

Committee: **Special Council**

Date of Meeting: **21st December, 2022**

Report Subject: **Summary Assessment of the Financial Position 2023/24 to 2027/28**

Portfolio Holder: **Councillor S. Thomas, Leader of the Council/Cabinet Member for Corporate Overview & Performance**

Report Submitted by: **Rhian Hayden, Chief Officer Resources**

Reporting Pathway								
Directorate Management Team	Corporate Leadership Team	Portfolio Holder / Chair	Governance & Audit Committee	Democratic Services Committee	Scrutiny Committee	Cabinet	Council	Other (please state)
							21/12/2022	

1. Purpose of the Report

- 1.1 The purpose of this report is to provide Members with the latest summary assessment of the Council's financial position over the next 5 years following the WG provisional settlement announcement for 2023/24.

2. Scope and Background

- 2.1 The Medium Term Financial Strategy (MTFS), is a key element within the Council's strategic planning framework. It is this financial framework which will support the Council's financial resilience and ensure it operates sustainably.
- 2.2 The MTFS brings together all known factors affecting the Council's financial position and forms the basis for decision making. The MTFS includes a forward look over the next five years to assess the spending requirements the Council is likely to face to deliver the priorities set out in the Corporate Plan and highlights the level of cuts (reducing or stopping services) that will need to be made to ensure the Council can set a balanced budget each year.
- 2.3 The MTFS proposes the approach that the Council will take to respond to the financial challenges we face over the next five year period. This will be an iterative process and one that will continue to be develop and refined as our medium to long term funding position from Wales Government becomes clearer and strategic business reviews are further developed and implemented.
- 2.4 On the 13 December 2022 Wales Government announced their budget and subsequently the provisional Local Government Settlement with the final

settlement due 2 March 2023. Having the provisional settlement so late in the financial year has implications for the budget setting process and planning for setting a balanced budget.

- 2.5 The report explains the main assumptions used in the development of the Council's MTFS and summarises the impact on the Council's financial position

3. **Options for Recommendation**

- 3.1 *To include Recommendation(s) / Endorsement by other groups, e.g. CMT/Committees/Other groups)*

Option 1 – That Council :-

- Consider and approve the main assumptions used in the MTFS (section 5.1.2)
- Note the forecast funding gap for the period of the MTFS (section 5.1.3);
- Note the continuing development of Bridging the Gap Strategic Business Reviews

Option 2 – Council provide comments and challenge the assumptions in the MTFS.

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

- 4.1 The Medium Term Financial Strategy (MTFS) is a key element within the Council's strategic planning framework. The Council's revenue (and capital) budget supports the delivery of the priorities set out in the Corporate Plan.

5. **Implications Against Each Option**

5.1 ***Impact on Budget (short and long term impact)***

- 5.1.1 Draft estimates for 2023/24 have been compiled based upon current service standards and adjusted for updated assumptions in the Medium Term Financial Strategy (MTFS). These assumptions reflect new / emerging information on pay & prices, changing demographics, service demand and policy changes.

- 5.1.2 The main assumptions in the MTFS are:-

Employee Related Costs

- A 5% pay award has been assumed for 2023/24 with 2% in subsequent years
- Incremental progression has been included where appropriate
- 1% increase in employers contribution to the Local Government Pension Scheme

- National insurance rates have been reduced to reflect the removal of the Health & Social Care Levy announced in the UK's mini budget.

Premises Costs

- Energy Prices are expected to increase by 350% for gas and 170% for electricity

Price Inflation

- The Consumer Price Index (CPI) was 11.1% in October 2022 and is expected to remain at this high level for 2022. Inflation is now expected to decline sharply during 2023 however the Bank of England does not expect it to reach its target of 2% until 2024.
- For 2023/24 an annual inflationary increase of 8% is proposed reducing to 2% for subsequent years
- Where contract costs are estimated to increase by more than 8% an additional cost pressure has been included within the estimates.

Schools Funding

- Adjustments to schools funding have been made to reflect the forecast decrease in pupil numbers over the next 5 years.
- An assumed uplift of 3% has been included in line with the indicative increase of Wales Government funding announced in December 2021.

Council Tax

- An assumed increase of 4% has been built in to the financial model.

Specific Grants

- Have been assumed to remain at current levels. It is assumed that any reduction in funding is offset by a reduction in expenditure

Fees & Charges

- Income from customer fees and charges have initially been included at current levels

WG Funding

- WG funding reflects the provisional settlement announcement on 14 December 2022 – 6.5% for 2023/24; 2% for 2024/25; cash flat for remainder of the MTFs.

- 5.1.3 Based upon the assumptions in the MTFs (and additional cost pressures identified), the draft budget requirement for 2023/24 is £185m an increase compared to 2022/23 of £17m.
- 5.1.4 WG funding for the next financial year has been announced at £139.6m and current estimates for council tax yield is £38.4m.

5.1.5 A budget gap of £17.7m over the next 5 years is forecast as follows:

Table 1: Updated MTFS Budget Gap (excluding School Pressures)

2023/2024 £m	2024/2025 £m	2025/2026 £m	2026/2027 £m	2027/2028 £m	Total £m
6.7	2.5	2.8	3.3	2.4	17.7

5.1.4 The budget gap has reduced when compared to the initial gap assessed previously mainly as a result of the higher levels of WG funding announced within the provisional local government settlement:

Table 2: Initial MTFS Budget Gap (excluding School Pressures)

2023/2024 £m	2024/2025 £m	2025/2026 £m	2026/2027 £m	2027/2028 £m	Total £m
11.4	2.5	2.6	2.6	2.6	21.7

5.1.5 Whilst this represents an improved financial position for the Council, identifying funding solutions to address the gaps will require difficult decisions to be made.

5.1.6 Bridging the Gap remains the council's medium/long term strategy to address the budget gaps currently identified. Additional proposals are currently being developed (for Members consideration) to mitigate the residual funding gaps in future years.

5.2 ***Risk including Mitigating Actions***

5.2.1 The assumptions built into the MTFS may change over time e.g. pay & inflation rates, service demand, Revenue Support grant and Council Tax levels.

5.2.2 The Council's current MTFS contains a number of assumptions which impact on the level of its income and expenditure. Changes in these assumptions can have a fundamental effect on the budget gap over the next 5 years. The impact of a 1% change on our main assumptions has been calculated and can be seen in the following table:-

Assumptions within the MTFS	+/- 1% £'000
ISB – 3%	500
AEF – 6.5%	1,300
Council Tax – 4%	370
Non-Employee Inflation – 8%	875
Pay – 5%	500

5.2.3 There is a risk that the Strategic Business reviews do not identify sufficient financial benefits to Bridge the Gap in the medium to long term. Additional / alternative proposals will therefore be required.

5.2.4 Progress against predicted delivery of Bridging the Gap proposals form part of the budget monitoring arrangements.

5.2.5 These risks are also mitigated by regularly reviewing the assumptions and revising the MTFS to reflect updated information.

5.3 ***Legal***

5.3.1 The Council must set a balanced budget on an annual basis. The MTFS & Bridging the Gap proposals will support this requirement.

5.4 ***Human Resources***

5.4.1 Not applicable for this report.

6. **Supporting Evidence**

6.1 ***Performance Information and Data***

6.1.1 n/a

6.2 ***Expected outcome for the public***

6.2.1 The MTFS will support the Council in the development of its annual budgets which in turn will allow the Council to deliver services to the public.

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

6.3.1 Officers & Members of the Council are involved in the development of the MTFS & Bridging the Gap Strategic Business Reviews.

6.3.2 The proposals have/will be considered by the appropriate Scrutiny Committee.

6.3.3 Public engagement will be undertaken as part of the budget setting process.

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

6.4.1 The MTFS forecasts the financial position of the Council for a 5 year period and provides information upon which the Council can plan for the future.

6.5 ***Preventative focus***

6.5.1 Bridging the Gap programme will include proposals focussing on the long term impact of prevention and early intervention on reducing the requirement for high cost services and better outcomes for our most vulnerable residents.

6.6 ***Collaboration / partnership working***

6.6.1 Achievement of the Bridging the Gap proposals will require cross Council working and collaboration / partnerships with other stakeholders.

6.7 ***Integration(across service areas)***

6.7.1 Bridging the Gap proposals continue to be developed across the Council and many will be crosscutting in nature.

6.8 ***Decarbonisation and Reducing Carbon Emissions***

6.8.1 The Council is committed to the Decarbonisation Plan to achieve a carbon neutral public sector by 2030. Bridging the Gap Strategic Business Reviews will be assessed to determine their impact upon reducing carbon emissions.

6.9a ***Socio Economic Duty Impact Assessment***
N/A

6.9b ***EqlA(screening and identifying if full impact assessment is needed)***

6.9b.1 Equality Impact Assessments will be undertaken on the opportunities taken forward as part of the Bridging the Gap proposals where required.

7. ***Monitoring Arrangements***

7.1 *State how the work will be monitored e.g. through scrutiny or directorate performance management arrangements*

The MTFs & Bridging the Gap will be considered by Scrutiny and Council as part of the Council's financial planning arrangements.

Background Documents /Electronic Links

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