Cyngor Abertawe
Swansea Council

Report of the Section 151 Officer

Corporate Services and Financial Resilience Service Transformation Committee – 26 September 2023

Medium Term Financial Plan

Purpose:	To provide information on the Medium-Term Financial Plan in preparation for contributing to future savings proposals.
Policy framework:	Medium Term Financial Plan and Budget Strategy
Consultation:	Legal and Access to Services.
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For Information	

1. Introduction and Context

1.1. Local Authorities are under a duty to make arrangements for the proper administration of their financial affairs. Failure to do so will be a breach of that duty. The requirement to set an annual balanced budget is included in a number of acts including for example the Local Government Act 1988 and the Local Government (Wales) Act 1994.

1.2. However, there is no legal definition of “balanced” and it therefore falls to the Chief Finance Officer to use their professional knowledge and judgement to be satisfied that the budget agreed by Council each year falls within the requirement. To aid this, CIPFA (the professional accounting body for public finance) suggested, within their publication Balancing Local Authority Budgets, that a prudent definition of a sustainable balanced budget would be “A financial plan based on sound assumptions which shows how income will equal spend over the short and medium term.” From this it is clear that an authority not only needs to set an annual balanced budget, but also a medium-term balanced budget.

1.3. Medium-term is usually defined as between three and five years. Swansea sets a four-year financial plan, consisting of the legally required one-year annual balanced budget and a three-year future budget plan.

1.4. The term "Medium-Term Financial Plan" is most often used when referring to revenue expenditure (ie to the provision of services), however capital expenditure, by the very fact that it is significant and projects can take many years to complete, is also subject to an annually approved multi-year financial plan, known as the Capital Programme.

1.5. In terms of context, the Well Being of Future Generations Act (Wales) 2015 means that Councils must carry out their services (i.e., meeting the needs of the present) in a sustainable way (to protect the needs of future generations). A medium-term financial plan helps to plan in a sustainable way, to improve the social, economic, environmental, and cultural well-being of Wales over time.

1.6. Medium-term financial planning is not without its challenges, the most obvious being that Councils are only allocated their funding from the Welsh Government on an annual basis, which itself gets an annual allocation from the UK Government. So, as well as having to make assumptions and forecasts on future expenditure levels, this Council must also make assumptions on future income streams. These income streams are subject not only to the general economic climate, but also to the political environment, which can cause issues because of a change in power, and, if there are different parties in power in the UK Government, the Welsh Government and the local council, priorities (and therefore funding) can be pulled in different directions.

1.7. The current economic climate presents a number of difficulties in terms of forecasting levels of inflation, pay awards, future funding. This is further complicated by the requirement to meet policy commitments as well as balancing legal requirements, generally with insufficient core funding.

1.8. A copy of the current Medium Term Financial Plan (MTFP) is attached as Appendix B. This was approved by full Council on 2nd March 2023.

2. Revenue and Capital Financial Planning Processes

2.1. Capital Programme

2.1.1. The Capital Programme is a five-year rolling programme. This means that the budget is set for the next five years, giving an estimation of the cost and length of the approved capital schemes.

2.1.2. Capital schemes are significant in nature, significant in cost, are usually lengthy to complete and create (or enhance) an asset for the Authority.

Schemes can range from structural maintenance of roads to building a new school and can take anything from a couple of months to several years to complete.

2.1.3. Schemes are added to the capital programme by means of Financial Procedure Rules (FPRs) – usually referred to as an FPR7 report. The purpose of this report is to identify the scheme, the cost and most importantly the funding. There is a scheme of delegation in place, meaning at the least for a scheme to be included it must have the approval of the relevant Cabinet Member and Director, the Chief Finance Officer and the Chief Legal Officer, Schemes estimated to cost more than £1million require a report to Cabinet.

2.1.4. Funding for schemes can be in the form of supported borrowing, unsupported borrowing, specific grant, a contribution from the revenue budget, use of reserves, use of capital receipts or other grants and contributions. Any form of borrowing will impact the revenue budget plan as there will be borrowing costs charged to the revenue account. This must be considered (along with any other revenue implications such as ongoing maintenance) when the scheme is considered for approval.

2.1.5. Although the five-year plan is approved by Council annually, schemes can be added at any time during the year provided the appropriate report is approved.

2.1.6. The Council has a requirement to adhere to CIPFA's Code of Practice for Prudential Borrowing when adding schemes to the Capital Programme, meaning the Chief Finance Officer must be satisfied that the funding for the scheme is affordable and sustainable.

2.2. Revenue Budget Planning

2.2.1. The budget planning process starts in June each year, whereby the Medium-Term Financial Plan (MTFP) approved by Council in the preceding March is reviewed by the Corporate Management Team. Over the next three months work is carried out to extend this plan by one year, and to update the assumptions contained within that plan. With the emphasis being on the first year of the plan (i.e., the next financial year), as it is imperative that the assumptions used for this year are as accurate and appropriate as possible. Future years are as important, but it is recognised that assumptions will need to change over time and as such a range of assumptions around funding are worked on for those future three years.

2.2.2. All items in the plan need to be reviewed and updated where necessary, this includes funding levels, Council Tax levels, use of reserves, levels of inflation, known service pressures and of course the savings proposals. It is necessary to review all these and to allow for new items to be considered to allow the plan to be as up-to-date and flexible as possible. Sticking rigidly to a plan can cause it to fail, over the last few years the Council has had to react to COVID and the cost-of-living crisis for example, meaning the plan has had to change and evolve as risks and funding have also evolved.

2.2.3. It is the responsibility of the Chief Finance Officer to advise on the likely levels of funding. There are three main funding streams – Revenue Support Grant (RSG), Non-Domestic Rates (NDR) and Council Tax. RSG and NDR are known collectively as Aggregate External Finance (AEF), the level of AEF is determined by the Welsh Government. Council Tax levels are under the control of this Council, although it is possible that the Welsh Government would intervene if Council Tax levels were set too high. In recent years it has been December before the Welsh Government has released the provisional settlement for Councils. Not knowing the provisional levels of funding until December means there is a high level of uncertainty around the MTFP until this point each year. An all-Wales indicative level of funding was given for three years, however the funding has been significantly different to the indication, so useful as a planning tool, but not reliable.

2.2.4. The Chief Finance Officer will give a written or verbal update to Council sometime in October or November. This update is to clarify the effect of adding an extra year on to the MTFP, to give updates on the assumptions that may have changed and to give a general overview of the possible levels of funding from the Welsh Government.

2.2.5. Between June and November, Officers are working closely with Members to review existing savings proposals and to propose new savings. If an existing saving is no longer possible, or needs to be postponed, then replacement savings are needed. If costs increase or funding decreases, then additional savings are also needed.

2.2.6. During December, there will be a report to Cabinet confirming the latest expectations for funding and pressures. This report also confirms the savings proposals that will need to be consulted on. At this stage the proposals are quite well thought out, have substance and a plan to implement, but are still very much subject to the outcome of the consultation. The consultation varies each year, is predominantly in respect of the proposals that need to be implemented within the next twelve months and is co-ordinated by the Access to Services Team.

2.2.7. Consultation usually lasts until the end of January, following this, proposals are reviewed and updated in line with the results of the consultation. Provisional Funding levels are confirmed and the MTFP is split into the two reports for Cabinet – the annual revenue budget report, fulfilling the statutory requirement for a balanced budget, and the MTFP report, fulfilling the CIPFA recommendation of a medium-term balanced budget. Cabinet reviews and agrees or amends the reports before they are considered by Council for the final approval. The Council is legally required to approve a balanced budget by 11th March each year.

3. Next Steps in Medium Term Financial Planning

3.1. At this stage in the year forecasts have been updated and agreed by CMT and Cabinet Members. This includes likely levels of pay awards, inflation and other pressures as well as likely levels of funding. This gives a potential funding gap – the options for filling this gap are additional savings and/or Council Tax increases.

3.2. There are three categories of saving, in the main they fall into one of either service efficiencies, service cuts, or income increases.

3.3. Service efficiencies are the most palatable as the aim here is to provide the same level of service but at a lower cost by updating or streamlining existing processes. This can be achieved by the use of technology and/or being more efficient. This type of saving was the most common saving up to roughly 2018, after which it became harder (although not impossible) to find areas that needed to become more efficient.

3.4. Service cuts are the hardest to implement as they mean a reduction or removal of a service. This type of saving needs to be set in the context of the Council's agreed priorities:

- Safeguarding people from harm
- Improving education and skills
- Transforming our economy and infrastructure
- Tackling poverty and enabling communities
- Delivering on nature recovery and climate change
- Transformation and financial resilience

Savings should not contradict the above, but the Council should consider if any service carried out is outside of any of the above, and if so, is it a necessary service.

3.5. Finally, the Council can consider increasing levels of income, mainly in the form of fees and charges. It should be noted that fees and charges should be increased in line with inflation every year, just to keep up with the level of increased costs but increases over and above inflation can be proposed as savings. It should be borne in mind that there is a balance between price and demand – sometimes increasing prices can reduce demand and therefore reduce income, not achieving the saving required. Many fees and charges are not under the control of the Council and are set by regulation, thus reducing the scope for increases.

3.6. All savings proposals are considered by CMT and Cabinet Members for alignment with corporate priorities and robustness before being included in the December proposals report to Cabinet.

3.7. For planning purposes Council Tax increases are generally included at 5%, with the impact of a range from 3% to 7% shown for comparison purposes. The final report to Council will recommend a final Council Tax increase, following consultation.

4. Reserves

4.1. The Council has a number of earmarked reserves, these reserves have a specific use – for example the capital financing reserve is used to smooth the effects of borrowing over a number of years and the Economic Recovery Fund (ERF) was used to boost the local economy following COVID.

4.2. Reserves are available to be spent, however they are a one-off sum of money so shouldn't be used to fund on-going spend. The ERF was used to increase the inflation provision on a temporary basis – energy costs were forecast to increase sharply in 2023/24 but are expected to reduce in future years, so the reserve was used to fund the sharp increase in 2023/24, with a longer term increased base budget being built into the MTFP for future years.

4.3. This Council has a high level of earmarked reserves, mainly due to the capital financing reserve and the ERF reserve. However, the General reserve in comparison is low compared to other Councils. The Chief Finance Officer has a duty to consider the levels of reserves as part of the annual budget process, and currently is only happy to certify them as adequate because of the high levels of earmarked reserves.

5. Legal implications

5.1. There are no direct legal implications arising from this report. However, it should be noted that Section 151 of the Local Government Act 1972 requires each Local Authority to make arrangements for the proper administration of its financial affairs and that the Chief Finance Officer (in our case the Section 151 Officer and Chief Finance Officer) has responsibility for those affairs.

6. Integrated Assessment implications

6.1. The Council is subject to the Equality Act (Public Sector Equality Duty and the socio-economic duty), the Well-being of Future Generations (Wales) Act 2015 and the Welsh Language (Wales) Measure, and must in the exercise of their functions, have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
- Advance equality of opportunity between people who share a protected characteristic and those who do not.
- Foster good relations between people who share a protected characteristic and those who do not.
- Deliver better outcomes for those people who experience socio-economic disadvantage.
- Consider opportunities for people to use the Welsh language.
- Treat the Welsh language no less favourably than English. Ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs.

6.2. The Well-being of Future Generations (Wales) Act 2015 mandates that public bodies in Wales must carry out sustainable development. Sustainable development means the process of improving the economic, social, environmental and cultural well-being of Wales by taking action, in accordance with the sustainable development principle, aimed at achieving the ‘well-being goals’.

6.3. Our Integrated Impact Assessment (IIA) process ensures we have paid due regard to the above. It also takes into account other key issues and priorities, such as poverty and social exclusion, community cohesion, carers, the United Nations Convention on the Rights of the Child (UNCRC) and Welsh language.

6.4. As this report is for information only there is no impact on anyone with a protected characteristic. Any consideration of the Well-being of Future Generations Act would take place as part of the annual budget process and consultation.

Background papers :

Guide to Welsh Public Finances – Auditor General for Wales, Wales Audit Office, July 2018
Balancing Local Authority Budgets – Chartered Institute of Public Finance and Accountancy, April 2016

Appendices:

Appendix A – Glossary of Terms
Appendix B – MTFP

Appendix A

Glossary of Terms	
Chief Finance Officer	The Officer of the Council with ultimate responsibility for all things financial. Also refered to as 'The Section 151 Officer' as this is the legislation awarding the powers.
Medium Term Financial Plan (MTFP)	The Council's three year forecast of revenue budget pressures and savings
Capital Programme	The Council's five year forecast of capital spend and funding
Revenue Expenditure	Day to day spending on activities to enable the provision of services. Usually short-term (within 12 months). Includes costs such as staff costs, transport costs and supplies and services.
Capital Expenditure	Spend on acquiring or enhancing assets of the authority. Usually spend is substantial and over a period of years.
Reserves	Sums of money set aside by the Council for future use or application, these are split into General Reserves and Earmarked Reserves. General Reserves are for general use in an emergency and should not be considered for everyday use. Earmarked reserves are for use in specific instances. Some of these may be legally enforceable (such as commuted sums), others are just an indication of what the Council wishes to set monies aside for.
Inflation	The measure of how much goods and services have increased in price over a certain period.
Financial Procedure Rules (FPRs)	The Council is bound by a number of different financial rules and procedures that govern how the Council's spending is planned, committed , reviewed and audited. These detailed Financial Procedure Rules are set out in Part 4.6 of the Council's constitution.
Supported Borrowing	The Council can borrow money to fund capital expenditure, when it is supported borrowing then this means the Welsh Government are providing funding for the borrowing costs
Unsupported Borrowing	The Council can also undertake unsupported borrowing, this means the costs of the borrowing are fully funded by the Council with no support from the Welsh Government. This type of borrowing should be undertaken with the guidance on Prudential Borrowing.
Capital Receipts	Income from the sale of assets. Capital receipts can only be used to fund capital expenditure
Revenue Support Grant (RSG)	The stream of funding that comes from the Welsh Government (ultimately the UK Government). This funding is not ring-fenced in anyway and it is local choice on how it should be spent. It can be used to fund capital expenditure.
Non-Domestic Rates (NDR)	Rates charged to businesses for operating within a Council's boundaries. This is controlled on an all Wales basis and all rates collected are pooled by the Welsh Government and then re-issued to local authorites. Like RSG this income is not ring-fenced.
Aggregate External Finance (AEF)	This is the collective term for Revenue Support Grant and Non-Domestic Rates when taken together.
Council Tax	A tax levied on households by local authorities. The level of Council Tax can be determined by a local authority, although excessive annual increases may be reviewed by the Welsh Government.