

Conwy County Borough Council - Medium Term Financial Plan

1. INTRODUCTION AND ECONOMIC OUTLOOK

- 1.1 The Medium Term Financial Plan (MTFP) sets out the Council's anticipated budget requirement for the next two financial years and plans how to manage the resource requirement within the funds available.
- 1.2 The plan covers a two year period, rather than three to five years, given the very significant financial and economic uncertainty that we currently face. At the time of writing this report, the UK is dealing with the consequences of the global pandemic, the war in Ukraine and some political turmoil within the UK, in particular the highest levels of inflation and interest rates in decades as well as supply chain and labour issues.
- 1.3 Despite the comparatively short period of the plan, it is nonetheless the case that its aim is to help put the Council's finances on a sustainable footing for the longer term.
- 1.4 The Chancellor announced his Autumn Statement on 17 November 2022 which was aimed to restore stability to the economy, protect public services and build long term prosperity.
- 1.5 The Welsh Government's Local Government Settlement 2022/23 provided indicative Wales-level core revenue funding allocations for 2023/24 and 2024/2025 respectively, which equated to an uplift in the first year of £177m (3.5%) and, in the second year, of £128m (2.4%). This followed the UK Government's comprehensive spending review in 2021 and the Autumn Statement 2022, confirmed these funding levels and also indicated that Wales, as a devolved nation, would be in receipt of a further £1.2bn over the period 2023/24 and 2024/25. The Chancellor specifically referenced his desire to protect schools and social care.
- 1.6 It should be noted that the additional funding announced in the Welsh Government's Local Government Settlement 2022/2023 were all Wales figures, and the increases for individual authorities will differ depending on how the funding formula distributes the all Wales funding between authorities. Conwy has historically received lower than the Welsh average financial settlement and recent census information indicates falling population levels with changing demography, which may well have a further detrimental effect. At the time of writing this report, there is no information as to how Welsh Government will distribute the additional £1.2bn, announced in the Autumn Statement 2022, between Health and Local Government over the next two years.
- 1.7 Whilst it is welcome that the Chancellor has sought to protect public services in the Autumn Statement 2022, it is nonetheless evident that the funding available does not address the financial pressures caused by substantial pay and price inflation, higher interest rates or the demands on services. The indicative increases are well below the current rates of inflation and this is further compounded by current year pressures for pay and inflation which were not fully funded in the 2022/23 settlement, and will therefore add to the 2023/24 pressures.

- 1.8 The Welsh Local Government Association (WLGA) has recently undertaken work to quantify the impact of pay and price inflation and service pressures. Based on returns from 90% of authorities they estimate that the shortfall over the next two financial years is in excess of £800m. Given equivalent pressures in Health it is highly unlikely that Welsh Government will provide that level of allocation to Local Government from the additional £1.2bn provided in the Autumn statement.

2. CURRENT FINANCIAL POSITION

- 2.1 The Council set the following budget in March 2022:

TABLE 1

	£'000
2021/22 Net Revenue Budget	237,658
Transfers of grant into the settlement	194
Pay and Price Inflation	9,492
Budget Pressures including contractual and committed changes	14,627
Unfunded business cases and budget reductions	-4,348
2022/23 Net Revenue Budget	257,623
Funded by:	
Aggregate External Funding (AEF)	183,311
Council Tax	73,603
Reserves	709
Total Funding 2022/23	257,623

- 2.2 In 2022/23, the Council's Aggregate Exchequer Finance increase of 9.5%. The total sum raised from Council Tax increased by 4%, whereas the Band D charge increased by 3.95% with the remainder of the increase in total Council tax raised being as a result of a modest increase in the tax base.
- 2.3 The 2022/23 financial year started on a positive note following the largest increase in AEF that had been seen for years. This had allowed for increased investment in services as well as meeting service demands and other committed changes. As a nation and as a County we were also benefiting from the relaxation of restrictions as a result of the global pandemic and services were back to functioning normally.
- 2.4 Following Government support in the two previous years during the pandemic, the Council's reserves and balances had also significantly strengthened, with the Council holding £27.641m (excluding schools balances) in revenue reserves and balances as at 1 April 2022. However, that only £3.510m is held in general balances, which is equivalent to just 1.36% of the 2022/23 net revenue budget.
- 2.5 In line with the national trend school balances also rose in the same period with schools holding £10.704m as at 1 April 2022.
- 2.6 However, the impacts of the pandemic, the Ukraine war and other global factors, soon saw spiralling pay and price inflation. This has led to significant unforeseen financial pressure and the potential of the 2022/23 revenue budget being significantly overspent (£10m as forecast in November 2022), which would result in the need to use reserves to balance the in-year position. We are currently taking

remedial steps to contain the pressure as much as possible to provide as strong a footing as we can going into 2023/24.

3. BUDGET PRESSURES

3.1 The pressures faced across Local Government are fairly common across Wales and beyond. The sector is not only facing pay and price inflation, but also significant service pressure particularly in relation to social care and homelessness which have been exacerbated by longer term impacts of Covid and the cost of living crisis.

3.2 Listed below are the key pressures faced by Conwy over the next two years.

1) Non-Teaching Pay increase

The pay award for non-teaching staff is based on a national agreement between the Employers and the Unions. The 2022/23 agreed pay deal (applicable from 1 April 2022) uplifts all scale points by £1,925. Subject to the scale point, the award results in an increase ranging from 10.5% on the lowest pay point to 3.59% on the highest pay point. For Conwy, it equates to an average increase of 7.6% across all staff. The pay deal also includes an additional days annual leave for all staff in 2023/24 and deletes scale point 1.

When Council set the 2022/23 budget an assumption of 4% was made in line with the Office of Budget Responsibilities (OBR) average earnings prediction. As a result of the pay deal being higher than budgeted, there is the need to address the shortfall when setting the 2023/24 budget. The additional sum needed to fund the additional 2.6% as well as the additional leave and deletion of scale point one is £4m.

Turning to 2023/24, the National Employer will need to agree a deal, applicable from 1 April 2023 which ensures that it keeps pace with the expected uplift to the National Living Wage between 1 April 2023 and 1 April 2024. In October 2022, the Chair of the Low Pay Commission estimated an increase of 6.3% will be required in 2024 to ensure that the Government's target of two thirds of median earnings by 2024 is achieved. At this stage, we do not know the negotiating position of either the National Employer or the Unions, and whether or not an April 2023 pay deal may replicate that in April 2022, in being a cash sum rather than general percentage increase. However, as the Council's workforce is heavily concentrated to lower paid staff, the forecast assumes at this stage a 6% increase for 2023/24. By 2024/25, it is expected that economic conditions and inflationary pressures will have improved somewhat and therefore an assumption of 2.5% has been included.

2) Teachers Pay Award and Teachers Employer Contribution rates.

Following recommendations from the Independent Welsh Pay Review Body (IWPRB) in May 2022, the Minister for Education and the Welsh Language accepted in principle that teacher's statutory pay scales be uplifted by 5% from 1 September 2022. This was confirmed in November 2022.

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As with non-teaching staff, the 2022/23 budget allowed for a 4% and therefore the 2023/24 budget needs to allow for the shortfall of 1% which amounts to £1.3m.

The IWPRB recommended a further uplift of 3.5% in 2023/24 with a minimum starting salary of £30,000 for new teachers (3.93%), subject to a review of economic conditions. However, in light of increased pay pressures since this announcement, the forecast allows for a 5% increase in 2023/24 and 2.5% in 2024/25.

The Teachers' pension scheme valuation, based on data as at 31 March 2020, has commenced with any changes to contributions taking effect in April 2024. Whilst the change is unknown at this stage, commentators predict that we may see an increase from the current rate of 23.68% to 30%. If implemented at this contribution rate level it will cost an additional £4.1m in 2024/25.

3) Energy and Other inflation

Price inflation relating to the cost of energy is significant. The Council is fortunately, in the main, locked into existing contracts for both gas and electricity to 31 March 2023. We are expecting significant increases in 2023/24 but it is difficult to predict with any certainty given unknowns about whether or not the government will extend the Energy Bills Relief Scheme. The forecast assumes a 275% increase in the cost of gas and 150% increase in the cost of electricity (composite increase of 180%).

The forecast also allows for the inflationary pressures relating to fuel and various ERF contracts. There has been no allowance for general inflation across budgets generally, on the assumption that spend is contained within budget.

4) Care Sector Pressures – commitment to pay the Real Living Wage

Welsh Government committed to pay care workers the real living wage from April 2022. This is assessed by the Living Wage Foundation as the minimum that people need to meet their living costs. In April 2022, the real living wage was £9.90 rising to £10.90 in September 2022 (to be implemented no later than May 2023). This compares with the National Living wage of 9.50 in April 2022 and £10.42 in April 2023.

Both the Council in its in-house provision, and care providers in the independent sector, ensure that its staff are paid in line with the RLW. The forecast allows for this to continue and is recognised in the pay pressure cost for Conwy employed staff, and in the care fee pressure for those employed by independent care providers. For 2024/25, the forecasts assume a 7% increase on the basis that the uplift in the RLW tends to be higher than the increase in the NLW, which is predicted to be 6.3%.

5) Care Sector Pressures - Care Fees

Care fees, for both domiciliary and residential care, are calculated using fee models that are driven by a range of pay and non-pay factors. As already highlighted in (4) above, elements relating to pay need to reflect the uplift in the real living wage.

Independent providers, supported by Care Forum Wales, have previously highlighted concerns over the fee methodologies adopted by Conwy and other North Wales Authorities. Prior to 2022/23, the six North Wales Authorities used a standard toolkit to determine fees on a consistent basis, although it was always subject to local variation. However, a number of Councils have now moved away from this approach.

Conwy has ongoing dialogue with its providers and has engaged in detailed discussions with them on the fee model, as well as drawing on other industry information. The forecast allows for potential adjustment to the fee model, although the affordability of this will need to be considered.

6) Looked after Children

Over the past few years the number of independent residential placements has increased both in terms of numbers of children, but more starkly in the cost of those placements, particularly in the last two years.

Eliminating private profit from the care of looked after children is a top priority commitment in the Welsh Programme for Government. However, there is no easy solution and will not take effect for a number of years.

Whilst the forecast allows for the growth in the cost of placements in 2023/24, the Council is taking a number of actions to reduce this cost pressure, and therefore the forecast assumes that there will be no further pressure in 2024/25 as it can be absorbed within existing budgets.

In particular, work has been accelerated to set up in house and in County provision to reduce our dependency on the private sector and, from a financial perspective, reduce the weekly cost per placement. Preventative work to avoid the need for placements altogether is also taking place.

It is also essential that we work with Betsi Cadwaladr University Health Board to ensure that the costs of placements are shared in an appropriate way that recognises the health and care needs respectively.

Work is also ongoing to consider the offer to foster carers to make it more attractive. This again would result in considerable financial savings.

7) Homelessness

There is a lack of social and affordable housing within the County. Coupled with changes in legislation during the pandemic, the Council has seen a significant increase in the number of people presenting as homeless over the past two years. This has led to significant additional cost, particularly in relation to temporary accommodation. The forecast allows for the expected pressure in 2023/24, based on 2022/23 activity.

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As a result of activity to accelerate temporary accommodation and affordable housing, the forecast does not allow for further growth beyond this, as it is expected that costs can start to be contained within budget.

8) Capital financing and Interest Costs

The Council's capital programme is financed in part from external borrowing. The Council is required to fund from its revenue budget a Minimum Revenue Provision (MRP) in order to repay borrowing costs. MRP is determined in line with the Council's MRP policy which has been approved by Council. The Council's approved capital programme currently stands at £144.836m, of which around £100m is to be funded from borrowing. The additional borrowing will result in the need for a higher MRP and this has been factored into the forecast. Some of this borrowing, including the element relating to the Coastal Risk Management Programme (CRMP), will be allowed for as supported borrowing in the settlement.

The forecast makes assumptions about the timing of the capital programme spend. To the extent that the actual timing differs, then the timing of the MRP requirement will also differ.

After a significant period of low interest rate stability we have seen the Bank of England increase rates a number of times, rising from 0.25% at the start of the 2022 calendar year to its current level of 3% (from 3 November 2022), as it has sought to tackle inflation and stabilise the economy. The Council's treasury advisors now expect the bank rate to peak at 4.25%, with a further 50bp rise in December 2022 and smaller rises in 2023.

The consequences of interest rate rises not only fall on new borrowing, but also on existing borrowing, as the Council has around 50% of its borrowing in short term loans. Whilst this approach has proven to be cheaper, especially whilst interest rates have been so low, it does mean that the budget is exposed to movements in interest rates. The forecast allows for expected interest costs over the coming two year. The impact in 2023/24 is less as we are protected by short term borrowing (up to one year) taken out before the interest rate rises, which don't mature until part way through the 2023/24 financial year.

As with borrowing costs, the additional interest costs are influenced by the exact timing of the capital programme, as well as other changes in the timing of cashflow activities.

9) Demography and other data changes used in the Standard Spending Assessment

The latest census data will impact on the level of government funding that Conwy will receive. The distribution of RSG is based on the Standard Spending Assessment (SSA) that Welsh Government makes across Local Government in Wales. It assesses each authority's need to spend on revenue services on a consistent basis using a basket of indicators, many of which are population based. Therefore a change in overall population drives either an increase or decrease in funding, as does changes in the demographic spread of the

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population over age groups, with particular advantage or disadvantage resulting from changes to the number of children and elderly population in particular.

The 2021 Census data shows that Conwy has seen a decrease in general population of 0.4% since the last census in 2011, whereas Wales has seen an increase of 1.4%. Whilst the change to Conwy's population does not appear significant, it is the change relative to the other Council's in Wales that is relevant, as the overall financial distribution remains the same. Given that population has risen overall, the impact of the population change will result in a reduced settlement.

Welsh Government are currently determining the impact and whether or not to dampen the impact over more than one settlement year, but modelling suggests that Conwy may lose around £1.3m once the full effect has been applied. Furthermore, tourism data and pupil number data also look to be detrimental to Conwy, which may result in a further loss of around £800,000. The forecast assumes that the impact of the changes in population are implemented over a two year period, with the other data changes taking effect in 2023/24. This may prove not to be the case.

Changes in pupil data will have consequential changes to the funding of schools, which may offset any reductions in government funding as a result of the demographic changes.

10) Council tax reduction scheme

The funding for the Council Tax Reduction Scheme (CTRS) transferred into the Local Government settlement a number of years ago. Since that time, Welsh Government funding as remained unchanged. The additional costs as a result of increases in Council Tax, therefore fall on the Council (each 1% increase costs Conwy £110,000). During the pandemic, we did see an increase in number applying for CTRS assistance, but this has now fallen back to pre-pandemic levels. The Office for Budget Responsibility's latest economic and fiscal outlook (November 2022) expects unemployment rates to rise to a peak of 4.9% in the third quarter of 2024 as the expected recession takes hold, reverting to a pre-pandemic peak by mid-2025. The plan therefore allows for a 3% increase in caseload in 2024/25 (based on the upturn we saw during the pandemic).

11) Other pressures

There are a number of other pressures, which whilst less significant individually, collectively still add pressure into the budget. These include costs of insurance, audit fees and levies from external bodies.

Members should also note that for the purposes of this forecast, it has been assumed that funding will be available for the cost pressures arising from the influx of migrants as a result of humanitarian efforts in Conwy. However, this may not prove to be the case and other pressures may escalate.

3.3 To assist in offsetting these pressures the following areas provide some budget relief as they will result in reduced costs:

1) National Insurance

The forecast allows for the full year effect of the removal of the National Insurance increase of 1.25% applied in April 2022, and assumes that Welsh Government will not recoup this budget from Local Authorities. This has a benefit of approximately £1.1m.

2) Local Government Employer Contribution Rates

Following the Gwynedd Pension Fund 2022 Actuarial valuation, Conwy's employer contribution rates have been adjusted downwards from 19.8% to 19.6%. The impact of the 0.2% reduction is to decrease the employer contributions by around £140,000. The revised rate will apply for the financial years 2023/24 to 2025/26.

4. PROJECTED BUDGET 2023/24 – 2024/25

4.1 Table 2 sets out the financial consequences of the budget pressures outlined in the previous section of the report. This therefore estimates the additional cost pressures and provides an indication of the additional funding from AEF and Council Tax.

4.2 The budget need over the next two financial years represents a staggering increase of 23%, which demonstrates the impact of significant inflationary pressure.

4.3 The figures shown take no account of a worsening economic financial outlook, or unforeseen service pressures, than that understood in November 2022.

4.4 Of particular concern, will be the consequences of budgetary cuts in services given that the pressures will not be fully met by additional government or other funding. There is a real danger that reducing or even stopping discretionary services, often including preventative measures, will in time have a detrimental impact which in turn will lead to increased cost.

TABLE 3:

	Anticipated shortfall 2023/24 £'000	Anticipated shortfall 2024/25 £'000
Previous Year Budget	256,914	293,816
Additional Pressures:		
Teachers Pay Award & Increments (net of reduction in NI)	3,230	2,598
Teachers Pension Contribution increase		4,146
NJC Pay Award (net of reduction in NI & pension)	9,832	3,010
Members allowances	120	50
Non pay inflation	6,700	1,000
Capital Financing and Interest rate increases	2,760	3,105
Council Tax Reduction Scheme		350
Service Pressures		
- Looked after Children	3,000	
- Care Fees	6,260	4,340
- Homelessness	1,500	
- Education	1,100	
- Other (including levies)	2,400	3,600
Estimated Budget Need	293,816	316,015
Total	36902	22,199
Increase in AEF (as announced in 22/23 Settlement)	6,352	4,594
Adjusted impact of revised data in SSA (estimated)	-1,534	-708
Net AEF increase	4,818	3,886
Council Tax increase (for every 1%)	620	620

5. FUNDING THE ADDITIONAL PRESSURES

5.1 The net revenue budget is funded from AEF (71%) and Council Tax (29%). The AEF is made up of Revenue Support Grant (RSG) and Non Domestic Rates Pool funding (NDR).

5.2 To the extent that increases in AEF and Council Tax are insufficient to meet the financial demand, then the Council is faced with the need to make budget reductions or use its one off reserves and balances to fund any remaining resource shortfall.

5.3 These are discussed in more detail in the following paragraphs.

Aggregate External Funding

5.4 Much of the funding pressures that we face over the coming two years are directly as a result of Welsh Government policy and legislative decisions, nationally agreed pay awards, inflation and interest rate increases, and therefore it would only seem fair that these are fully funded. However, this will not be the case.

- 5.5 As set out in paragraph 1.4, the Welsh Government Local Government Settlement provided all Wales indications of additional funding in 2023/24 and 2024/25. It is this level of expected funding, based on the Welsh average, which has been set out in Table 2. However, we will not know until mid-December, to what extent, Welsh Government may increase the funding levels to Local Government as a result of the additional £1.2bn funding to Wales following the autumn statement.
- 5.6 As highlighted in paragraph 3.2 (9) changes population following the 2021 census, as well as other data information, will also impact detrimentally on Conwy. To the extent that we see a reduction in AEF as a result of these data changes it will not result in immediate reduced costs to the Council in delivering services, and therefore the loss of funding will have to be managed over time.
- 5.7 It is essential that we continue advocating for more resources from national governments especially in light of increasing demand in services or rising costs as a result of policy decisions.

Council Tax

- 5.8 With a new administration the Council now has the opportunity to determine its approach to Council Tax over the next few years.
- 5.9 Conwy has historically had a low Council tax base, which is has sought over a number of years to bring up to the Welsh average. In 2022/23, Conwy's Band D Council Tax is £1,438.15 which compares to the Welsh average of £1,433.
- 5.10 Across Wales, Band D Council Tax varies between £1,249 and £1,768 and in North Wales between £1,367 and £1,527. The Band D Council Tax of our immediate neighbours is £1,527 at Gwynedd and £1,479 at Denbighshire.
- 5.11 Whilst the Council has now caught up to the Welsh average, the Council has the ninth lowest Council tax in Wales, and is therefore still below the median which is £1,450.
- 5.12 In calculating the Standard Spending Assessment, Welsh Government assumes a Council Tax level of £1,453.
- 5.13 If Conwy were to 'catch up' its Council Tax to the above levels, it would attract the following additional Council Tax income:

TABLE 4:

	Additional Band D rate	Multiplied by 51,378 dwellings
Gwynedd	+£89	£4,572,642
Denbighshire	+£41	£2,106,498
Welsh median	+£12	£616,536
Welsh Government SSA assumption	+£14	£719,292

- 5.14 In addition to potentially catching up to at least the WG SSA assumption, it may be appropriate for Council Tax to be uplifted proportionately to the financial pressures faced by the Council. To the extent that Members choose to uplift Council Tax by a lower level, will add to the necessary service reduction/budget cuts. 1% of Council Tax raises £620,000 (net of the increase in the Council Tax Reduction Scheme).

Budget Reductions and Efficiencies

- 5.15 We are faced with stopping or reducing services in areas that are not a priority or are discretionary in nature. In reality we are also faced with reducing the levels of service provision for those services that we have a statutory duty to deliver. We must re-prioritise services to ensure that our corporate plan priority services and essential services are sustainable and resilient.
- 5.16 It is important to understand that there are a number of budgets within the overall net revenue budget where it is not possible to implement any savings, which include:
- Council Tax Reduction Scheme
 - Levies to third party bodies (e.g. North Wales Fire and Rescue Authority)
 - Minimum Revenue Provision and interest payable
 - PFI Unitary charge
 - Members' allowances
 - Other corporate costs (e.g. insurance premiums)
- 5.17 Those budgets, on which budget reductions cannot be applied, amount to £55.6m. Therefore a 1% cut to the remaining budget of £201m equates to £2m.
- 5.18 The scope for efficiencies is limited given the scale of budget reductions over the past ten years, which has delivered a wide range of efficiencies. However, technologies and other practices continue to evolve and we therefore need to work hard to identify and deliver further efficiencies in order to preserve services for residents. The potential for efficiencies is discussed further in the section 'strategic considerations'.
- 5.19 Table 5 sets out the budget reductions already faced by the Council over the past decade. Over that period, both schools and social care budgets have had the greatest protection from budget reductions in percentage terms.

TABLE 5:

	Schools £'000	Schools	All other Services £'000	All other Services	Total £'000
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	1,850	3%	7,023	SC 3% Rest 7-9%	8,873
2015/2016	2,221	3.4%	8,000	ERF 6.5% Rest 5-13%	10,221
2014/2015	1,746	2.70%	6,707	SC/ERF 3.8% Rest 6.3%	8,453
2013/2014	24	0.04%	5,133	SC 4% Rest 4-6%	5,157
Total	14,014		54,354		70,368

5.20 Table 6 sets out the impact on individual services over the past six years, as compared to the 2022/23 budget.

TABLE 6:

	2017/18		2018/19		2019/20		2020/21		2021/22		2022/23		Six- Year Total	2022/23 Budget
Service	£'000	%	£'000	%	£'000	%	£'000	%	£'000	%	£'000	%	£'000	
Schools	1,700	3%	1,310	2%	2,644	4%	1,979	3%	0	0%	975	1.5%	10,458	75,767
Education Services	549	6%	428	5%	555	6%	591	7%	211	2%	162	1.5%	3,195	11,926
Home to School Transport	158	3%	228	5%							84	1.5%	470	5,586
Social Services	2,400	5%	1,436	3%	2,424	4%	3,117	5%	665	1%	1060	1.5%	12,538	73,855
Environment, Roads and Facilities	694	4%	556	3%	1,400	7%	884	5%	378	2%	293	1.5%	5,651	19,273
Economy & Culture	629	7%	466	5%	520	6%	736	10%	123	2%	98	1.5%	3,221	6,525
Regulatory and Housing Services	304	7%	225	5%	366	8%	427	8%	105	2%	83	1.5%	1,849	7,649
Support Services	601	7%	469	5%	621	7%	668	8%	173	2%	143	1.5%	3,466	9,783
Corporate Costs (Non Service Budgets)	2,370		1,043		80		336		500		125		6,153	46,547
Total Budget Reductions	9,405		6,161		8,610		8,738		2,155		3,023		46,965	256,911

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- 5.21 Given the scale of service cuts over the past decade, and in light of the significant financial challenge for the coming two years, the Council is currently undertaking detailed work to understand how the budget is spent in terms of meeting its statutory duties and exercising its powers. The exercise also aims to allow Members to understand the extent to which services can be varied, from current service standards, to lower (and therefore cheaper) standards whilst still meeting legislative requirements.
- 5.22 In addition all services are modelling how a 10% service reduction could be achieved. Whilst it may not be appropriate to apply a consistent level of reductions across services, the two exercises are aimed at providing Members with refreshed detailed understanding on our activities and choice to determine the budget.

Reserves and Balances

- 5.23 The Council continues to hold comparatively low levels of reserves as compared with other Council's across Wales. Therefore a cautious approach is needed in terms of use in the budget equation.
- 5.24 Table 7 sets out the useable reserves held by the Council as at 1 April 2022. However, activities during 2022/23 will already have called on a number of the reserves and any final overspent situation in the current year will fall on balances.

TABLE 7:

Useable Reserves	1 April 2022	Purpose
Earmarked Revenue Reserves – Services	£9.094m	Consisting of sums set aside for specific purposes to support Service needs
Earmarked Revenue Reserves - Schools	£10.704m	Consisting of sums set aside for specific purposes to support Schools needs
Earmarked Reserves - Corporate	£15.037m	Consisting of sums set aside for specific purposes to support Corporate needs
General Fund balance	£3.510m	Used as an overall contingency to cushion the impact of unexpected events or emergencies and as a means of smoothing out annual budgets where there is significant change
Earmarked Capital Reserve (capital reserve, capital receipts reserve and capital grants unapplied account reserve)	£9.793m	Capital monies received by the Council set aside for funding ongoing Capital schemes per the Capital Programme. These sums generally cannot be used to support Revenue expenditure
Total Useable Reserves	£48.138m	

- 5.25 Table 8 sets out an anticipated position based on the second quarter outturn position, against the revenue reserves (excluding capital reserves). This does not take account of remedial action in the 2022/23 financial year to reduce the in-year overspend falling on balances as referenced in paragraph 2.6.

TABLE 8:

Useable Reserves	1 April 2022	Planned Use	Anticipated as at 31/3/23
Earmarked Revenue Reserves – Services	£9.094m	£4.370m	£4.724m
Earmarked Revenue Reserves - Schools	£10.704m	£4.900m	£5.804m
Earmarked Reserves - Corporate	£15.037m	£10.263m	4.774m
General Fund balance	£3.510m	£0	£3.510m
Total Useable Reserves	£38.345m	£19.533m	£18.812m

- 5.26 As at 1 April 2022, Conwy held the lowest level of reserves and general balances across Wales, which will still be the case at the end of the 2022/23 financial year. Audit Wales has continuously raised concerns about the Council's low level of reserves and its financial resilience as a consequence. The potential significant erosion of reserves in 2022/23, coupled with the significant financial challenge, demonstrates the Council's vulnerability in terms of its financial standing.
- 5.27 It is the responsibility of the Chief Financial Officer (the Strategic Director Finance and Resources at Conwy) to advise the Council on the level of its reserves. In the professional judgement of the Chief Financial Officer, the Council must not use reserves to balance the budget.
- 5.28 The Council needs to seek to build its reserves over time. Whilst there is no determined level of reserves that it is necessary to hold as it is a matter of judgement, the Chief Financial Officer, recommends that the Council seeks to build its general reserves to a level equivalent to 5% of the net revenue budget. That equates to £12.85m. Earmarked reserves, for specific purposes would be in addition to that sum.
- 5.29 Given the scale of the financial challenge during 2023/24 and 2024/25, it may not be feasible to plan to build our general balance, by earmarking budget, in those years. However, during this period, any windfall income could be used for this purpose. It is also considered that the level of reserves retained by services be limited, in order to claw back any existing reserves or future underspending to build our general balance as well. This exercise will be undertaken as part of the closure of the 2022/23 accounts.
- 5.30 In the period of the next medium term financial plan, consideration must be taken to rebuild reserves in the budget.

6. STRATEGIC CONSIDERATIONS

- 6.1 As already discussed a range of activities are currently underway to identify sufficient savings to set a balanced budget for 2023/24. However, it is evident that we face equal pressure in 2024/25 and therefore we immediately, from April 2023, need to turn our attention to setting the 2024/25 budget and putting the Council on a firmer financial and operational footing into the medium term.

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- 6.2 Our decisions must be set within the context of our Corporate Plan 2022-2027 priorities. However, given the scale of the financial challenges that we face, it is inevitable that we will need to cut our cloth accordingly and prioritise within our financial constraints.
- 6.3 Whilst it is not an exhaustive list, we need to investigate the following strategic areas to assess how to use our limited resources more effectively. Some of these areas seek to manage the existing pressures and others to maximise opportunities to reshape our operating model. These areas are not quick fixes and will need time and investment to implement.

Addressing Pressures

1) Looked after Children provision

As discussed in paragraph 3.2 (6), the Council is facing significant additional pressures as a result of escalating costs relating to looked after children.

We have seen an increase in complexity of a number of children within the 'Children Looked After' service and more recently seen a significant increase in those being placed in out of county Independent Residential Placements. There are several contributory factors to this increase:

- Shortage of suitable foster placements; agencies can take children with less challenging behaviour, who are often younger.
- Apparent increase in risk taking behaviour by children/young people including self-harm/absconding/social media.
- An increase in children requiring accommodation in an emergency with no comprehensive assessment.

In line with the Council's Placement Commissioning Strategy 2022-2027 the Council will always need to utilise a range of placement types for its looked after children. However, we need to move away, as much as possible, from out of county residential placements both for the benefit of the child, but also from a financial perspective.

The Council is already advanced in establishing Bwthyn-y-Ddol and recently took decisions to develop Glan-y-Afon further. Discussions to develop other in county facilities are also taking place. Once operational, these developments will help in reduce the need to send children out of county. We need to further consider the extent that we required further in house residential placements.

The Council also needs to promote growth in Connected Persons (family and friend care) and Foster Carers as preferable options. Currently, the fee model, does not incentivise new foster carers into the system and often those in the market are attracted to work for agencies rather than partnering with the Council. We need to review the benefits package for foster carers in order to make it a more attractive offer and build on the good work we are already doing to stimulate recruitment in this area.

These actions, will result in improved outcomes for looked after children, but also significantly reduce the increasing financial pressure in this area.

2) Care delivery model for Adult Services

Over time and for good reason historically, much of the Council's care provision is provided by independent providers. Furthermore it is a requirement of the Social Services and Wellbeing (Wales) Act 2014, that the Local Authority facilitates a diverse, sustainable high quality social care market that meets the need of the local population. However, that doesn't mean that the Council cannot have its own in house provision and it may be appropriate that the Council seeks to rebalance the level of in house provision as compared to relying solely on the external market.

It is appropriate therefore to consider whether the Council could deliver domiciliary care in a more cost effective way by rebalancing the provision. This may equally apply to residential provision, albeit that would also be contingent on significant capital investment and would therefore need detailed consideration.

3) Housing

The number of people accessing temporary accommodation is increasing at an alarming rate, which is having a significant impact on the homelessness budget. Apart from the detrimental financial consequences for the Council, it is clearly incredible unsatisfactory for the individuals and households where being placed in temporary accommodation can have a detrimental impact on their health and wellbeing.

At the end of September 2022, 272 people were in temporary bed and breakfast accommodation, including 82 children. The demand for affordable housing is increasing and the delivery of new build or other accommodation is not quick enough to meet current demand. In fact the gap between supply and demand is widening largely due to private rented sector evictions. The Council is currently seeing around 15 s21 notices (no fault evictions) a week.

The Council is already undertaking a range of activity in this area, including working actively with our Registered Social Landlords, identifying land for affordable housing and applying for Transactional Accommodation Capital Programme (TACP) grant funding to purchase some housing itself.

The Council needs to now develop a holistic approach to the various strands of activity in this area to ensure that it is strategically focussed to provide solutions and drive down the financial pressures in the revenue budget.

4) Income

Across the Council we generate income from a range of fees and charges as well as attracting external grant funding to support specific activity. Consideration is given on an annual basis to increase fees and charges as part of the budget setting process. However, we do not have a consistent approach in terms of any uplift that is applied. We need to adopt an improved approach to income generation, including ensuring

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that we maximise the use of external grant funding, as well as keeping our fees and charges in line with inflation.

Changing the way we work

5) Footprint of Council buildings needed to best deliver services

We need to review the Council's building portfolio across the County to ensure that it is fit for purpose to meet the Council's strategic priorities. In doing so, we need to accelerate the sale of surplus buildings to maximise capital receipts and remove revenue costs that support these. We also need to look to maximise the use of key building assets in our key geographical locations and potentially consolidate services into fewer buildings within an area.

6) Review of schools model

The Council currently delivers education via 60 schools (52 primary, 7 secondary and 1 special). Table 9 sets out the projected decline in pupil numbers over the next four year, based on known birth rates. It does not take account of inward or outward migration which could therefore alter the projections. However, without significant increases in birth rates or inward migration to the County in these age groups over the coming years, the decline continues in 2027/28 and beyond and impacts on both primary and secondary.

TABLE 9:

Financial Year	Projection at:	Primary pupil numbers	Secondary pupil numbers	Net change Pupil numbers
2023/24	Sept 22	-233.5	+38	-195.5
2024/25	Sept 23	-256	+123	-133
2025/26	Sept 24	-194	+54	-140
2026/27	Sept 25	-173.5	+7	-166.5

Given declining pupil numbers and increasing building costs, it is timely to undertake a review of the schools provision model to assess whether it can be more efficient.

7) Discretionary services delivery model

The reality of the scale of the financial challenge means that the Council will have to fundamentally consider the shape of its service provision over the coming years. It may well be that the Council has no choice but to stop delivering much of its discretionary services.

In that context, it is timely to revisit whether there may be more effective business models for both the theatre and leisure services. There are a number of 'Trust' and arm's length company models that could be considered.

8) Joint working

The pressures we face are replicated across the rest of the public sector. As a result we need to re-examine the opportunities to work jointly which could both yield financial savings, but also build resilience across services.

9) Procurement gains

The Council has appropriate procurement arrangements that comply with legislation. However, we have previously undertaken comparatively little work to consider the scope for procurement gains through the analysis of our overall procurement activities across the Council.

10) Internal administration

The Council is a complex organisation currently organised into three directorates and eleven service areas. Across the organisation there is a vast array of administrative activity services both our residents and internal functions. A review of these functions, with the potential of centralising certain activities relating to IT, finance and HR, as well as reducing the burden generated as a result of the current internal charging arrangements, could well yield savings and improve the efficiency of the overall arrangements.

11) Digital transformation and automation

There are a range of technological solutions that could assist the Council to both improve services to residents but also transform the way that we work internally. As an example there is scope to use software (bots) to automate tasks and perform repetitive tasks, which form part of a range of administrative and transactional activity within the Council. We need to undertake work to identify where the biggest gains would be in terms of utilising this software to automate processes and free up staff to be redirected elsewhere. However, we must recognise that this may require some investment in order to achieve these efficiencies.

12) Review of Democratic arrangements

Consideration needs to be given to reducing the financial burden of the democratic arrangements, both in terms of direct costs (e.g. paid roles), and in terms of the call on officer time in servicing committees.

7. CONCLUSION

- 7.1 The Medium Term Financial Plan (MTFP) sets out the estimated net revenue budget for the next two years. It is based on a range of assumptions, some of which are more certain than others, which have been detailed in the paper. However, the level of uncertainty, both in terms of the UK economic outlook, funding from Welsh government and service demands, leaves us with significant risk. As a result of the volatility, we will review and update the plan on a regular basis.

- 7.2 So whilst the plan does not provide us with any real certainty, it nonetheless does provide a clear indication of the direction of travel and scale of the financial pressures, to determine actions and strategic considerations we need to take in the immediate term (to set the 2023/24 budget) and mid-term (to set the 2024/25 budget).
- 7.3 In terms of those actions, we clearly need to prioritise and focus our effort into those areas which will have the biggest impact in terms of driving down the financial pressures. In the first instance, these are, addressing the looked after children and homelessness pressures and reducing our building footprint. Some of these activities will impact on the Council's capital programme and will need to be prioritised. It is also important for Members to articulate their approach in terms of Council Tax.