deep cuts in services and jobs, particularly in those services delivered under discretionary powers.

Following two years of operating in emergency response mode to deal with the global Covid-19 pandemic, the Council began to plan for recovery in the latter part of 2021-22. The recovery plan – Recover, Reset, Renew (approved by Council in March 2022) – provides a comprehensive analysis of the impact of Covid-19 on households, our communities, the local economy and our own services and functions.

Robust recovery plans have since been developed across the organisation to address the Covid-19 legacy which includes: high levels of need across education, housing and social services departments; and backlogs of work requiring attention in our environmental services where economic recovery has generated pent up demand whilst services re-purposed during the pandemic to support national priorities work are now addressing service backlogs. Income levels have also been impacted by the pandemic with many residents having made significant changes to their lifestyles during the pandemic period – this is particularly affecting theatres, car parks and leisure services where the number of paying customers is yet to return to pre-pandemic levels. Furthermore, the labour market is far more competitive with post-pandemic unemployment rates at very low levels and more people seeking to fill jobs than there are people looking for work. This is placing pressure on recruitment and retention with consequential implications for pay and our wider employment offer.

It should be noted that alongside all of this, the Council is also implementing a series of policy initiatives set out in the Welsh Government's Programme for Government and related Co-operation Agreement between Labour and Plaid Cymru – the first phase of an expansion of universal free school meals and the expansion of childcare provision being two examples. The Council has also submitted three significant applications to the Levelling Up Fund and has recently developed a regional investment plan (with other

local authorities in the region) to draw down our Shared Prosperity Fund allocation.

The combined impact of the pandemic and Brexit has also had a mixed impact across our local economy. Ongoing supply chain pressures, a highly competitive labour market and the rise in inflation are clearly having negative impacts. However, the county borough is also seeing an unprecedented level of investor interest from existing and new investors. Whilst the level of investor interest is very welcome, this is placing considerable pressure on Planning, Economic Development and other regulatory functions.

The Plan signed off prior to the beginning of this financial year was firmly set in the context of Recovery. However, within weeks of signing off the Plan, Russia invaded Ukraine and what has unfolded since has materially changed our operating environment. Energy prices and energy security are having major impacts across Europe and more widely. We estimate energy costs for the Council to rise by 162% in 2023-24 (circa. £8 million). Inflation has already reached levels not seen since the 1980's which is feeding through in terms of contract and other costs as well as contributing to a cost of living crisis across all of our communities. The Council is actively supporting the national humanitarian effort to support Ukrainian refugees. This is a task we have taken on willingly however, this is happening at a time when housing services are already operating under enormous pressure.

This all makes for a very challenging budget outlook.

Current Financial Strategy

To facilitate the delivery of Recover, Reset, Renew, the Council set aside funds to support the recovery work and this work is underway. Additionally, there was no increase to Council Tax to fund Council services in 2022-23 in recognition of the developing concerns at the time about cost of living. Furthermore, a one-off sum of £2 million was approved as part of the budget to alleviate financial hardship for those most in need. In June 2022, the Cabinet approved a hardship scheme that will be delivered in partnership with Warm Wales from October 2022 and in July 2022, the Cabinet approved an additional capital budget of £4.25 million to support recovery work to 'catch up, clean up and green up' the public realm.

As we develop the medium term financial plan, it will be important to remain focused on the recovery work to reduce levels of need in a sustainable way, to make further changes to the way we deliver services and functions to

increase income and reduce costs; and to grow organisational capability to sustain the Council into future years. These changes will take time to implement and will span a number of financial years. We must also simultaneously work to secure the investor interest in the area, working to grow and transition the local economy with the aim of bringing about longer term benefits for our community, achieving the net zero carbon targets and helping to address structural poverty and inequality.

Securing sufficient resources from the UK and Welsh governments is pivotal to achieving this. The economic shock that has resulted from the war in Ukraine means that the current year and indicative settlements for 2023-24 and 2024-25 are grossly inadequate. We must ensure that the UK and Welsh Governments are aware of the impact of this on our ability to complete our recovery work and sustain essential public services. The Leader of Council has written to both governments and to the Members of the Senedd and Members of Parliament who represent the county borough to make them aware of the scale and potential impact of the funding shortfall. The letter has been followed up by way of meetings through WLGA with the Minister for Finance and Local Government and with Senedd and Parliament representatives. Additionally, the political leadership is supporting the action taken by the Chair of NPT UNISON to petition the Welsh Government for a fair settlement for this Council. Councillors, staff and wider stakeholders have been invited to support this petition.

Budget Assumptions

Welsh Government, as part of the 2022/23 Local Government Settlement, provided indicative all-Wales settlement levels for the next 2 financial years: 3.5% for 2023/24; and 2.4% for 2024/25. These were set before the onset of the war in Ukraine and the economic shock that has been experienced across Europe and more widely since.

In recent weeks, the new Conservative UK Government has announced that it will act to limit the impact of escalating energy costs for all consumers. The exact amount of support available to this Council is currently being worked through. The Government has also announced its intent to reverse the recent increase in NI contributions, circa £1.4 million in 2023-24. Other UK Government announcements are scheduled for the end of October 2022 and will be key drivers and determinants of any additional funding being made available to devolved nations for 2023/24 and the prospects for settlement levels over the medium term.

The majority of additional costs and income losses incurred during the Coronavirus pandemic were funded by the Welsh Government through their

Hardship Fund. This Fund ceased on 31st March 2022 and it is now up to councils to meet any costs or financial shortfalls from loss of income from within existing resources. In this context, our medium term approach to financial and service planning is even more critical.

The developing financial plan will set out the detailed basis of the medium term strategy with references to revenue spending, capital plans, income levels and reserves. The detailed assumptions underpinning these forecasts are included in Appendix 1 of this report. Members should note that the current economic environment is extremely volatile. Given the level of uncertainty a number of scenarios have been developed to aid planning. It is likely that assumptions will change as the MTFP continues to develop and iterate.

Key assumptions used in the construction of the revenue budget modelling to 2027/28 are shown below.

Income

Welsh Government Local Government settlement levels have been modelled on two scenarios:

Year	Realistic - based on current indications	Optimistic - increases in years 3-5
2023/24	3.5%	3.5%
2024/25	2.4%	2.4%
2025/26	2.4%	4.0%
2026/27	2.4%	4.0%
2027/28	2.4%	4.0%

Welsh Government have indicated that there is unlikely to be any additional funding for 2023/24 and 2024/25 unless additional funds are made available by the UK Government. The Welsh Government estimate that the current allocation to the devolved government is some £4 billion less in real terms given current inflation and energy costs.

The variability of the potential level of the Settlement from Welsh Government has a significant impact on the budget gap, at £2.6M per 1%.

Council Tax contributes circa 24% of total Council income. Council Tax

levels will be decided at the end of the budget process. Members will need to weigh up the costs of providing the essential services that the Council is required to provide against the pressure on households at a time when there is a cost of living crisis. Government decisions on the level of financial assistance to be provided to residents will clearly be a key consideration in determining policy on Council Tax levels.

The Council's budget is also underpinned by a number of specific grants which are used predominantly to fund staffing costs. If these grants cease or are fixed at current cash levels they will have an impact on future budgets.

Expenditure

At this stage in the process, the modelling has factored in assumed cost changes for current budgeted levels of activity. Uplifts have been included for pay and non-pay inflation, including the estimated additional unfunded cost of the 2022/23 pay award offers for teaching and non-teaching staff (noting the status of these being offers at this stage).

Two different scenarios are shown in the modeling below, one assumes that the pay award for 2023/24 will be 4%, the second scenario includes a pay award in line with this year's at 6%.

Energy costs are currently anticipated to rise by 162% next year however it is unclear at the moment whether the Government will intervene and provide any support. At present the support provided by Government only covers the period October 2022 to March 2023. Both scenarios assume that some support will be available and therefore include energy costs at 50% higher than in the current year

The assumptions below do not include any service pressures (growth) at this stage or any consideration for increased service demand. Corporate Directors have been asked to identify any pressures for consideration, these will then either be:

- Included in the MTFP model, which will increase the forecast budget gap
- Not built into the MTFP model and kept on a 'watch' list during 2023/24, accepting that this may lead to in year budget pressures which will need to be resolved on a permanent basis in future years

We know that we have budget pressures in relation to the rising cost of

providing home to school transport (£1.9m); bus subsidies (£368k); homelessness (£600k) as well as increased costs and growth in demand in education and both adults and children’s services. These are currently being quantified and will be fed into the model over the next period. We expect these to be very significant and to increase the funding gap beyond that shown in the table below.

The assumptions **do not** include any additional budget provision for indoor leisure services following the decision taken by the Cabinet back in February to return the services ‘in house’. At present it is anticipated that this increased cost will be c£4m pa. The business plan for leisure services, which will need to include options to mitigate this cost increase, is currently being prepared and will be reported to Members in due course.

Modelled budget gap 2023/24 – 2027/28 – Realistic WG settlement

Budget gap with pay at 4% in 23/24	21,731	15,241	12,257	11,740	12,110	73,080
	3.5%	2.4%	2.4%	2.4%	2.4%	
Realistic WG Settlement	-9,033	-6,411	-6,564	-6,722	-6,883	-35,613
Remaining budget gap	12,699	8,831	5,693	5,018	5,227	37,467
Budget gap with pay at 6% in 23/24	26,331	15,425	12,401	11,888	12,262	78,308
	3.5%	2.4%	2.4%	2.4%	2.4%	
Realistic WG Settlement	-9,033	-6,411	-6,564	-6,722	-6,883	-35,613
Remaining budget gap	17,299	9,015	5,836	5,166	5,379	42,695

Modelled budget gap 2023/24 – 2027/28 – Optimistic WG settlement

Budget gap with pay at 4% in 23/24	21,731	15,241	12,257	11,740	12,110	73,080
	3.5%	2.4%	4.0%	4.0%	4.0%	
Optimistic WG Settlement	-9,033	-6,411	-10,941	-11,378	-11,833	-49,595
Remaining budget gap	12,699	8,831	1,316	362	277	23,485
Budget gap with pay at 6% in 23/24	26,331	15,425	12,401	11,888	12,262	78,308
	3.5%	2.4%	4.0%	4.0%	4.0%	
Optimistic WG Settlement	-9,033	-6,411	-10,941	-11,378	-11,833	-49,595
Remaining budget gap	17,299	9,015	1,460	510	429	28,712

As shown above, all of our planning assumptions result in a significant budget gap being faced by the Council over a five year period.

The impact on our services and Council Tax levels is clearly going to be largely and directly determined by the level of settlement we receive from Welsh Government, the outcome of 2022/23 and 2023/24 pay negotiations and related funding arrangements.

It is also clear that the indicative resource levels as announced in the 2021 Comprehensive Spending Review and thereafter distributed by Welsh Government, are now significantly out of line with inflationary and service pressures being faced across local government.

Balancing the budget – developing the financial strategy

Council officers are already reviewing activities and budgets to address the in-year pressure that has arisen.

A number of interventions are also underway to address cost and income pressures that have arisen due to the Covid-19 pandemic. A number of strategies were identified in outline in Recover, Reset, Renew with the aim of delivering a net reduction in the revenue base budget requirement year on year. The invest to save and invest to earn interventions underway are

being funded through the use of reserve balances and will be delivered over a number of years. This work will now need to be expanded and accelerated and also tested against the priorities of the new Administration.

The areas under consideration include:

- Maintaining a robust budget discipline to reduce/contain expenditure and maximise income;
- Reviewing current base budgets to align with current patterns of working, in particular the move to hybrid working across many council services;
- Reviewing all budgets to identify activities that could be de-prioritised/delayed;
- Reducing/repurposing our current accommodation portfolio to reflect current models of working and the urgent need to reduce energy consumption; accelerating work to transition other buildings to renewable energy sources;
- Reviewing all transport arrangements across the Council with a view to reducing the overall cost of transport whilst also accelerating the transition to electric and hydrogen vehicles to impact positively on the net carbon targets;
- Reducing energy consumption and costs in relation to all other activity whilst also accelerating the move to more cost effective renewable energy sources;
- Extending and improving the range of on-line transactional services so more people choose to access services/make payments on-line;
- Implementing a pipeline of high impact automation projects to reduce cost/increase income;
- Identifying other technology solutions that can reduce the cost of services/increase income;
- Reviewing fees and charges;
- Accelerating the adoption of commercial approaches in discretionary services to increase income and meet customer need;
- Right-sizing the capacity/capability to draw in available grant funding to underpin the Council's service operations and to boost economic growth;
- Reviewing contracting and procurement arrangements to ensure we are optimising best value for money, local economic benefit and assisting in meeting net zero carbon targets;
- Reviewing the effectiveness of early intervention and prevention interventions to reduce the number of people needing high cost interventions;
- Continuing to build capacity and capability in our communities;
- Reviewing partnership arrangements to ensure they are delivering

added value.

Many of these interventions will take time to deliver so any savings arising may not be immediate.

The material change in the general economic climate since the 2022-23 budget and associated Corporate Plan were approved also requires a further set of options to be identified for urgent consideration in the event that sufficient government funding is not made available. In the first instance this will need to create contingency for discharging the statutory duty to set a balanced budget for the financial year 2023/24.

The Chancellor of the Exchequer has indicated that he intends to deliver a 'medium-term fiscal plan' on 31st October 2022. This announcement will have a significant impact on the Welsh Government's budget setting process and related provisional local government settlement. In terms of the Welsh Government budget, the aim is to propose a draft budget 'within four weeks of any UK autumn fiscal event or by 13th December - whichever is the earliest'.

Work will continue to develop the Council's financial plan which will necessarily be based on a range of scenarios given the high degree of uncertainty. Regular briefings/reports to Members will be provided at relevant intervals.

Integrated Impact Assessment

There is no requirement to undertake an integrated impact assessment as this report is for information only.

Valley Communities Impacts

There are no specific impacts as a result of this report as it is for information only. Unless the financial outlook improves there will inevitably be impacts across the entire county borough and these will be considered as part of any formal decision making reports.

Workforce Impacts

There are no impacts from this report as it is for information only. Any workforce impacts arising from the emerging financial strategy will be identified as part of the strategy formulation process.

Legal Impacts

The Council has a statutory responsibility to set the 2023/24 budget prior to 11th March 2023. This report sets out for information the current financial outlook which will inform the steps that now need to be taken to comply with the above legal duty.

Risk Management

The financial outlook represents a risk in terms of the Council's ability to carry on delivering services at current levels and in the same format to the citizens of Neath Port Talbot. The current position will need to be reflected in the Council's strategic risk register.

Consultation

There is no requirement to consult on this report.

Recommendations

It is recommended that Members **note** the current position modelled in respect of the 'Medium Term Financial Plan 2022/23 to 2027/28' and receive further updates as part of the annual budget setting process.

Reason for proposed recommendation

To ensure that Members are aware of the current medium term financial plan outlook prior to commencement of the formal process to set the Council's budget for 2023/24.

Implementation of decision

This item is for information only

Appendices

Appendix 1 – Details of inflation allowances included in MTFP

Background Papers

MTFP working papers

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Appendix 1 – Other inflation allowances include in budget model

	2023/24	2024/25	2025/26	2026/27	2027/28
<u>Major items of inflation</u>					
<u>Home to school transport</u>					
Inflation estimate	5.00%	5.00%	3.00%	2.50%	2.50%
<u>External waste contracts</u>					
Inflation estimate	5.00%	5.00%	3.00%	3.00%	3.00%
<u>Childrens placements</u>					
Inflation estimate	5.00%	5.00%	4.00%	3.00%	3.00%
<u>Adults placements</u>					
Inflation estimate	5.00%	5.00%	4.00%	3.00%	3.00%
<u>Domiciliary Care</u>					
Inflation estimate	9.00%	5.00%	4.00%	3.00%	3.00%
<u>Energy - Gas and Electricity</u>					
Inflation estimate	50.00%	5.00%	5.00%	5.00%	5.00%
<u>Fire Service Levy</u>					
Inflation estimate	8.00%	5.00%	5.00%	5.00%	5.00%