

Committee: **Joint Budget Scrutiny**

Date of meeting: **28<sup>th</sup> January 2020**

Report Subject: **Revenue budget 2020/2021 to 2024/2025**

Portfolio Holder: **Councillor 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)
	14/01/20				28/01/20	29/01/20	06/02/20	

**1. Purpose of the Report**

- 1.1 This report is presented for Members to scrutinise and recommend to Executive / Council the revenue budget for 2020/21.

The report

- i) provides an update on the positive provisional local government settlement for 2020/21 and its impact upon the Council's budget
- ii) considers and proposes the detailed budget for 2020/21 and indicative budget for 2021/22
- iii) proposes the level of Council Tax increase for the 2020/2021 financial year in line with the Medium Term Financial Strategy assumptions.

**2. Scope and Background**

- 2.1 Members will be aware that a revised Medium Term Financial Strategy was agreed by Council in December 2019. This report updates Members with the latest financial position regarding the budget setting process following the announcement of the provisional local government settlement for 2020/21. The report covers the following:

Section	Contents
<b>2.8 – 2.19</b>	National Aggregate External Finance (AEF) Position
<b>2.20 – 2.26</b>	Blaenau Gwent AEF position
<b>5.1.4 - 5.1.5</b>	Aggregated External Finance (AEF) funding compared to MTFS
<b>5.1.6 – 5.1.8</b>	Cost Pressures and Growth
<b>5.1.9 - 5.1.10</b>	Revised funding gap
<b>5.1.11–5.1.18</b>	Treatment of Grants & new responsibilities transferring into the settlement
<b>5.1.19–5.1.24</b>	Bridging The Gap Programme
<b>5.1.25 -5.1.28</b>	Further Budget Considerations
<b>6.1.1</b>	Revenue Budget 2019/20 – half year position
<b>6.1.2</b>	General Revenue Reserves 2019/20 – half year position

- 2.2 The Provisional Settlement contains details of the revenue funding that Welsh Authorities can expect to receive in 2020/21 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 for the 2021/22 financial year and beyond have not been provided at this stage. The letter from the Minister 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 funding information contained within the provisional settlement has enabled this report to be produced, bringing together sections covering the revenue budget setting process.
- 2.7 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.
- 2.8 **National Position (All Wales)**
- 2.9 The overall headline increase in AEF quoted by WG is 3.9%, after taking into account transfers into the settlement. Compared to the Welsh average increase of 4.3%, this places Blaenau Gwent in the bottom third of the all-Wales table (see Appendix 2).
- 2.10 There have been four transfers into the settlement, as follows:-
- £39.112m for the teachers' pensions grant
  - £12.018m for the teachers' pay grant
  - £1.9m for NHS funded nursing care
  - £151k for the Coastal Risk Management Programme

- 2.11 It will be a matter for each council to decide whether to passport all or some of this funding to the relevant budget holders.
- 2.12 Certain Specific Revenue Grants data has only been published on an all-Wales basis, totalling £982m. Funding for some grants has increased eg Regional Consortia School Improvement Grant, PDG Access and Social Care Workforce and Sustainability Pressures Grant. In addition, there is a new grant for Additional Learning Needs. Some grants have decreased eg the Sustainable Waste Management Grant.
- 2.13 In terms of capital grants, there are some significant increases in the Targeted Regeneration Investment Programme, 21<sup>st</sup> Century Schools, Welsh Medium Education, Active Travel Fund and the Childcare Offer.
- 2.14 Further details of the specific grants for local government will be published alongside the final RSG settlement in February 2020.
- 2.15 As RSG increases range from 3% to 5.4%, the Minister has concluded that there is no need for a funding floor mechanism in this instance.
- 2.16 Although not specifically referenced in the Minister's letter, the current policy and funding arrangements for Council Tax Reduction Schemes (CTRS) continues into 2020/2021. 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 2013/2014, but again means that any additional costs resulting from increases in council tax levels or caseload for 2020/2021 will fall to Local Authorities.
- 2.17 The non-hypothecated general capital funding for 2020-21 will be £198 million (including £20 million for public highways refurbishment grant) - an increase of £15 million over that announced in the Final Budget last year.
- 2.18 The Minister states this is a good settlement and one which should alleviate some of the anticipated pressures. The Minister also notes that the latest tax base figures have been used (and so there should be no amendment to the final settlement as a result of this), but cannot guarantee that there will be no further changes, resulting from a new UK Government.
- 2.19 The provisional settlement announcement marks the start of a seven week consultation period which ends on 3<sup>rd</sup> February 2020. After this the Minister will consider whether further amendments are to be made, before the final settlement is announced on 25<sup>th</sup> February 2020.
- 2.20 **Blaenau Gwent Position**
- 2.21 The headline increase for BGCBC after allowing for transfers is 3.9% (£4.3m), compared to the all Wales increase of 4.3%. Changes across Wales range from 5.4% for Newport to 3% for Monmouthshire.

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 two year budget providing a level of certainty to Residents, Members and staff.

2.22 The Standard Spending Assessment (SSA) increase, quoted as 5.6%, is the lowest in Wales (compared to an all Wales increase of 6.4%).

2.23 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.

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

**Population** – Blaenau Gwent's population has increased by 0.2% compared to the Welsh average increase of 0.1%.

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

**Education** – Primary pupil numbers have increased by 1.3% compared to the Welsh average reduction of 0.2%. Secondary school pupil numbers have fallen by 1%, compared to the Welsh average increase of 2%. Free School meals data has been frozen at the 2018 level.

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 fallen by 6% compared to the Welsh average decrease of 3%. This has had an impact on the SSA increase.

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

2.26 General Capital Funding has increased by £29,000 from 2019/2020 to £3.87 million.

### 3. **Options for Recommendation**

#### 3.1 **Option 1 (preferred option)**

- 3.1.1 Subject to the decisions on the following recommendations, Members recommend to Executive & Council the 2020/2021 revenue budget and high level indicative budget for 2021/2022 (as per Appendix 5 and para 6.4.1).
- 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 (paras 2.8 – 2.19).
- 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 (paras 2.20 – 2.26)
- 3.1.4 Members to consider and recommend to Executive & Council the updated cost pressures and growth items (£2m in total) identified in Appendix 3 (paras 5.1.6 – 5.1.8) for inclusion in the Council’s budget.  
This includes the establishment of a cross cutting Transformation budget of £500,000 to be utilised to implement / deliver opportunities for Blaenau Gwent.
- 3.1.5 Members to consider the grants transferring into the settlement and recommend to Executive & Council “passporting” expenditure from these former specific grants / additional funding into the Council’s budget (paras 5.1.11 – 5.1.18).
- 3.1.6 Members consider and recommend to Executive & Council that any achievement of Bridging the Gap proposals which exceeds the in year budget requirement be transferred into an earmarked reserve to support medium term financial planning, specifically for the later years of the Medium Term Financial Strategy (para 5.1.28).
- 3.1.7 Members recommend to Executive & Council a Council tax increase of 4% for 2020/21 (para 5.1.3) as per the MTFs assumptions.

#### 3.2 **Option 2**

- 3.2.1 Members consider and suggest alternative proposals..

### 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 will enable a greater alignment between the Medium Term Financial Strategy (MTFS) and the Corporate Plan. This will be evidenced in the budget reports to Joint Scrutiny, Executive and Council.

## 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 December 12<sup>th</sup> 2019) indicates (prior to the identification of budget reductions) funding gap figures of:-

### 5.1.2 Table 1 – MTFS Funding Gap (as at 12<sup>th</sup> December 2019)

2020/21	2021/22	2022/23	2023/24	2024/25	Total
£3.2m	£2.5m	£4.7m	£2.9m	£2.9m	£16.2m

5.1.3 These are based upon a number of assumptions including:

- cash flat level of funding from WG for 2020/2021 onwards
- a Council Tax increase of 4% per annum

### 5.1.4 AEF Funding Compared to MTFS

5.1.5 Clearly, the provisional settlement increase in funding of £4.3m (3.9%) for 2020/2021 for Blaenau Gwent is better than the MTFS modelled position of 0%. As a result of a better than anticipated settlement, the original funding gap can now be revised. Table 2 takes account of the provisional settlement and revised cost pressures.

### 5.1.6 Service Cost Pressures and Growth

5.1.7 Existing and new service cost pressures items totalling £1.095m for 2020/2021, £0.53m for 2021/2022, have been included in the MTFS and the funding gap identified above. £1m per annum has been assumed for 2022/2023 onwards.

5.1.8 Following the provisional settlement these have been reviewed and updated and now total £2m for the 2020/2021 financial year. These revised cost pressures and growth items are included at Appendix 3, the changes to those agreed by Council in December 2019 include::

- Teachers Pay and Pensions – The settlement only provided funding to cover the increase in costs for a 7 month period. The resulting cost pressure for the remaining 5 months of the financial year is assessed as £0.76m.
- Sustainable Waste Management Grant (£1.8m All Wales reduction in grant) – resulting in a cost pressure of £35,000, on top of the current years cost pressure of £50,000 (£85,000 total).

- Sustainable Social Services grant – the settlement identifies a significant increase in this specific grant for 2020/21. This should allow the service to manage costs / budgets without the requirement for an increase in its core funding. The previously agreed cost pressure of £392,000 can therefore be reduced / removed.
- Transformation Budget - It would be prudent to establish a Transformation Budget which could be utilised for example to implement / deliver transformational projects and investments across the Council – this will reduce the requirement to utilize earmarked reserves. It is proposed that this budget be set at £500,000.

5.1.9 It is proposed that the revised cost pressures and growth items are agreed and built into the Council's budget from 2020/21.

5.1.10 **Table 2 - Funding Gap based on 2020/2021 Provisional RSG\***

	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025
	£000s	£000s	£000s	£000s	£000s
<b>Funding</b>					
AEF	(116,063)	(116,063)	(116,063)	(116,063)	(116,063)
Council Tax @ 4%	(34,591)	(35,974)	(37,413)	(38,910)	(40,466)
Total Funding	(150,654)	(152,037)	(153,476)	(154,973)	(156,529)
Draft Estimates - Prior to savings	147,307	152,528	158,021	162,215	166,468
Funding Gap /(surplus)	(3,347)	491	4,545	7,242	9,939
Cost Pressures/growth	2,046	529	1,000	1,000	1,000
Contribution to Reserves	200	200	200	200	200
<b>Funding Gap /(surplus)</b>	<b>(1,101)</b>	<b>1,220</b>	<b>5,745</b>	<b>8,442</b>	<b>11,139</b>

\*the above funding gap is prior to Bridging the Gap opportunities being applied

5.1.11 **Treatment of Grants and new responsibilities transferring into the Settlement**

- 5.1.12 The draft estimate figures currently do not include these amounts as transferring into the budget as they were only announced as part of the 2020/2021 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.
- 5.1.13 The provisional settlement includes the transfer of two specific grants and additional funding totalling £1.122m into the RSG. The impact upon Blaenau Gwent is :-
- £253,000 - funding to assist with the cost pressure relating to the pay award for teachers. This funding covers the costs for 7 months.
  - £822,000 - funding to assist with the costs of the employers contribution to the teacher's pension scheme. This funding covers the costs for 7 months.
  - £47,000 – funding in relation to NHS Funded Nursing care.
- 5.1.14 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.
- 5.1.15 It is proposed that the grants transferring into the settlement are passported to relevant budgets from 2020/21.

***Impact Upon the Individual Schools Budget (ISB)***

- 5.1.16 Passporting the grants transferring into RSG (£1.075m for teachers pay and Pensions) and agreeing to fund the schools cost pressures (£1.16m) identified in Appendix 3 (£0.76m for 5months teachers' pay & pensions and £0.395m for an increase in pupil demographics) will result in an increase to the ISB of approximately 5%, slightly above the increase Council will receive of 4.9%.
- 5.1.17 The table below shows the revised overall position, assuming Council agrees to passport grants transferring into the settlement directly to relevant budgets, as:

5.1.18 **Table 3 – Revised Funding Gap (assuming Grants passported)**

	2020/2021 £'000	2021/2022 £'000	2022/2023 £'000	2023/2024 £'000	2024/2025 £'000
<b>Provisional Funding Gap (Surplus)/Deficit</b>	<b>(1,101)</b>	<b>1,220</b>	<b>5,745</b>	<b>8,442</b>	<b>11,139</b>
<b>Grants transferring into settlement:-</b>					
Teachers pay award	253	253	253	253	253
Employers Pension Contributions - Teachers	822	822	822	822	822



NHS Funded Nursing Care	47	47	47	47	47
<b>Total Grants transferring In</b>	<b>1,122</b>	<b>1,122</b>	<b>1,122</b>	<b>1,122</b>	<b>1,122</b>
<b>Revised Funding Gap</b>	<b>21</b>	<b>2,342</b>	<b>6,867</b>	<b>9,564</b>	<b>12,261</b>

5.1.19 **BRIDGING THE GAP – Position Statement**

5.1.20 The table below provides a summary of the current estimated achievement of the Strategic Business Reviews:

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

Estimated Achievement Range:	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025
	£'000	£'000	£'000	£'000	£'000
Low	1,465	914	1,346	800	800
High	2,141	1,374	1,856	1,300	1,300

5.1.22 Details of the workstreams within Bridging the Gap have been scrutinised by relevant scrutiny committees during November / December 2019 and were agreed by Council as part of the MTFS (Appendix 4).

5.1.23 It is proposed to factor in the estimated lower level achievement of the proposals into the budget which will result in the funding gap/(surplus) as follows:-

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

	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025
	£000s	£000s	£000s	£000s	£000s
<b>Revised Funding Gap</b>	<b>21</b>	<b>2,342</b>	<b>6,867</b>	<b>9,564</b>	<b>12,261</b>
BTG low current year	(1,465)	(914)	(1,346)	(800)	(800)
BTG prev. year		(1,465)	(2,379)	(3,725)	(4,525)

<b>Final funding Gap/(surplus)</b>	<b>(1,444)</b>	<b>(37)</b>	<b>3,142</b>	<b>5,039</b>	<b>6,936</b>
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5.1.25 Further budget considerations:-

5.1.26 The better than anticipated settlement will enable the consideration of a number of other factors, in balancing the budget for 2020/2021 and beyond.

5.1.27 ***Transfer to Earmarked Reserves***

It is proposed that the achievement of Bridging the Gap which exceeds the budget requirement be transferred into an earmarked reserve to support medium term financial planning, specifically for the later years of the Medium Term Financial Strategy.

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 budget in February 2020.

5.2.3 *If grants and new responsibilities are not passported through to services, this will result in budget pressures in the next financial year.* This can be mitigated by Members agreeing to passport the financial resources identified.

5.2.4 *If Welsh Government does not provide indicative figures for Revenue Support Grant into the medium 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 Brexit will have an adverse financial impact on the procurement of goods and services.* This risk can be mitigated through the governance processes that the Council has introduced to monitor the impact of Brexit.

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 Consequently, only 2 post reductions have been identified within the 2020/21 budget and it is anticipated these will be achieved through voluntary redundancies. There will be service change implications arising from the continued commercial activity and transformation of services, which may impact upon staff in the future, however no compulsory redundancies are envisaged at this stage.

## 6. **Supporting Evidence**

### 6.1 *Performance Information and Data*

#### 6.1.1 **Revenue Budget 2019/20 – Half Year Position**

At the end of September 2019, i.e. the half year position for the current financial year, Portfolios and Committees forecast a relatively small end of year over spend of £7,000.

#### 6.1.2 **General Revenue Reserves 2019/20 – Half Year Position**

As at the end of September 2019 it is forecast that the General Reserve will increase from the 31<sup>st</sup> March 2019 level of £5.89million, to £6.14 million. This addresses the improvement needed in reserves which was highlighted by the Wales Audit Office in the Annual Audit Letter 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 better than expected Welsh Government budget settlement means that there will be no impact on frontline services in the financial year 2020-21. As a result, the consultation on the budget focuses on people's views on the proposed Council Tax increase for 2020/21.

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

6.4.1 The Council is moving to medium to long term financial planning. This is evidenced by the following:-

- Budget proposals will be considered on a five year rolling programme basis.
- The MTF5 as agreed by Council in December 2019 covers the period 2020/2021 to 2024/2025 and will roll forward one year, every year. Assuming that all recommendations included within the report are agreed, a high level revised MTF5 has been produced at Appendix 5,

demonstrating a balanced budget for 2020/2021 and a balanced high level indicative budget for 2021/2022.

- Proposals within the Bridging the Gap programme are taking a long term view of opportunities for development.
- The current capital programme covers the period 2019/2020 to 2025/2026 and will roll forward by one year (as a minimum) every year.

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

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

## 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, Joint Budget Scrutiny, Executive and Council.

### **Background Documents /Electronic Links**

- Appendix 1 – Welsh Government Letter Revenue and Capital Settlement
- Appendix 2 – Changes to AEF 2018-2019 to 2019-20 by Local Authority
- Appendix 3 – Medium Term Financial Strategy 2020/21 to 2024/25 – Cost Pressures
- Appendix 4 – Bridging the Gap – Proposed Savings 2020/21
- Appendix 5 – Medium Term Financial Strategy – Based on the Provisional Settlement