

Committee: **Cabinet**

Date of meeting: **22 February 2023**

Report Subject: **Revenue Budget 2023/2024**

Portfolio Holder: **Councillor Steve Thomas, Leader / Cabinet Member
Corporate Overview and Performance**

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	Cabinet	Council	Other (please state)
	9/2/23				21/2/23	22/2/23	23/2/23	

1. Purpose of the Report

1.1 This report is presented to Members to:-

- i) provide an update on the provisional local government settlement for 2023/24 and its impact upon the Council's budget
- ii) consider and agree the detailed revenue budget for 2023/24 including cost and service pressures, proposed efficiencies and the use of reserves
- iii) agree the level of Council Tax increase for the 2023/2024 financial year.

2. Scope and Background

2.1 A summary of the Medium-Term Financial Strategy was agreed by Council in December 2022, this report updates Members with the latest financial position regarding the budget for 2023/24. The report covers the following:

Section	Contents
2.6 – 2.17	National Aggregate External Finance (AEF) Position
2.18 – 2.26	Blaenau Gwent AEF position
5.1.1 - 5.1.9	Aggregated External Finance (AEF) funding and the MTFS
5.1.10 – 5.1.16	Cost Pressures and Growth
5.1.17 - 5.1.24	Individual Schools Budget
5.1.25 –5.1.32	Bridging The Gap Programme
5.1.33 – 5.1.35	Proposed use of Reserves

2.2 The Provisional Settlement contains details of the revenue funding that Welsh Authorities can expect to receive in 2023/24 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 2024/25 financial year and beyond have not been provided at this stage, however indicative all Wales core revenue funding have been provided and this indicates an uplift of 3.1%. 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 **National Position (All Wales)**
- 2.7 On the 14 December 2022, the Minister for Housing and Local Government published the provisional local government settlement. The overall headline increase in AEF quoted by WG is 7.9% (£403m), after taking into account transfers into the settlement. Compared to the Welsh average, the 6.5% increase for Blaenau Gwent places us at the bottom of the all-Wales table.
- 2.8 One grant has transferred into the settlement:-
 - £3m for the Coastal Risk Management Programme which has no impact for this Council.
- 2.9 An additional grant relating the Fire Service is expected to be transferred at final settlement. It is proposed that this grant be passported directly to the Fire Service.
- 2.10 Certain Specific Revenue Grants data has only been published on an all-Wales basis, totalling £1.37b for 2023/2024, along with projections for the following 2 financial years. Funding for some grants has increased e.g. Retail, Leisure and Hospitality Rates Relief (£132m), Universal Free School meals (£30m), a number of grants have decreased e.g. Regional Consortia School Improvement Grant (£2.6m). It is difficult to assess the financial impact for the Council at this stage.
- 2.11 In terms of capital grants, the non-hypothecated general capital funding for 2023-24 is increasing to £180m from £150m, and it is expected to remain at this level for 2024/2025. Capital grants also include £20m for 2023/24 and 2024/25 to allow

local authorities to respond to the decarbonisation agenda, it is understood that decarbonisation grant will be allocated via an application process.

- 2.12 Further details of the specific grants for local government will be published alongside the final RSG settlement in March 2023.
- 2.13 The funding provided through this settlement recognises the impact of:
- Teachers pay award for 2023/24, with no further funding being made available in year
 - Additional costs of introducing the real Living Wage for care workers
 - NDR Support
- 2.14 The current policy and funding arrangements for Council Tax Reduction Schemes (CTRS) continues into 2023/24. 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 2023/24 will fall to Local Authorities (of the £244m, the Council receives £8.17m towards costs of £9.5m).
- 2.15 The provisional settlement announcement marked the start of a seven week consultation period which ended on 2 February 2023. The Minister will consider whether further amendments are to be made, before the final settlement is announced on 2 March 2022.
- 2.16 The Minister states that while this is a relatively good settlement, the continuing significant levels of inflation means that local government will need to make difficult decisions in setting their budgets.
- 2.17 The provisional settlement included indicative revenue funding on an all Wales basis for 2024/25 and this indicates an uplift of 3.1%. These figures are dependent on the funding provided by UK Government and NDR income but are useful in supporting financial planning.
- 2.18 **Blaenau Gwent Position**
- 2.19 The headline increase for BGCBC after allowing for transfers is 6.5% (£8.5m), compared to the all Wales increase of 7.9%. Whilst this increase is welcomed, given the current economic climate and cost of living crisis, the Council is faced with significant financial challenges. The details included within this report identifies budget cuts of £3.2m (as a minimum) for 2023/2024 and a further £1.8m over the next five years. These cuts do not address the identified shortfall and some use of reserves will be required to set a balanced budget.
- 2.20 The Standard Spending Assessment (SSA) increase, quoted as 5.5%, is the joint lowest in Wales (compared to an all Wales increase of 6.2%).

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 The Council's settlement reflects a range of less favourable re-distributional movements in population indicators and free school meal numbers, with favourable movements in pupil numbers and benefits:

Population – Blaenau Gwent's population has decreased by 1.9% compared to the all Wales decrease of 0.9%.

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 1.8% compared to the all Wales decrease of 1.2%
- Secondary school pupil numbers have increased by 3.5%, compared to the all Wales increase of 1.2%.
- Free School meals pupils have increased by 4.5% in the Primary Sector and 5.4% in the Secondary Sector, compared to the all Wales increase of 5.9% and 8.8% respectively.

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 25% comparable to the all Wales increase of 25%.

2.23 The net impact of these movements is a decrease in the Council's proportion of the all Wales funding.

2.24 The Authority remains the highest receiver of Aggregate External Finance (RSG plus NNDR) on a per capita basis at £2,047.

2.25 General Capital Funding has increased by £0.65m from 2022/23 to £3.86m, of which General Capital Grant is £1.96m and Supported Borrowing is £1.9m.

2.26 The capital grant assumed within the Council's capital programme for 2023/24 is £1.2m. There is therefore an additional £760,000 for use in the capital programme.

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 2023/24 revenue budget as shown in table in paragraph 5.1.15.
- 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 2.6 – 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 – 2.26).
- 3.1.4 Members to consider and recommend to Council the updated cost pressures and growth items (£3.22m in total) identified in Appendix 2 (paragraphs 5.1.10 – 5.1.16) for inclusion in the Council's budget.
- 3.1.5 Members consider and recommend to Council an uplift of £1.5m which equates to 3% increase to the ISB (paragraphs 5.1.17 to 5.1.24).
- 3.1.6 Members consider and recommend to Council the Bridging the Gap proposals delivering £4.18m of financial efficiencies and budget cuts to towards the budget gap (paragraphs 5.1.25 to 5.1.32)
- 3.1.7 Members consider and recommend to Council the use of reserves of £2.5m to balance the budget for 2023/2024 (paragraphs 5.1.33 to 5.1.35).
- 3.1.8 Members consider and recommend to Council a Council tax increase of 4% for 2023/24 (paragraph 5.1.7) 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 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 at the right time and in the right place” 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 2023.

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 21 December 2022) indicates (prior to the identification of budget reductions or increased income) budget gaps of:-

5.1.2 **Table 1 – MTFS Budget Gap (as at December 2022)**

2023/24	2024/25	2025/26	2026/27	2027/28	Total
£6.7m	£2.5m	£2.8m	£3.3m	£2.4m	£17.7m

5.1.3 The MTFS has been reviewed and updated. A number of assumptions have been made in compiling the Draft Estimates and funding projections.

5.1.4 **Funding**

5.1.5 The AEF funding for 2023/2024 is based on the provisional settlement of £139.6m, an increase of £8.5m (6.5%) when compared to 2022/2023.

5.1.6 Based on the indicative increase in Welsh Government funding of 3.1% for 2024/2025, the MTFS assumptions remain at 2% for 2024/2025 and cash flat thereafter, this is based on the Council's increase in AEF in recent years being on or below the Welsh average.

5.1.7 The MTFS assumes an annual increase of 4% for Council Tax.

5.1.8 **Costs**

5.1.9 The main assumptions applied in calculating the Draft Estimates include:

Table 2 – Main Assumptions applied to Costs

	2023/2024	2024/2025 Onwards
Pay Award	5%	2%
Employers Contribution to Local Government Pension Scheme	1%	1%
Price Inflation	8%	2%
Individual Schools Budget	3%	2% (cash flat thereafter)
Fees & Charges	Cash Flat	Cash Flat

5.1.10 **Service Cost Pressures and Growth**

5.1.11 Existing, new service cost pressures and growth items totalling £3.22m for 2023/24 have been identified and are included at Appendix 2. For 2024/2025 onwards, £2.25m per annum have been included in the MTFS.

5.1.12 Where costs are expected to increase by more than 8%, the additional cost have been included within the cost pressures including:

- utilities – expected increase of 230% for gas and 116% for electricity (corporate buildings)
- Social Care – impact of the increase in the National Living Wage

5.1.13 It is proposed that the cost pressures totalling £3.22m are agreed and built into the Council’s budget from 2023/24.

5.1.14 Table 3 below details the impact the Provisional Settlement and the cost pressures have on the budget gap.

5.1.15 **Table 3 - Budget Gap based on 2023/24 Provisional RSG***

	2023/2024	2024/2025	2025/2026	2026/2027	2027/2028
	£000s	£000s	£000s	£000s	£000s
Funding					
AEF	(139,597)	(142,389)	(142,389)	(142,389)	(142,389)
Council Tax @ 4%	(38,394)	(39,930)	(41,527)	(43,188)	(44,918)
Total Funding	(177,991)	(182,319)	(183,916)	(185,577)	(187,307)
Draft Estimates - Prior to savings	181,232	188,661	194,957	201,816	208,005
Budget Gap /(surplus)	3,241	6,342	11,041	16,239	20,698
Cost Pressures/growth	3,220	2,250	2,250	2,250	2,250
Contribution to Reserves	200	200	200	200	200
Budget Gap /(surplus) (1)	6,661	8,792	13,491	18,689	23,148

5.1.16 There is a funding gap of £23m over the next five financial years, with a budget reduction / cut of £6.7m required for 2023/2024 in order to set a balanced budget.

5.1.17 **Individual Schools Budget (ISB)**

5.1.18 The funding gap of £6.7m assumes an increase of 3% (£1.5m) for the ISB. Over the last few years, the ISB have increased in line with the increase in AEF:

- 2022/2023 8.4% (£3.91m)
- 2021/2022 3.3% (£1.472m)

5.1.19 Schools are facing significant cost pressures as a result of pay awards, increasing utility costs and high inflation and these are currently estimated at:

5.1.20 **Table 4 – School Cost Pressures**

	<u>Assumption</u>	<u>£'000</u>
Pay	5% - Non-Teaching Staff 3.5% - Teaching Staff (September 23)	1,955*
Utilities	Electricity	754
	Gas	1,583
Inflation (non-pay)	8%	811
Total Cost Pressures		5,103

*This figure also includes the September 2022 pay award for April 23 to August 23.

5.1.21 Overall school balances as of 31 March 2023 were £6.23m, an increase of £2.55m on the previous financial year and no school had a deficit balance. However, it is estimated that school balances will decrease to £3.43m by March 2023.

5.1.22 Members can consider an alternative award to the ISB. Any increase above 3% would increase the Council’s funding gap.

5.1.23 Schools will therefore be asked to manage £3.6m of cost pressures through energy reductions initiatives and wider cost efficiencies. It is anticipated that energy prices will reduce during 2023-2024.

5.1.24 Any additional funding provided by WG following pay award negotiations will be passported directly to schools.

5.1.25 **BRIDGING THE GAP**

5.1.26 The Bridging the Gap programme remains the Councils strategy for delivering financial efficiencies to ensure that the Council continues the journey of improving its financial stability and setting a balanced budget year on year.

5.1.27 Given the financial challenge facing the Council and the requirement to identify budget cuts of £23m over the next 5 years, the current programme of strategic business reviews have been updated and a number of new proposals have been identified.

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

5.1.29 **Table 5 – Estimated Achievement of Bridging the Gap Strategic Business Reviews**

Estimated Achievement:	2023/2024	2024/2025	2025/2026	2026/2027	2027/2028
	£'000	£'000	£'000	£'000	£'000
Total Estimated Financial Achievement	4,185	1,336	710	0	0

5.1.30 Factoring in these amounts the impact for 2023/24 and future years on the budget gap/(surplus) is as follows: -

5.1.31 **Table 6 – Budget Gap / (Surplus) After Applying the Bridging The Gap Estimated Achievement**

	2023/2024	2024/2025	2025/2026	2026/2027	2027/2028
	£000s	£000s	£000s	£000s	£000s
Revised Funding Gap (2)	6,661	8,792	13,491	18,689	23,148
BTG Estimated Achievement	(4,185)	(1,336)	(710)	0	0
BTG prev. year		(4,185)	(5,521)	(6,231)	(6,231)
Final Budget Gap/(surplus) (3)	2,476	3,271	7,260	12,458	16,917

5.1.32 The current level of budget cuts / financial efficiencies is not sufficient to allow the Council to set a balanced budget for 2023/2024, as when factoring in the forecast achievement of Bridging the Gap, a budget gap of £2.5m remains.

5.1.33 **Proposed Use of Reserves**

5.1.34 To achieve a balanced budget for 2023/2024, it will be necessary to utilise reserves as a one-off measure. This will result in higher budget gaps in future

years, but it will provide time to develop and implement sustainable strategic business reviews to address the funding gap from 2024/2025 onwards. It is proposed to utilise the following usable reserves:

5.1.35 **Table 7 – Proposed Use of Reserves**

Reserve	£'000
Financial Sustainability	2,033
Future Interest Rates	443
Total	2,476

5.1.36 **General Revenue Reserves – Current Position**

5.1.37 The provisional reserves (subject to external Audit) of the Council as at 31 March 2022 were:

- General Fund Reserve - £13m
- Usable Revenue Earmarked reserves - £28.9m

5.1.38 Over the last 5 years the level of the general reserve has steadily increased and between 2020/2021 and 2021/2022 increased by £5.5m, addressing the improvement needed in reserves which was highlighted by Audit Wales in 2018 and supports the strengthening of the Council's financial resilience.

5.1.39 Reserves and balances are monitored and reviewed during the financial year and it is currently estimated that based on the December 2022 Revenue Budget forecast, usable revenue earmarked reserves will reduce by in excess of £4m (including £2.8m for Schools) to fund planned expenditure and unplanned cost pressures which have emerged during the financial year.

5.1.40 The impact on utilising usable revenue reserves to balance the budget and based on quarter 3 forecast is shown in the table below:

5.1.41 **Table 8 – Impact on Usable Revenue Reserves**

Reserve	Provisional Balance 31/3/2022 £'000	Estimated Balance 31/3/2023 £'000	Estimated Balance 31/3/2024 £'000
General Reserve	13,000	13,371	13,571
Financial Sustainability Reserve	3,554	3,554	1,521
Future Interest Rate	644	644	201
School Balances	6,214	3,430	3,430
Other Revenue reserves	18,488	16,788	16,973
Total	41,900	37,787	35,696

5.1.42 The estimated balance as at March 2024 takes into account the use of reserves to balance the budget 2023/2024. If the budget gap increases as a result of

Council not agreeing all the Bridging the Gap proposals, this additional budget pressure will need to be funded from the General Reserve in the short term.

5.2 Risk including Mitigating Actions

- 5.2.1 MTFS Outcomes are not delivered as expected. High inflation, increasing interest rates, increasing utility costs and pay awards are having a major impact on Council costs and whilst it is expected that these will reduce over the short to medium term, there is increased uncertainty when budget planning.
- 5.2.2 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.
- 5.2.3 The Council is faced with significant financial challenges in meeting the funding gap of £23m over the next 5 years and will need to develop proposals to deliver budget cuts to address this funding gap. Whilst this report proposes utilising £2.5m reserves in 2023/2024 to balance the budget, this is a temporary solution only and there is a risk that savings proposals in future years will not address the funding gap. Further reliance on reserves to balance the budget in future years will impact on the financial sustainability of the Council.
- 5.2.4 Bridging the Gap proposals of £3.3m (over and above £1.3m already proposed) will need to be developed, approved and implemented by 31 March 2024 if the Council is to set a balanced budget for 2024/2025.
- 5.2.5 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 6 March 2023.
- 5.2.6 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.
- 5.2.7 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.

5.3 Legal

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

5.4 Human Resources

- 5.4.1 There will be service change /service reduction arising from the Strategic Business Reviews included within the Bridging the Gap programme which may impact upon staff.

6. **Supporting Evidence**

6.1 *Performance Information and Data*

N/A

6.2 **Expected outcome for the public**

- 6.2.1 The proposed budget will enable the Council to protect front line services in delivering 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 To support the Council to set a budget for 2023/24, there has been an engagement process carried out to inform people of the situation and get them involved. The information presented aimed to raise awareness of what may have to be done to set a balanced budget from April 2023, and to provide the opportunity for people to feedback on key issues to help decision-making, e.g. prioritising services, setting council tax, and potential saving proposals for now and the future.
- 6.3.2 A series of engagement events were held around borough for people to attend in person, and an online session via Microsoft Teams was conducted. People were able to discuss the situation with elected members and senior managers from the Council. All those attending were encouraged to participate in a survey (available until Wednesday 15th February 2023), which was also shared on social media, with the intention being to get as many people as possible participating and sharing their views.
- 6.3.3 As of Monday 13th February 2023, over 3,500 responses had been received which equates to over 5% of the area's population. This is by far the highest level of response witnessed for a budget engagement survey carried out by the Council and has been stimulated by local people actively encouraging participation through social media platforms. Over 95% of responses are coming from people living in the area, with the remaining coming from people who work in, study in, or visit Blaenau Gwent. Responses have been received from across all age groups and from all across the areas within the borough.
- 6.3.2 The final results from the public engagement will be available following survey close and will be shared with Members by Friday 17th February 2023. They will be included at Appendix 4 to this report.

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 December 2022 covers the period 2023/2024 to 2026/2027 and will roll forward one year, every year. The MTFS will be reviewed and updated during 2023/2024.
- 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 Early intervention and prevention strategies are acknowledged to deliver outcomes for individuals whilst minimising / preventing escalation into the more complex, high cost services. Consequently, the Council is increasing its investment in preventative services e.g. the introduction of the Myst Team is expected to reduce costs in the medium to long term.

6.6 Collaboration / partnership working

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

6.7 Integration(across service areas)

N/A

6.8 EqlA(screening and identifying if full impact assessment is needed)

6.8.1 Screening will be undertaken on the Bridging the Gap proposals as the business cases are developed and progressed.

7. Monitoring Arrangements

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

7.1.1 Wider Corporate Leadership Team, political groups, Corporate Overview & Performance Scrutiny, Cabinet and Council.

Background Documents /Electronic Links

- *Appendix 1 – Provisional Local Government Settlement 2023-24*
- *Appendix 2- Cost Pressures*
- *Appendix 3 – Bridging the Gap*
- *Appendix 3b – Detailed Business Cases*
- *Appendix 4 – Outcome from Public Engagement Events and Survey*

