

Committee: **Executive Committee**
 Date of meeting: **9 February 2022**
 Report Subject: **Revenue Budget 2022/2023**
 Portfolio Holder: **Cllr N Daniels, Leader / Executive Member
 Corporate Services**
 Report Submitted by: **R Hayden – Chief Officer Resources**

Reporting Pathway								
Directorate Management Team	Corporate Leadership Team	Portfolio Holder / Chair	Audit Committee	Democratic Services Committee	Scrutiny Committee	Executive Committee	Council	Other (please state)
	20/01/2022	25.01.22			08/02/2022	9/02/2022	17/02/2022	

1. Purpose of the Report

1.1 This report is presented to Members to:-

- i) provide an update on the positive provisional local government settlement for 2022/23 and its impact upon the Council's budget
- ii) consider and agree the detailed revenue budget for 2022/23
- iii) agree the level of Council Tax increase for the 2022/2023 financial year.

2. Scope and Background

2.1 The revised Medium Term Financial Strategy was agreed by Council in November 2021, this report updates Members with the latest financial position regarding the budget following the announcement of the provisional local government settlement for 2022/23. The report covers the following:

Section	Contents
2.7 – 2.17	National Aggregate External Finance (AEF) Position
2.18 – 2.24	Blaenau Gwent AEF position
5.1.1 - 5.1.3	Aggregated External Finance (AEF) funding compared to MTFS
5.1.7 – 5.1.10	Cost Pressures and Growth
5.1.11 – 5.1.15	Treatment of Grants transferring into the Settlement
5.1.16-5.1.19	Individual Schools Budget
5.1.26	Revised funding gap
5.1.21–5.1.28	Bridging The Gap Programme
6.1.1	Revenue Budget 2021/22 – half year position
6.1.2	General Revenue Reserves 2021/22 – half year position

2.2 The Provisional Settlement contains details of the revenue funding that Welsh Authorities can expect to receive in 2022/23 in order to allow them to set their budgets and determine levels of Council Tax for that year. It also provides details of the Capital funding that Authorities can expect to receive to fund their Capital Programmes (indicative figures per Local Authority for the 2023/24 financial year and beyond have not been provided at this stage). The written statement from the Minister for Housing and Local Government is attached as Appendix 1.

- 2.3 Revenue funding from Welsh Government (WG) is provided in the form of Aggregate External Finance (AEF) which is made up of the Revenue Support Grant (RSG) and National Non Domestic Rates (NNDR). This AEF funding is un-hypothecated i.e. it is not earmarked for specific services and it is up to individual Councils to decide how to allocate to services in order to fit with their priorities (while taking into account statutory responsibilities).
- 2.4 Revenue funding also comes in the form of specific grants, in which case the funding is earmarked for a particular purpose. It is the long term intention of the WG that the number of specific grants is reduced, with funding being transferred into the AEF, giving Local Authorities more flexibility on distributing funding to services. Hence, this form of funding should diminish over time.
- 2.5 Capital funding is provided in the form of General Capital funding, made up of an Un-hypothecated Supported Borrowing (USB) approval and General Capital Grant approval. The USB approval is a borrowing approval for which revenue support is provided within the AEF to cover debt financing costs i.e. principal and interest. It is un-hypothecated, meaning that borrowing can be carried out for any capital purpose. The General Capital Grant is, as its name suggests, a grant that can be used for any capital purpose.
- 2.6 The positive provisional settlement combined with the opportunities identified in the Bridging the Gap programme means that the Council is able to invest in key priorities, avoid cuts to services and enhance its financial resilience.
- 2.7 **National Position (All Wales)**
- 2.8 On the 21 December 2021, the Minister for Housing and Local Government published the provisional local government settlement. The overall headline increase in AEF quoted by WG is 9.4%, after taking into account transfers into the settlement. Compared to the Welsh average the 8.4% increase for Blaenau Gwent places us at the bottom of the all-Wales table.
- 2.9 There have been three transfers into the settlement:-
- £13.3m for Gate fees grant
 - £0.29m for the Coastal Risk Management Programme (no impact for this Council)
 - £5m for the Social Care Workforce Grant.
- 2.10 Certain Specific Revenue Grants data has only been published on an all-Wales basis, totalling £1.16b for 2022/2023, along with projections for the following 2 financial years. Funding for some grants has increased e.g. Childcare Offer (£22.8m), Pupil Development Grant (£12m), a number of grants have decreased e.g. Regional Consortia School Improvement Grant (£14m), Recruit, Recover Raise Standards – the Accelerated Learning Programme (£31m), and a new grant for Free School Meals of £40m, increasing to £90m for 2024/25.
- 2.11 In terms of capital grants, the non-hypothecated general capital funding for 2022-23 is reducing from £178 million across Wales to £150m and increasing to £180m

for the following 2 financial years. Included within this amount is £20 million allocated for 2023/24 and 2024/25 for Local Government Decarbonisation.

- 2.12 Further details of the specific grants for local government will be published alongside the final RSG settlement in March 2022.
- 2.13 The funding provided through this settlement recognises the impact of:
- Teachers pay award for 2022/23, with no further funding being made available in year
 - Increase in employers NI contributions in respect of the social care levy
 - Additional costs of introducing the real Living Wage for care workers
 - Pandemic Support
 - Ongoing funding to support core operations of corporate joint committees
 - Welsh Electoral Reform
- 2.14 The current policy and funding arrangements for Council Tax Reduction Schemes (CTRS) continues into 2022/23. Consequently, £244 million continues to be included in the Settlement for funding the Council Tax Support Scheme. This reflects the costs of the Scheme when it was first established in 2013/14, but again means that any additional costs resulting from increases in council tax levels or caseload for 2022/23 will fall to Local Authorities (of the £244m, the Council receives £8m towards costs of £9.9m).
- 2.15 The Minister states that the significantly increased settlement should enable Councils to continue to deliver the services our communities want and need.
- 2.16 The provisional settlement announcement marked the start of a seven week consultation period which ends on 8th February 2022. After this the Minister will consider whether further amendments are to be made, before the final settlement is announced on 2 March 2022.
- 2.17 The provisional settlement included indicative revenue funding on an all Wales basis for 2023/24 and 2024/25 and this indicates an uplift of 3.5% and 2.4% respectively. These figures are dependent on the funding provided by UK Government and NDR income.
- 2.18 **Blaenau Gwent Position**
- 2.19 The headline increase for BGCBC after allowing for transfers is 8.4% (£10.4m), compared to the all Wales increase of 9.4%. This positive settlement combined with the opportunities identified in the Bridging the Gap programme means that subject to the recommendations in the report being agreed, the Council is able to agree a budget for 2022/23.
- 2.20 The Standard Spending Assessment (SSA) increase, quoted as 7.7%, is the joint 3rd lowest in Wales (compared to an all Wales increase of 8.2%).

2.21 The SSA is the detailed funding formula that is intended to reflect variations in the need to spend which might be expected if all Welsh Authorities responded in a similar way to the demand for services in their area. Indicators of need include population, pupil numbers, deprivation factors, population dispersion etc. The SSA is the mechanism for distributing RSG which enables Authorities to **theoretically** charge the same council tax for the provision of a similar standard of service. However, if Authorities don't spend at SSA level, then council tax levels will not be the same, which in practice, is what happens.

2.22 Changes in SSA data and formulae with a significant impact in Blaenau Gwent are explained below:

Population – Blaenau Gwent's population has decreased by 0.1% compared to the Welsh average increase of 0.3%.

Population indicators make up a large proportion of the cost driver indicators within the SSA formula.

Education Demographics –

- Nursery & Primary pupil numbers have reduced by 0.8% compared to the Welsh average reduction of 0.5%.
- Secondary school pupil numbers have increased by 1.4%, compared to the Welsh average increase of 1.8%.
- Free School meals pupils have increased by 7.4% in the Primary Sector and 5.7% in the Secondary Sector, compared to the Welsh average of 7% and 8.8% respectively.

All these factors have resulted in an overall increase to Blaenau Gwent's Education SSA. For information, BGCBC has consistently spent above the Education SSA on the Education services it provides.

Deprivation Indicators - IS (Income Support)/ JSA (Job seekers Allowance) /PC (Pension Credit)/ UC (Universal Credit)/ not in employment claimants have increased by 15.3% compared to the Welsh average increase of 19.7%. This has had an impact on the SSA increase.

2.23 The Authority remains the highest receiver of Aggregate External Finance (RSG plus NNDR) on a per capita basis.

2.24 General Capital Funding has reduced by £0.6m from 2021/22 to £3.2m, of which General Capital Grant is £1.3m and Supported Borrowing is £1.9m.

3. **Options for Recommendation**

3.1 **Option 1 (preferred option)**

3.1.1 Subject to the decisions on the following recommendations, Members consider and recommend to Council the 2022/23 revenue budget as shown in table 2 in paragraph 5.1.13.

- 3.1.2 Members to provide comment on the outcomes within the overall provisional RSG Settlement and note the potential for further change in the Final RSG Settlement (paragraphs 2.7 – 2.17).
- 3.1.3 Members to provide comment on the outcomes within the BGCBC provisional RSG Settlement and its impact upon the Medium Term Financial Strategy (paragraphs 2.18 – 2.24).
- 3.1.4 Members to consider and recommend to Council the cost pressures and growth items (£4m in total) identified in Appendix 2 (paragraphs 5.1.9 – 5.1.12) for inclusion in the Council’s budget.
- 3.1.5 Members to consider and recommend to Council passporting the grants transferring into the Settlement of £265,000 to the relevant services (paragraphs 5.1.14 – 5.1.18).
- 3.1.6 Members consider and recommend to Council an uplift of £3.91m which equates to 8.4% increase to the ISB (paragraphs 5.1.19 to 5.1.22).
- 3.1.7 Members consider and recommend to Council that any achievement of Bridging the Gap proposals which exceeds the in-year budget requirement be transferred into a contingency budget to support pay increases during 2022/23 over and above that provided in the Medium Term Financial Strategy of £0.95m and £1.5m to be transferred to the Financial Resilience Reserve (paragraph 5.1.32 & 5.1.34).
- 3.1.8 Members recommend to Council a Council tax increase of 4% for 2022/23 (paragraph 5.1.3) as per the MTFS assumptions.

3.2 **Option 2**

- 3.2.1 Members consider and do not agree the recommendations in the report.

4. **Evidence of how does this topic supports the achievement of the Corporate Plan / Statutory Responsibilities / Blaenau Gwent Well-being Plan**

- 4.1 The budget setting process and the Medium Term Financial Strategy (MTFS) supports the Corporate Plan outcome “an ambitious and innovative Council delivering the quality services we know matter to our communities” and ensures effective forward planning arrangements are in place to support the Council’s financial resilience.
- 4.2 The revenue & capital budgets support the delivery of all the Council priorities.
- 4.3 To comply with statutory responsibilities, the Council must set a balanced budget and set its Council Tax for the forthcoming year by 10 March 2022.

5. Implications Against Each Option

5.1 Impact on Budget (short and long term impact)

5.1.1 The most recent iteration of the MTFS (agreed by Council on 25 November 2021) indicates (prior to the identification of budget reductions or increased income) budget gaps of:-

5.1.2 Table 1 – MTFS Budget Gap (as at November 2021)

2022/23	2023/24	2024/25	2025/26	2026/27	Total
£6.7m	£3.5m	£3.5m	£3.5m	£3.5m	£20.7m

5.1.3 This is based upon a number of assumptions including:

- cash flat level of funding from WG for 2022/23 onwards
- a Council Tax increase of 4% per annum
- an annual contribution to General Reserve of £200,000

5.1.4 Comparison to MTFS

5.1.5 AEF Funding

5.1.6 Clearly, the unadjusted provisional settlement increase in funding of £10.4m (8.4%) for 2022/23 for Blaenau Gwent is better than the MTFS modelled position.

5.1.7 The MTFS assumption of cash flat funding for 2023/2024 and 2024/25 can also be revised based on the indicative increase in Welsh Government funding of 3.5% and 2.4% respectively. Given that the Council's increase in AEF has in recent years been on or below the Welsh average, it is proposed the revised assumption be 3% for 2023/24 and 2% for 2024/25.

5.1.8 As a result, the original budget gaps can now be revised. Table 2 below takes account of the provisional settlement and revised cost pressures.

5.1.9 Service Cost Pressures and Growth

5.1.10 Existing, new service cost pressures and growth items totalling £4.2m for 2022/23, have been included in the MTFS and the budget gap identified in table 1 above. £2m per annum has been assumed for 2023/24 onwards.

5.1.11 Following the provisional settlement, these have been reviewed and updated and now total £4m for 2022/23 financial year. These revised cost pressures and growth items are included at Appendix 2.

5.1.12 It is proposed that the revised cost pressures totalling £4m are agreed and built into the Council's budget from 2022/23.

5.1.13 Table 2 below details the impact the Provisional Settlement and the cost pressures have on the budget gap.

Table 2 - Budget Gap based on 2022/23 Provisional RSG*

	2022/2023	2023/2024	2024/2025	2025/2026	2026/2027
	£000s	£000s	£000s	£000s	£000s
Funding					
AEF	(130,795)	(134,719)	(137,413)	(137,413)	(137,413)
Council Tax @ 4%	(38,242)	(39,772)	(41,362)	(43,017)	(44,738)
Total Funding	(169,037)	(174,491)	(178,775)	(180,430)	(182,151)
Draft Estimates - Prior to savings	160,803	167,942	173,141	178,408	183,743
Budget Gap /(surplus)	(8,234)	(6,549)	(5,634)	(2,022)	1,592
Cost Pressures/growth	4,007	2,000	2,000	2,000	2,000
Contribution to Reserves	200	200	200	200	200
Budget Gap /(surplus) (1)	(4,027)	(4,349)	(3,434)	178	3,792

**MTFS settlement assumptions also updated and assumes a 3% & 2% WG settlement for 2023/24 and 2024/25 respectively reverting to cash flat from 2025/26.*

5.1.14 Treatment of Grants transferring into the Settlement

5.1.15 The draft estimate figures currently do not include these amounts transferring into the budget as they were only announced as part of the 2022/23 provisional settlement. As the grants are transferring into the settlement, they will no longer be received as a specific grant, but instead are built into the AEF funding.

5.1.16 The provisional settlement includes the transfer of two specific grants which will impact on the Council:

- Social Care Workforce Development Grant - £127,000
- Waste Gate Fees - £138,000

5.1.17 All Councils will need to consider whether they want to continue to support the activity formerly funded by specific grant and additional funding or use the

resources for other purposes. If the Council does not agree to passport funding in this way, there will be a new cost pressure within these budgets.

5.1.18 It is proposed that the grants transferring into the settlement are passported to relevant budgets from 2022/23.

5.1.19 **Individual Schools Budget (ISB)**

5.1.20 Given that the Council will receive an uplift of 8.4%, it is proposed to also uplift the ISB by 8.4%. The financial impact would increase the ISB by £3.91m. The increase would be inclusive of the £0.64m identified cost pressure as a result of increasing demographics.

5.1.21 The increase in funding will need to provide for:

- the cost of the pay awards during 2022/2023, as Welsh Government have indicated that there will be no further financial support for pay awards during 2022/23, and
- additional expenditure incurred relating to the pandemic such as supply costs currently funded from the Hardship Fund, as this will no longer be available.

5.1.22 The MTFS assumption of cash flat funding for 2023/24 and 2024/25 can also be revised for the ISB to 3% for 2023/24 and 2% for 2024/25 in line with the assumed increase to AEF.

5.1.23 The table below shows the financial impact on the funding gap should the transfer of grants of £0.27m and the increase in the ISB of £3.91m be approved.

5.1.24 **Table 3 - Impact of ISB increase and Grants Transferring**

	2022/2023	2023/2024	2024/2025	2025/2026	2026/2027
	£000s	£000s	£000s	£000s	£000s
Budget Gap / (surplus) (1)	(4,027)	(4,349)	(3,434)	178	3,792
Grants Transferring	265	265	265	265	265
Increase In ISB	3,910	1,398	932	0	0
Increase in ISB (prior years)		3,910	5,308	6,240	6,240
Total Budget Increase	4,175	5,573	6,505	6,505	6,505
Adjusted Budget Gap / (surplus) (2)	148	1,224	3,071	6,683	10,297

5.1.25 **BRIDGING THE GAP – Position Statement**

5.1.26 The pandemic has had a significant impact on the progress of delivering the outcomes of the strategic business reviews as the Council continues to respond to Covid-19. In light of this the estimated financial impact has been reviewed and updated.

5.1.27 The table below provides a summary of the estimated achievement of the Strategic Business Reviews, details of the individual strategic reviews are attached at Appendix 3.

5.1.28 **Table 4 – Estimated Achievement of Bridging the Gap Strategic Business Reviews**

Estimated Achievement:	2022/2023	2023/2024	2024/2025	2025/2026	2026/2027
	£'000	£'000	£'000	£'000	£'000
Total Estimated Financial Achievement	2,588	1,180	1,262	846	846

5.1.29 Factoring in this revised amount the impact for 2022/23 and future years on the budget gap/(surplus) is as follows:-

5.1.30 **Table 5 – Budget Gap / (Surplus) After Applying the Bridging The Gap Estimated Achievement**

	2022/2023	2023/2024	2024/2025	2025/2026	2026/2027
	£000s	£000s	£000s	£000s	£000s
Revised Funding Gap	148	1,224	3,071	6,683	10,297
BTG Estimated Achievement	(2,588)	(1,180)	(1,262)	(846)	(846)
BTG prev. year		(2,588)	(3,768)	(5,030)	(5,876)
Final Budget Gap/(surplus)	(2,440)	(2,544)	(1,959)	807	3,575

5.1.31 When factoring in the achievement of Bridging the Gap for 2022/23, there is a budget surplus of £2.4m.

5.1.32 **Pay Award**

5.1.33 The Draft Estimates have been prepared on the assumption of a 2% pay award for all staff. Given the current increase in the cost of living (inflation currently at 5.1% and rising energy bills), there is a potential for the pay award to be higher than 2%, it is therefore appropriate to reconsider the assumptions around pay. It is proposed that a contingency budget of £0.95m be included within the Council's budget for 2022/23 to fund increases to pay above the 2% assumed in the MTFS / draft budget.

5.1.34 **Transfer to Earmarked Reserves**

5.1.35 It is proposed that the achievement of Bridging the Gap which exceeds the budget requirement (Budget surplus after allowing for the pay award contingency of £0.95m) of £1.5m be transferred into the Financial Resilience reserve to support medium term financial planning, specifically for the later years of the Medium Term Financial Strategy.

5.1.36 **Pandemic Support**

5.1.37 During the last two years, WG has provided financial support to local authorities to reimburse them for additional costs incurred responding to the pandemic, loss of income as a consequence of the pandemic and support to the care sector. This financial support has been provided via the Hardship Fund which is ending on 31 March 2022.

5.1.38 Any ongoing costs relating to Covid will therefore need to be funded by the Council, WG's announcement on the provisional settlement indicated that the settlement recognises the impact of pandemic support.

5.1.39 An assessment of likely costs relating to Covid response & recovery has been undertaken and where these costs are considered to now be business as usual they have been identified within cost pressures for inclusion in the revenue budget for 2022/23 onwards of £82,000.

5.1.40 Other costs have been identified as short term (1 – 2 years) i.e. the continuation of additional capacity within Civil Contingencies, Health & Safety and Public Protection of circa £0.4m.

5.1.41 At the end of 2020/21, the Council established a COVID earmarked reserve to fund the short term costs resulting from the impact of the pandemic, it is therefore proposed that this reserve be utilised to fund the short term costs identified in 5.1.40.

5.2 **Risk including Mitigating Actions**

5.2.1 MTFS Outcomes are not delivered as expected – this risk will be mitigated by regular monitoring of proposals, which will also be reported through the quarterly budget monitoring reports to the Joint Budget Scrutiny Committee and Executive.

- 5.2.2 Council may fail to set a balanced budget within the legal timeframe. This will be mitigated by ensuring that Members consider the final budget report (including statutory resolutions) on 3 March 2022.
- 5.2.3 If grant funding does not continue at the current level, there is a risk that cost pressures will emerge particularly where grants are used to support core services, e.g. sustainable social services grant. This can be mitigated by close monitoring of the budget and consultation with Welsh Government/WLGA on service pressures.
- 5.2.4 If Welsh Government does not provide indicative figures for Revenue Support Grant into the medium / longer term, there is a risk that budget planning will be adversely affected. This risk can be mitigated somewhat by robust medium term financial planning.
- 5.2.5 There is a risk that there will be an adverse financial impact on the procurement of goods and services as a result of the UK Exiting the EU. This risk can be mitigated through the governance processes that the Council has introduced to monitor the impact.

5.3 **Legal**

- 5.3.1 The Council has a legal duty to set a balanced budget.

5.4 **Human Resources**

- 5.4.1 The positive provisional settlement combined with the opportunities identified in the Bridging the Gap programme means that the Council is able to invest in key priorities and avoid cuts to services.
- 5.4.2 There will be service change implications arising from the continued commercial activity and transformation of services, which may impact upon staff in the future.

6. **Supporting Evidence**

6.1 ***Performance Information and Data***

6.1.1 **Revenue Budget 2021/22 – Half Year Position**

At the end of September 2021, i.e. the half year position for the current financial year, Portfolios and Committees forecast an underspend of £2.495m.

6.1.2 **General Revenue Reserves 2021/2022 – Half Year Position**

As at the end of September 2021 it is forecast that the General Reserve will increase from the 31st March 2021 provisional level (subject to external audit) of £7.6m, to £10.57m. Over the last 5 years the level of the General Reserve has increased by £2.52m, addressing the improvement needed in reserves which was highlighted by Audit Wales and supports the strengthening of the Council's financial resilience.

6.2 **Expected outcome for the public**

- 6.2.1 The proposed budget will enable the Council to protect front line services and jobs, to invest in its priority areas and to continue its work to become a more commercial and resilient organisation.

6.3 **Involvement (consultation, engagement, participation)**

6.3.1 The Council's approach to financial planning and the positive Welsh Government settlement means that there will be no detrimental impact on frontline services in the financial year 2022/23. As a result, the consultation on the budget focuses on people's views on the Council's priorities and the proposed Council Tax increase for 2022/23.

6.4 **Thinking for the Long term (forward planning)**

6.4.1 The Council continues its move to medium to long term financial planning. This is evidenced by:-

- Budget proposals being considered on a five year rolling programme basis.
- The MTFS as agreed by Council in November 2021 covers the period 2022/2023 to 2025/2026 and will roll forward one year, every year. The MTFS will be reviewed and updated during 2022/2023.
- Proposals within the Bridging the Gap programme are taking a long term view of opportunities for development.
- The current approved capital programme covers the period 2019/2020 to 2025/2026 in line with the 21st Century schools programme and it is reviewed and updated periodically.

6.5 **Preventative focus**

6.5.1 An increasing proportion of the Council's budget is invested into early intervention and prevention activities to prevent the escalation into more complex, high cost services.

6.6 **Collaboration / partnership working**

6.6.1 The report and accompany information has been developed in partnership with budget holders across all service areas.

6.7 **Integration(across service areas)**

N/A

6.8 **EqIA**

6.8.1 Screening has been undertaken on the Bridging the Gap proposals.

7. **Monitoring Arrangements**

7.1.1 Wider Corporate Leadership Team, political groups, Joint Budget Scrutiny, Executive and Council.

Background Documents /Electronic Links

- *Appendix 1 – Provisional Local Government Settlement 2022-23*
- *Appendix 2 – Cost Pressures*
- *Appendix 3 – Bridging the Gap*

