



Cyngor Bwrdeistref Sirol

Blaenau Gwent

County Borough Council

MEDIUM TERM FINANCIAL STRATEGY

2024/2025 to 2028/2029

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1. **Introduction**

1.1 The Medium Term Financial Strategy (MTFS), the Council’s key financial planning document, is an integral part of the Council’s Corporate Business Planning arrangements. The Strategy is a rolling a 5 year plan and is updated, reviewed and approved annually by Council. The Strategy will change over time as new opportunities, or policy decisions affect the financial position of the Council.

1.2 The MTFS includes a forward look over the next five years to assess the spending requirements the Council is likely to face to deliver its priorities and the level of cuts i.e. reducing or stopping services that will need to be made to ensure the Council can set a balanced budget each year. It provides guidance for officers and Members on the short, medium and longer term financial challenges and enables advance financial planning to be carried out, assisting the Council to understand and meet future demands. Planning now to meet known or anticipated changes in the future provides greater opportunity to phase in the impact of the changes.

1.3 The Strategy sets out how the Council will finance its priorities, having regard for the Corporate Plan.

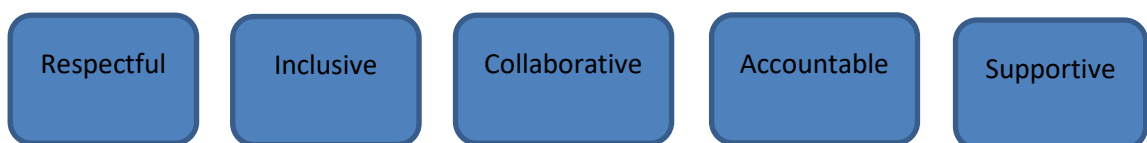
2. **Corporate Plan**

2.1 The Corporate Plan 2022/27 sets out an ambitious programme of activity for the Council to 2027. The priorities also referred to as Well-being Objectives, have been developed in order to support our communities to thrive and provide modern and high quality services which support economic growth and well-being.

Our Vision:

2.2 Blaenau Gwent – a place that is fair, open and welcoming to all by working with and for our communities

Our Core Values:



2.3 **Our Corporate Plan 2022/27 priorities are:**

- Maximise learning and skills for all to create a prosperous, thriving, resilient Blaenau Gwent
- Respond to the nature and climate crisis and enable connected communities
- An ambitious and innovative council delivering quality services at the right time and in the right place
- Empowering and supporting communities to be safe, independent and resilient.

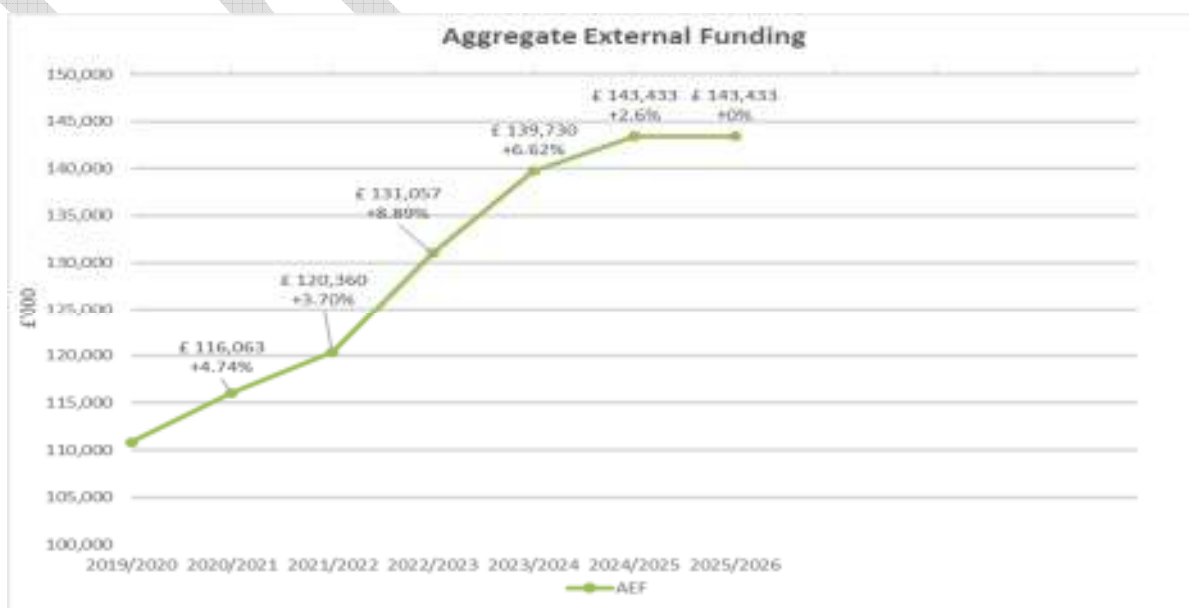
2.4 The Council has a responsibility to the people of Blaenau Gwent to help improve the social, economic and environmental well-being of the area. By setting a small number of strategic priorities within the Corporate Plan it will allow efforts to be concentrated on delivery in these areas and ultimately, help to improve the quality of the lives of residents.

3. Revenue Settlement – Recent Trends

3.1 2024/2025 provisional revenue settlement was the fourth consecutive year that the Council received a positive increase in the Revenue Support Grant (before transfers in and new responsibilities) from Welsh Government.

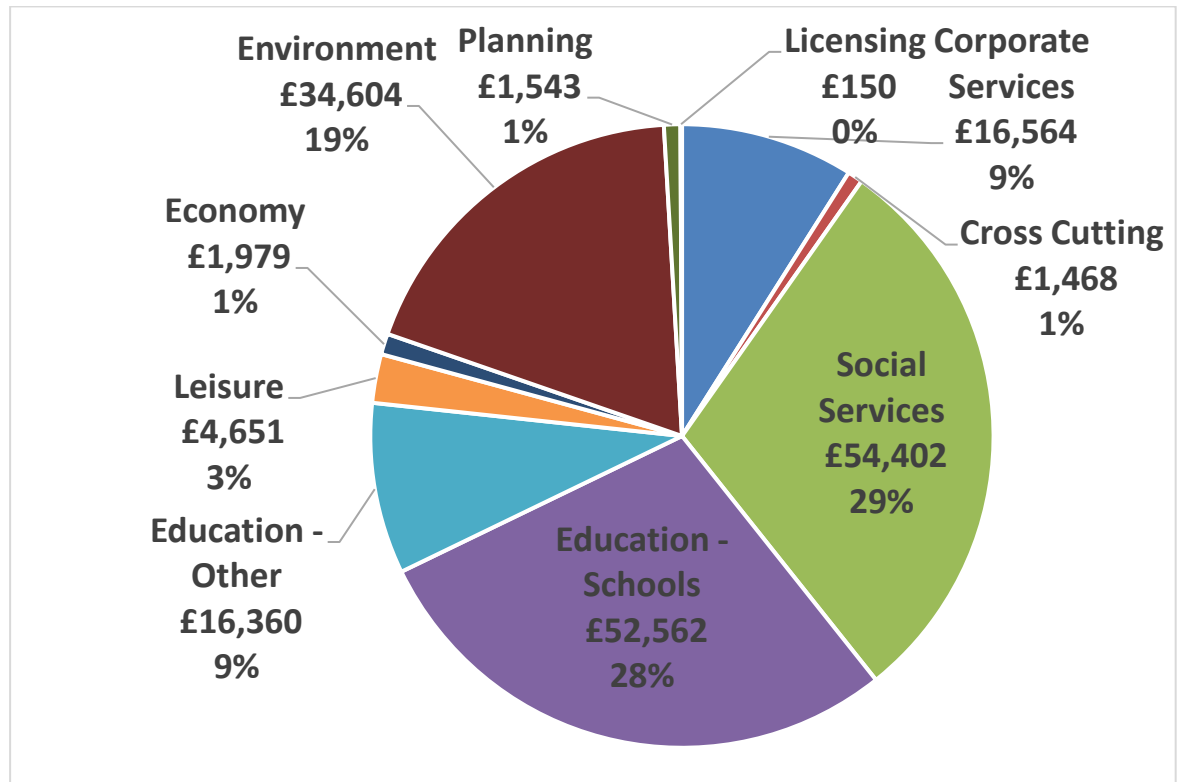
3.2 The Council’s revenue settlements for the period 2019/2020 to 2023/2024, the provisional settlement for 2024/2025 and forecast future settlement for 2025/2026 is shown in Figure 1.

Figure 1: Trend in Aggregate External Funding (AEF)



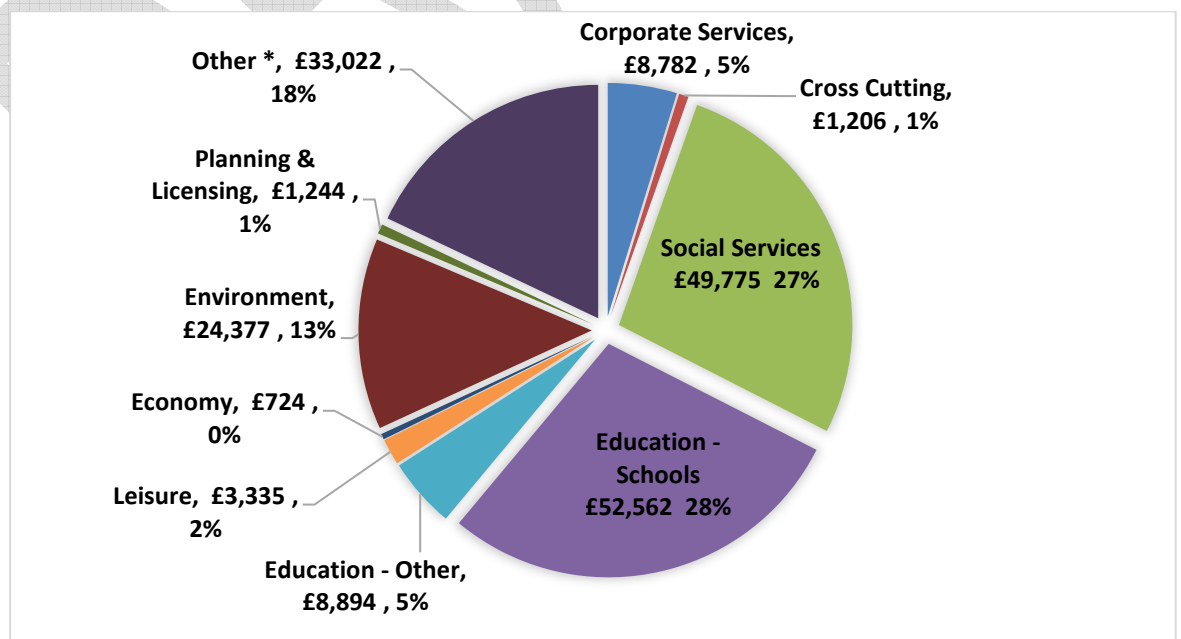
- 3.3 The graph demonstrates that funding received from Wales Government has increased year on year, with an overall increase of £33m between 2019/20 and 2024/25 (this includes grant transfers into the settlement and new responsibilities). However, this is following a number of years of austerity when local government funding was reduced, for example in 2013/2014 AEF totalled £117m and in 2019/2020 it was £110.8m.
- 3.4 This when combined with increased demand for services and increasing costs have contributed to the financial challenge the council is facing in delivering its services to the residents of Blaenau Gwent.
- 3.5 **2023/2024 Revenue Budget**
- 3.6 The baseline revenue funding the Council received in 2023/2024 from Welsh Government after allowing for transfers was £139.7m, an increase of 6.5% (£8.5m). The all Wales average increase in the Local Government Settlement was 7.9%.
- 3.7 In setting the 2023/2024 budget, the Council agreed:-
- All grants transferring into the Settlement would be transferred to the relevant service
 - Additional funding of £3.1m to be built into the budget, over and above pay and price inflation, to address existing and emerging cost pressures
 - Bridging the Gap proposals of £3m
 - Uplift of 4% to the Individual School Budget
 - A contribution from specific reserves of £4.25m
 - A Council Tax increase of 3.45%
- 3.8 As a result of these decisions, the Council agreed a net budget requirement of £178m. The budget allocation across Portfolios is shown in figure 2 below:

Figure 2: 2023/2024 Revenue Budget per Portfolio (£'000)



3.9 The graph shown in figure 3 shows the direct costs of delivering services across portfolios.

Figure 3: 2023/2024 Direct Service Costs per Portfolio (£'000)



*Other includes:

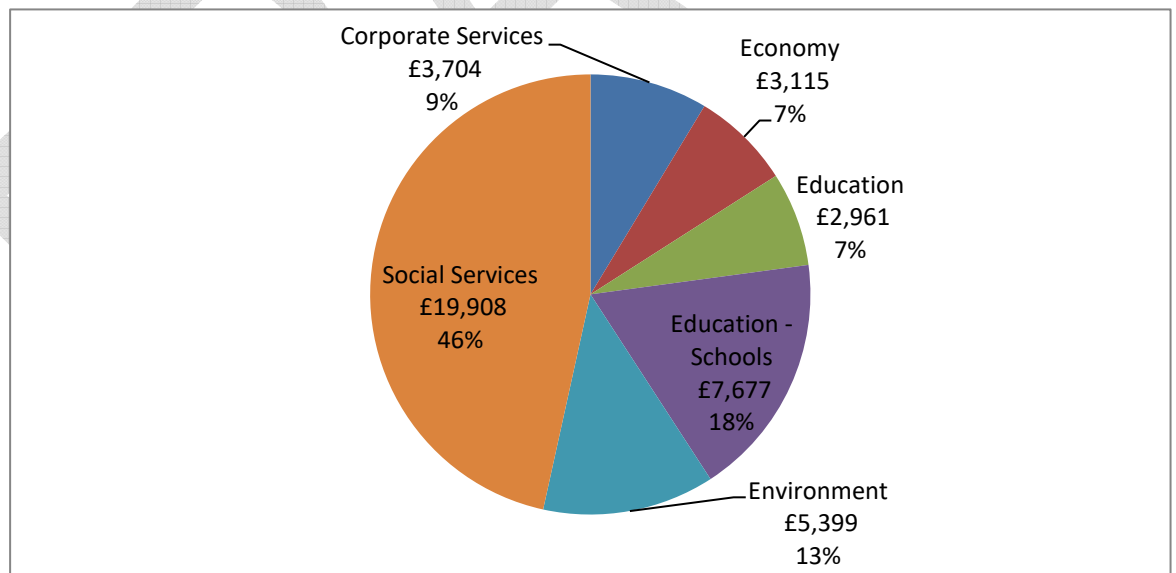
- Capital charges - £10.2m
- Fire Levy – £3.9m
- Council Tax Reduction Scheme - £10.4m
- IT, Administration Buildings & Insurance - £5.7m
- Pension Costs - £2.7m.

3.10 In addition, to the agreed net budget, the Council receives specific revenue grant and for 2022/2023 this totalled £43m, to support the delivery of services.

3.11 The assumption within the MTFS is that all grants will continue at the current level, and any reduction or termination of grant will be offset by a reduction in service expenditure. Where it is anticipated that there will be a reduction in grant with no additional revenue support and a reduction in expenditure is not possible, a cost pressure will be included in the MTFS.

3.12 Specific revenue grant allocations across Portfolios is shown in figure 4 below and is based on grants received in 2022/2023.

Figure 4: Specific Revenue Grant Funding Per Portfolio



3.13 As the graph demonstrates, Social Services has significant grant funding to support the delivery of services including early years and childcare, winter pressures funding and the regional integrated fund.

3.14 Welsh Government is reviewing the number of specific grants with a view to rationalising and reducing the administration burden on local

authorities. There is a potential that some grants will be amalgamated and / or transferred into the revenue support grant, this will become clearer in March 2024 when the final settlement is announced by Welsh Government.

3.15 The 2022/2023 outturn position was positive for the Council, allowing for an increase in the level of the Council’s reserves. This places the Council in a much better position to respond to increased levels of risk.

4. **Review and Update of the MTFS**

4.1 The MTFS must be regularly reviewed to ensure preparedness from a financial planning perspective. The review will include considering and updating assumptions used in the Strategy to reflect new / emerging information for example inflation, changing demographics, service demand and policy changes and more recently the ongoing financial impact of the cost of living crisis.

4.2 The impact of inflation, currently running at 4.2% (November 2023), together with increasing pay and increased utility costs is resulting in increased costs for the Council across all services. The assumptions used in developing the MTFS has taken this into consideration.

4.3 The table below identifies the key assumptions included in the MTFS.

Table 1: Key Financial Planning Assumptions

Financial Planning Key Assumptions	
Pay	<p><i>Non-Teaching staff:</i> The pay award for 2023/2024 is a flat rate of £1,925 across all pay scales which equates to £3m an average 6.4% increase on the Council’s wage bill.</p> <p>For 2024/2025 onwards - 5% pay award per annum has been assumed</p> <p><i>Teaching Staff:</i> The pay award for the academic year 2023/2024 was 5%, and 5% have been assumed per annum.</p>

	<p><i>Incremental Pay Progression</i> – the estimated cost of annual pay progression has been applied based on existing staffing.</p> <p><i>Pensions</i> – Based on the actuarial revaluation in 2019/2020 for LGPS employer pension contributions (non-teaching), a 1% per annum increase has been recommended and assumed for 2024/2025 onwards. This will be updated in line with the outcome from the actuarial revaluation carried out in the current financial year.</p> <p>Teachers’ Pension – The employer’s contribution to the teachers’ pension scheme is due to increase by 5% from April 2024. It is anticipated that the additional costs will be funded by the UK Government.</p> <p>A Vacancy Factor has been built into staffing budgets to reflect the financial impact of staff turnover (3% for Social Services, 1.5% other services).</p>
<p>Price Inflation (Non Schools)</p>	<p>The Consumer Price Index (CPI)</p> <p>CPI is falling but not as quickly as expected. CPI is 4.2% (November 23) compared to 11.1% at its peak in October 2022. The Bank of England’s current forecast is for inflation to continue to fall and reach the 2% target towards the end of 2025.</p> <p>The opening of the economy following Covid-19, exiting the EU, the war in Ukraine and the fall in the number of people available for work is having an impact on the economy with disruption to global supply chains, increasing energy costs and staff shortages and increased pay, all having an impact on consumer prices.</p> <p>For 2024/2025, an annual inflationary increase of 4% is proposed, reducing to 2% for 2025/2026 onwards (in line with the Bank of England’s target).</p> <p>Utilities – Gas prices have reduced and there is a gradual reduction in energy prices (which is</p>

	<p>contributing to the fall in inflation). It is expected that energy costs will reduce gradually from April 2024, therefore, it is proposed to apply no uplift for 2024/2025 and increase in line with inflation thereafter.</p> <p>Income Inflation – It is proposed to uplift income budgets by 4% for 2024/2025 and 2% thereafter in line with inflation.</p> <p>Council Tax Reduction Scheme – It is proposed to apply no uplift to the budget for 2024/2025 as the current forecast is anticipating a significant underspend due to a reducing caseload:</p> <ul style="list-style-type: none"> • September 2023 was 8,308. • April 2021 was 9,267 (during Covid) • April 2020 was 8,893 (pre Covid) <p>For 2025/2026 onwards an increase of 4% in line with Council Tax assumption has been applied.</p>
<p>Schools Growth (ISB)</p>	<p>The MTF5 assumes that the ISB will increase by:</p> <p>2024/2025 – 2% (based on the initial assumption for RSG prior to the provisional settlement)</p> <p>2025/2026 onwards – cash flat</p> <p>Consideration will need to be given to the level of funding provided to schools.</p> <p>Projected increases or decreases in pupil numbers will impact upon the ISB and based on September 2023 data collection , 2023/2024 age weighted pupil unit and projecting the pupils through the year groups:</p>

		Increase / (Decrease) in Pupils	Financial Impact Increase / (Decrease) in Funding (£'000)
	2024/2025	112.5	537
	2025/2026	(160)	(539)
	2026/2027	(132)	(497)
	2027/2028	(87)	(328)
	The financial impact has been included on the Cost Pressure appendix.		
Specific Grant Funding	This has been assumed to remain at 2022/2023 level of £43m and it is assumed that any reduction in funding is offset by a reduction in expenditure.		
Capital Financing	<p>Capital Financing – Capital financing costs reflect the schemes within the current capital programme, with borrowing costs for future schemes funded from either USB (Unhypothecated Supported Borrowing) or prudential borrowing. During 2021/2022, the Council agreed a change to the MRP policy, and the capital adjustment reflects the change in Policy during the term of the MTFs.</p> <p>The Bank of England has raised interest rates over the last 2 years to try and bring inflation down and the bank base rate currently stands at 5.25%.</p> <p>Over the past few years, the Council has been successful in managing its borrowings and investments and income from investments has exceeded borrowing costs, mitigating any cost pressure for the current and next financial year.</p>		
Council Tax	<p>Council Tax increased by 3.45% for 2023/2024. For planning purposes, it has been assumed that Council Tax will increase by 4% per annum. (1% increase will generate approximately £380,000 additional funding).</p> <p>No additional income has been assumed at this stage from an increase in the Council Tax Base for</p>		

	2024/2025 onwards. This will be reflected in the Growth proposals within Bridging the Gap.
Estimated Funding reduction (Aggregate External Funding - AEF)	<p>The funding included within the provisional settlement for 2024/2025 and the further announcement of £25m additional funding as a result of consequentials from UK Government (announced February 2024), provides an uplift of 2.8%, an increase in AEF of £3.95m, an increase of 0.8% compared to the assumption included in the previous MTFS.</p> <p>No indicative funding has been provided within the provisional settlement for 2025/2026 onwards.</p> <p>The assumptions used in the MTFS are:</p> <p>2024/2025 – 2.8% 2025/2026 onwards – cash flat</p>
Reserves	The financial modelling assumes a minimum contribution to General or specific reserves of £200,000 per annum

4.4 **Medium Term Financial Forecast**

4.5 The table below identifies the funding gap after applying the above assumptions to the 2023/2024 approved Estimates.

Table 2: Assessed Budget Gap

	Medium Term Budget Gap				
	2024/2025 £'000	2025/2026 £'000	2026/2027 £'000	2027/2028 £'000	2028/2029 £'000
Draft Expenditure					
Draft Estimates	188,859	194,482	194,758	196,503	197,860
Revenue Grants	43,000	43,000	43,000	43,000	43,000
Assumed Savings	0	(5,716)	(4,039)	(4,670)	(4,072)
Adjusted Draft Budget	231,859	231,766	233,719	234,833	236,788
Draft Funding					
AEF	143,758	143,758	143,758	143,758	143,758
Council Tax	39,585	41,169	42,816	44,528	46,309
Revenue Grants	43,000	43,000	43,000	43,000	43,000

Total Draft Funding	226,343	227,927	229,249	230,961	232,742
Budget Gap	(5,516)	(3,839)	(4,470)	(3,872)	(4,046)
Contribution to Reserves	(200)	(200)	(200)	(200)	(200)
Adjusted Budget Gap	(5,716)	(4,039)	(4,670)	(4,072)	(4,246)

4.5 The Council is facing a significant financial challenge over the next 5 years with a potential funding gap of £23m, and £6m for 2024/2025, should the Council continue to deliver services in their existing form and **before** considering cost pressures above inflationary assumptions.

4.6 **Additional Costs Built into the MTFs**

4.7 The draft estimates have been prepared based on the approved 2023/2024 budget and increased in line with the assumptions included in Table 1, and these costs are detailed in the table below:

Table 3: Estimated Additional Costs Compared to 2023/2024 Budget

	2024/2025 £'000	2025/2026 £'000	2026/2027 £'000	2027/2028 £'000	2028/2029 £'000
Pay, Increments and Pension Inflation	4,235	3,785	3,956	4,135	4,323
General Inflation –					
Third party Expenditure	2,837	1,485	1,515	1,545	1,576
ISB	1,076	0	0	0	0
Fees & Charges	(628)	(320)	(326)	(333)	(340)
Council Tax Reduction Scheme	0	416	433	450	468
Capital /Pension Adjustment	(510)	256	739	(13)	0
TOTAL	7,010	5,622	6,317	5,784	6,027

4.8 **New and Emerging Cost Pressures**

4.9 New and emerging Cost Pressures and Growth items have been assumed at £2m per annum for 2025/2026 onwards based upon known pressures and recent trends. As more detail emerges on potential cost pressures during this period, the detail will be included on the cost pressures Appendix.

- 4.10 In identifying the Cost Pressures and Growth items for 2024/2025, consideration have been given to:
- Cost of living crisis and the impact on high inflation and price & wage increases
 - Cost pressures identified as part of the 2023/2024 financial reporting within overspending portfolios
 - Changes in demand for services
 - New services/ responsibilities
 - Changes in legislation/policy

4.11 **Identified Cost Pressures for 2024/2025 Onwards**

4.12 Current in year cost pressures have been reviewed to assess the likely continuation into 2024/2025. An assessment has also been undertaken to evaluate the portfolios' ability to mitigate cost pressures from within existing budgets e.g. budget realignment. The most significant cost pressures identified are:

4.13 **Education**

4.14 **Individual Schools Budget** – The pupil population data is collected at the end of September. Any change will require an adjustment in funding to the Individual School Budget. As identified in Table 1 – Key Planning Assumptions, pupil population has increased by 112.5 full time equivalent between September 2022 and September 2023, and is forecast to decrease from September 2024 and continue to decrease over the medium term.

4.15 **Home to School Transport** is a cost pressure for 2023/24 due to a need for increased transport requirements following an increase in capacity at Penycwm Special School and the new resource base at Tredegar Secondary School. A review is also being carried out on the of transport provision at the Rivercentre.

4.16 **Additional Learning Needs** - A business case has recently been approved by Council to increase the capacity for resource bases across the Council in both Primary and Secondary settings for pupils with additional learning needs. Additional funding of £178,610 and £113,000 for 2024/2025 and 2025/2026 respectively have been approved as part of the business case.

4.17 **Employers Contribution to the Teachers Pension Scheme** - The employer's contribution to the teachers' pension scheme is due to

increase by 5% from April 2024. It is anticipated that the additional costs of approximately £1m will be funded by the UK Government.

4.17 **Social Services**

4.18 **Children’s Services** – The number of Children Looked After has remained stable over the last few years with an overall decrease of 5 children at March 2023 (203) compared to March 2020 (208), and the number of children in residential care has decreased by 1 to 13 at March 2023, this is as a result of the preventative services established over the last few years including the Supporting Change Team and the My Support Team (MYST).

4.19 Residential Placements remain a significant cost pressure for the Council. It was anticipated that the introduction of MYST would reduce the numbers of children in residential care, however, whilst the team have been successful in preventing additional children entering care, placements are not expected to reduce until 2024/2025, reducing the cost pressure in future years.

4.20 The Council is currently developing a Children’s Home within Blaenau Gwent, and this will provide residential care for a maximum of 4 children, emergency short term care for up to 2 children and move on accommodation for 2 young people aged 16+ acting as a stepping stone from residential care into independence. The revenue costs will be met from within existing budgets, costs for provision with the private sector should reduce (avoided), delivering financial efficiencies over the medium term.

4.21 **Adult Services** – Demand within Adult Services has steadily declined over the last few years:

Table 4 – Adult Services Data

Number of Adults:	@ March 2020	@ March 2023
Care & Support Plan	1,056	800
Residential Care	171	131
Nursing Care	66	61
Respite Care	24	31
Day Care	180	71
Domiciliary Care	400	369

Receiving external Domiciliary care	315	318
External Domiciliary hours commissioned	4,745	4,482

**Comparison data at a point in time, does not reflect the changing activity within social care during the financial year.*

- 4.22 The fall in the number of adults accessing services can be attributed to the covid pandemic and the recruitment and retention problems that the social care sector continues to face.
- 4.23 Reducing demand is not however being reflected in the costs of providing services. The impact of increased wages, high inflation and increased utility costs are impacting on the charges incurred for external commissioned care.
- 4.24 The Chancellor recently announced that the National living wage will increase to £11.44 per hour. £11.44 per hour from £10.42 is an increase of 10%. As a consequence it is anticipated that providers will increase their charges for community care, by on average 9% an increase of approximately £2.2m.
- 4.25 For the current financial year, Adult Services is forecasting a favourable variance of £0.5m (at September 2023) and therefore maybe able to absorb part of the cost pressure for 2024/2025, assuming specific grant levels remain at the current level.
- 4.26 The cost pressures identified for 2024/2025 (over and above the 4% inflationary uplift) is attached at Appendix 2 with £2.8m proposed to be built into the MTFS for 2024/2025. The table below shows the impact the cost pressures have on the funding gap.

Table 5: Assessed Budget Gap including Cost Pressures

	Medium Term Budget Gap				
	2024/2025 £'000	2025/2026 £'000	2026/2027 £'000	2027/2028 £'000	2028/2029 £'000
Initial Budget Gap	(5,716)	(4,039)	(4,670)	(4,072)	(4,246)
Cost Pressures	2,820	2,000	2,000	2,000	2,000
Adjusted Budget Gap	(8,536)	(6,039)	(6,670)	(6,072)	(6,246)

- 4.27 The potential funding gap increases to £34m over the next 5 years with the inclusion of cost pressures and £8.5m for 2024/2025.
- 4.28 Cost pressures will be reviewed and updated to reflect new /emerging information for example the financial impact of Policy decisions and cost pressures emerging during the current financial year.
- 4.29 **Sensitivity Analysis**
- 4.30 The budget gap identified in table 5 (after allowing for cost pressures), is an indication of the financial challenge facing the Council. The assumptions used in the financial modelling are uncertain and may change over time.
- 4.31 A range of different scenarios have been modelled over the life of the Medium Term Financial Strategy and these are shown in the table below.

Table 6: Sensitivity Analysis – 1% Change in all Assumptions

Annual Change to Assumptions					Funding Gap					
Pay	ISB	Inflation	Council Tax	AEF	2024/2025	2025/2026	2026/2027	2027/2028	2028/2029	Total
5%	2%	4%	4%	2%	£'000	£'000	£'000	£'000	£'000	£'000
MTFS Assumption +/- 1% £'000										
600	538	709	369	1,400	(8,536)	(6,039)	(6,670)	(6,072)	(6,246)	(33,563)
Assumption Change										
+1%	+1%	+1%	+1%	+1%	(8,614)	(6,117)	(6,748)	(6,149)	(6,325)	(33,953)
-1%	-1%	-1%	-1%	-1%	(8,458)	(5,961)	(6,592)	(5,993)	(6,169)	(33,173)
+0%	-0%	-2%	-2%	-2%	(10,656)	(8,159)	(8,790)	(8,191)	(8,367)	(44,163)

5. BRIDGING THE GAP PROGRAMME

5.1 In recognising the challenges that the Council faces in the short, medium and long term, a programme of Strategic Business Reviews has and continues to be developed to deal with identified gaps between anticipated funding and expenditure that aims to build financial resilience. Based on strategic themes our Bridging the Gap programme identifies savings opportunities, potential cost avoidance and new revenue streams. Designed to support a balanced budget it is also focussed on creating the conditions of a commercially minded council. This includes seeking new revenue streams and ensuring resources are aligned to the strategic imperatives of the council. The approach has a particular emphasis on:

- Maximising the potential of income generation by taking a commercial approach where it is appropriate to do so; this will include exploring opportunities for investment;
- Effective commissioning, procurement & contract management arrangements;
- Exploiting the opportunity that digital and service transformation can provide for customers;
- Making best use of our assets and property;

- Considering the action we can take to influence and reduce demand through our early intervention & prevention approaches;
- Exploiting the opportunities to strengthen financial resilience by supporting growth in the borough
- We will continue to ensure we have secured all efficiencies and are practicing robust “housekeeping” throughout;
- We will also continue to explore the potential to work differently through partnership and collaboration and look for opportunities to support residents to do more for themselves;

5.2 In setting the budget for 2023/2024, £3m was identified through the strategic business reviews.

5.3 Business Cases will be developed for all proposals identifying the financial implications, service impact and risks for consideration and approval and presented to Members during the budget setting process.

5.4 The Council’s income generation ability has been impacted by the Covid-19 pandemic and is likely to be impacted further by the Cost of Living Crisis. The Bridging the Gap proposals are being reviewed to determine current estimated achievement levels and additional proposals that will support the Council’s budget in the longer term.

5.5 As future opportunities are identified through these strategic business reviews the MTFS will be updated to reflect the impact on each financial year. Some of the reviews will inevitably take longer to have an impact but will potentially yield higher returns in the latter years of this MTFS.

6. **MTFS – SCHOOLS**

6.1 The assumption within the MTFS is that the increase in the Individual Schools Budget (ISB) will be 2% for 2024/2025 and 0% thereafter, in line with the initial assumption for Aggregate External Finance.

6.2 For 2023/2024, the Individual Schools Budget received an uplift of 4% (£2m). This mitigated the cost pressure relating to pay with schools required to manage cost pressures relating to utilities and inflation.

- 6.3 The table below highlights the potential cost increases in relation to school expenditure, compared to assumed funding increases over the next 5 years, based on the assumptions identified in table 1 above.

Table 7: Potential Cost Increases for Schools

	2024/2025 £'000	2025/2026 £'000	2026/2027 £'000	2027/2028 £'000	2028/2029 £'000
ISB Assumed Uplift & Cost Pressures	1,617	0	0	0	0
Expenditure					
Pay increases	1,156	1,214	1,274	1,338	1,405
Inflation – non pay	215	110	112	114	116
Inflation – Utilities	1,335	23	24	24	25
Total Expenditure Increase	2,706	1,347	1,410	1,476	1,546
Budget Gap - Schools	(1,089)	(1,347)	(1,410)	(1,476)	(1,546)

- 6.4 The table indicates that schools are potentially facing financial cost increases of £7m over the next 5 years based on the assumptions within the MTFs and £1.6m in 2024/2025, the most significant being increased utility costs. It is anticipated that utility costs will reduce from April 2024, reducing the cost pressure for schools.

- 6.5 A number of cost pressures have also been identified on the Cost Pressure appendix, including:

- Increase in Pupil Demographics – £0.5m
- ALN Resource Bases – £0.18m

- 6.6 The Employers contribution to the Teachers pension fund is increasing from April 2024 by 5%, an additional cost of approximately £1m and it is assumed that this cost will be funded by UK Government.

- 6.7 School Balances are forecast to reduce year on year, with a reduction of £1.4m between 2021/2022 and 2022/2023 and a forecast reduction of £3.6m between 2022/2023 and 2023/2024. The main reason for the reduction in balances during the current financial year is the significant increase in utility costs, which have increased by £0.55m (111%)

between April and November 2023 compared to the same period last year and pay and price increases.

An analysis across sectors is shown in the table below:

Table 10 –School Balances (Surplus/ (Deficit))

Phase	2021/2022 £'000	2022/ 2023 £'000 (Provisional)	2023/2024 £'000 (Forecast)
Secondary	965	675	9
All Through	852	664	187
Primary	3,971	2,993	957
Special	440	489	14
TOTAL	6,228	4,821	1,167

7. Reserves Strategy

- 7.1 Financial resilience is a Council priority and this includes ensuring that reserves are adequate to be able to respond to unexpected events, emerging need or unforeseen budget pressures.
- 7.2 General reserves are unallocated amounts that enable the Council to meet non-specific and/or unforeseen financial liabilities.
- 7.3 The level of the general reserve at 31 March 2023 is £13m, no change when compared to March 2022. This outturn position represents 7.7% of net revenue expenditure as reported for 2022/23.
- 7.4 Earmarked reserves are held by the Council to meet potential future expenditure on specifically identified risks, liabilities and commitments.
- 7.5 The Council has an agreed protocol for the establishment, retention, management, review and reporting of earmarked reserves. In addition to the statutory requirements to consider the adequacy of reserves when setting the budget and the extensive disclosures made in the Statement of Accounts, member scrutiny has been enhanced by the preparation of detailed quarterly monitoring reports. The Chief Officer Resources also holds regular meetings during the year to consider the ongoing requirement and value of earmarked reserves held.
- 7.6 The provisional level of earmarked reserves has increased from £32.18m at 31 March 2022 to £33.96m (an increase of £1.78m).

- 7.7 Significant elements of these earmarked sums relate to grant funding held in respect of specific projects or services that will be utilised in delivering the relevant service outcomes.
- 7.8 In setting the 2023/202 budget, an overall planned use of reserves was agreed of £4m to balance the budget.
- 7.9 It is the Council's intention to maintain the general reserves at a minimum level of 4% and increase the overall level of reserves over time to support the Council's financial resilience.
- 7.10 The continuation of the inclusion of a budget contingency within the annual budget setting process is proposed of £200,000 per annum, to allow the replenishment of the Council's useable reserves.
- 7.11 It is anticipated that earmarked reserves will reduce during the current financial year. Many of these reserves are short term in nature and will be utilised to deliver the intended outcome.

8. **Capital Programme**

- 8.1 The 5 year Capital Programme (2019/2020 to 2025/2026) was agreed by full Council in October 2019, with a further update being agreed in September 2023, to reflect the additional capital investment approvals agreed.
- 8.2 The current capital programme is approximately £116m and is funded by:
- Welsh Government - £82m
 - Council's own resources - £22m
 - Other grant funding - £12m
- 8.3 The Council's own resources includes £10m general capital funding to fund the approved capital programme, attached at Appendix 7, funding switches to maximise specific grant approvals from previous years and revenue contributions to capital outlay (RCCO).
- 8.4 A significant proportion of the capital programme relates to:
- Investment in Schools - £33m
 - Hi Value Engineering Centre (HIVE) - £12m
 - Railway infrastructure Programme - £37m

9. **RISKS**

9.1 The Corporate Plan, MTFs and the Bridging the Gap programme are designed to complement each other. They provide the narrative that describes the outcomes we plan to deliver, the financial envelope we intend to work within, and our approach to deliver a balance budget in 2024/2025 and beyond whilst creating the conditions for improved financial resilience.

9.2 The risks identified with the Medium Term Financial Strategy are:

9.2.1 **Recruitment & Retention**

- Staff Retention & Recruitment – Difficulties with the recruitment and retention of staff within some areas are having an impact on the delivery of services and meeting demand within the community and supporting our vulnerable people as well as managing the challenge of delivering business as usual.

9.2.2 **Economy**

- Increase in Inflation – Over the last 2 years, inflation has risen significantly from 3.2% to 11.1% at its peak in October 2022. Whilst inflation is reducing (4.6% October 2023), it is not expected to reduce to the Bank of England target of 2% until the end of 2025. This is having a financial impact on the cost of goods and services procured by the council, local businesses and on the disposable income of the residents of Blaenau Gwent including food supplies, transport costs and utilities.
- Businesses – significant financial support was provided to businesses across all sectors during covid restrictions and lock down, including business grants, rate relief and furlough. As businesses have reopened, they are facing increased costs, staff shortages and an end to financial support, which could impact on the sustainability of the business and result in downsizing/closure, increasing unemployment.

9.2.4 **Uncertainty around future WG Funding levels**

The announcement of the 2024/25 provisional settlement for local government was inline with the indicative funding uplift of 3.1% announced as part of the 2023/2024 Settlement. However, no indication has been provided for future years.

The absence of any guidance on levels of likely settlement from WG in the medium to long term makes financial planning more difficult. More recently, the First Minister issued a written statement in August 2023 providing an update on WG budget and the impact inflation has had on budgets and it is extremely unlikely that additional funding will be forthcoming in the short to medium term.

9.2.5 MTFS Assumptions

The budget gap is based on a number of assumptions and any changes may have a significant impact on the funding gap.

The assumptions are reviewed and any potential changes monitored. Section 4.29 above models the impact on the funding gap for a range of scenarios.

9.2.6 Achievement of Bridging the Gap proposals

The level of budget cuts required to balance the budget over the term of the MTFS is significant and will require business cases proposing significant cuts to services / staffing levels / service transformation to deliver a balanced budget. There is a risk that the business cases will not be approved, or implementation delayed due to timescales.

The achievement of planned budget cuts is monitored as part of the budget monitoring & reporting process. Corrective action is taken where adverse variances are identified.

Should Business Cases not be approved, reserves will be required to fund the remaining budget gap, this will only be an option in the short term.

9.2.7 Grant Funding

The MTFS assumes that grant funding remains constant. Any decrease in funding or the termination of grant programmes could have a significant impact for the Council, particularly for those grants that are supporting service provision such as Families First, Flying Start, and ICF etc.

The Society of Welsh Treasurers works closely with the WLGA and Welsh Government to ensure that grants are maintained or transferred into the settlement.

Where grants are reduced, Services will need to ensure that expenditure is reduced in line with the grant.

9.2.8 Volume of Demand

Increased demand for services poses significant risks to planning and this will be monitored.

9.2.9 Use of Reserves

Insufficient Bridging the Gap proposals developed/approved to mitigate the funding gap requiring a use of reserves to balance the budget for the second year.

The use of reserves to balance the budget only provides one-off funding and increases the funding gap in future years. Continued use of reserves and balances diminishes the financial resilience of the Council and its ability to meet future unforeseen cost pressures.

Continued use of reserves and diminishing financial stability will lead to the Chief Finance Officer issuing a Section 114 letter as the Council's planned expenditure exceeds funds available.

The Council will be required to put emergency measures in place to reduce expenditure including a freeze on recruitment and essential expenditure.

Document History			
Author	Version		Date
G. Taylor	Draft v1		October 2023
G Taylor	Draft v2		February 2024