



Cyngor Bwrdeistref Sirol

Blaenau Gwent

County Borough Council

MEDIUM TERM FINANCIAL STRATEGY

2022/2023 to 2026/2027

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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**

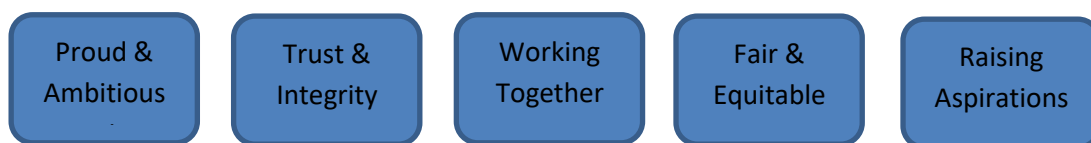
- 2.1 The Council's response to the Covid-19 pandemic provided the Council an opportunity to build on the positive work carried out to strengthen and modernise the Council, adopting new working practices and challenging how things were done before, in order to map out an ambitious future, create a stronger organisation and to sustain the strong relationships forged with communities and partners.

- 2.2 This has led to the Corporate Plan being refreshed and enhancing our One Council approach. The Council approved the Corporate Plan 2020-2022 in July 2020 and this sets out the Council's Vision, Values and Outcomes and these are:

Our Core Vision:

Proud Heritage
Strong Communities
Brighter Future

Our Core Values:



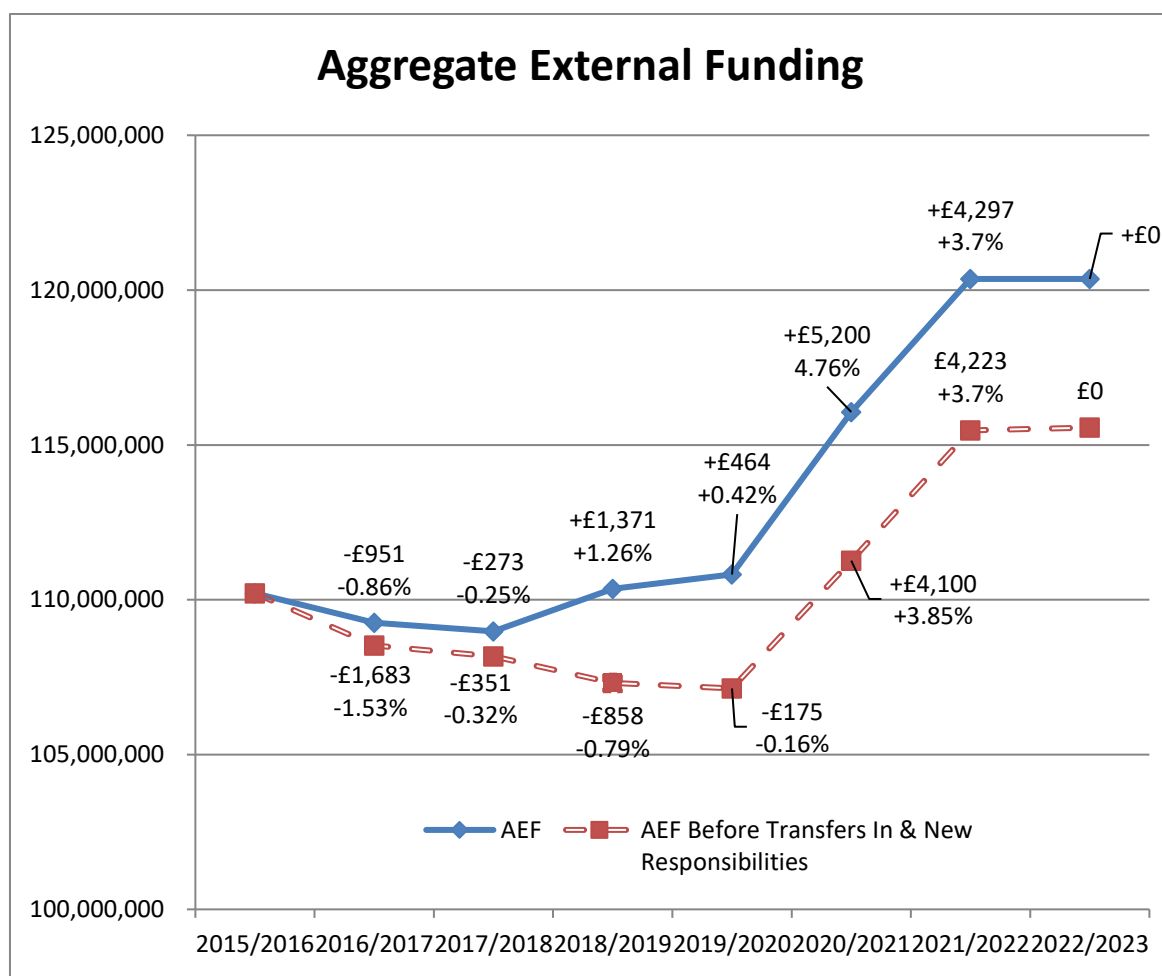
2.3 Our Outcome Statements:

- Protect and enhance our environment and infrastructure to benefit our communities
- Support a fairer sustainable economy and community
- To enable people to maximise their independence, develop solutions and take an active role in their communities
- An ambitious and innovative council delivering the quality services we know matter to our communities.

3. **Revenue Settlement – Recent Trends**

- 3.1 2021/2022 revenue settlement was the second consecutive year that the Council received an 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 2016/2017 to 2021/2022 and forecast of future settlements is shown in Figure 1. This illustrates the actual cash impact and the impact excluding transfers into the settlement for grants and new responsibilities.

Figure 1: Trend in Aggregate External Funding



- 3.3 The graph demonstrates that on a cash basis the funding received from Wales Government has increased overall by £11.1m between 2016/17 and 2021/22. However, in real terms, when Grants transferring into the settlement and new responsibilities are excluded, the funding increase is reduced to £6.9m. In cash terms RSG has only increased by £3.2m since 2013/2014 from £117m to £120m.
- 3.4 This when combined with increased demand for services and increasing costs have contributed to the financial challenge the council has faced in delivering its services to the residents of Blaenau Gwent.
- 3.5 **2021/2022 Revenue Budget**
- 3.6 The baseline revenue funding the Council received in 2021/2022 from Welsh Government after allowing for transfers was £120m, an

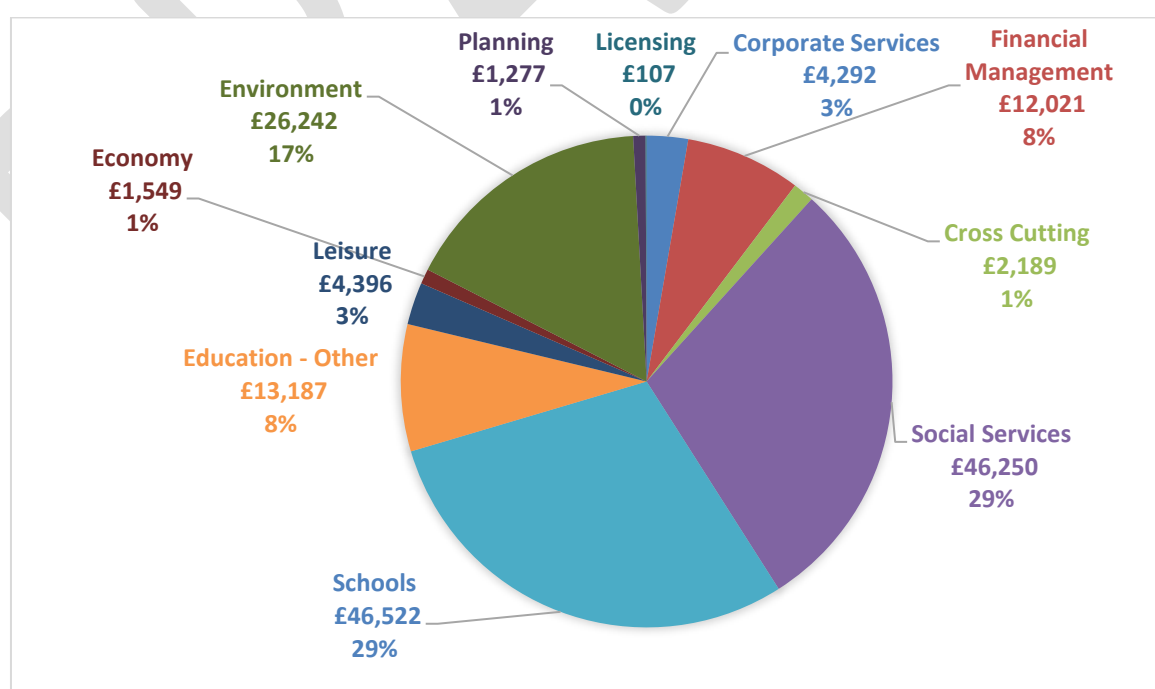
increase of 3.6% (£4.2m). The all Wales increase in the Local Government Settlement was 3.8%.

3.7 In setting the 2021/2022 budget, the Council agreed:-

- All grants transferring into the Settlement would be transferred to the relevant service
- Additional funding of £2.2m 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 £0.76m
- A contribution to the General Reserve of £0.2m
- Contribution to a specific reserve to support medium term financial planning - £1.05m
- Council Tax increase of 3.3%

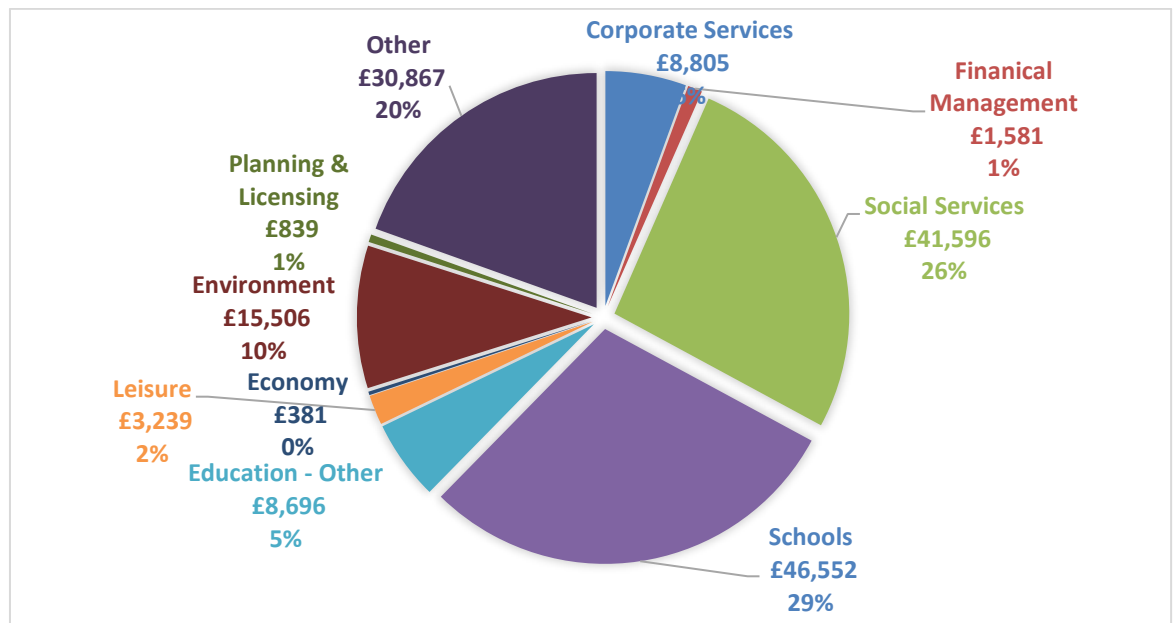
3.8 For the current financial year, the Council agreed a net budget requirement of £157m. The budget allocation across Portfolios is shown in figure 2 below:

Figure 2: 2021/2022 Revenue Budget per Portfolio (£'000)



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

Figure 3: 2021/2022 Direct Service Costs per Portfolio (£'000)



*Other includes:

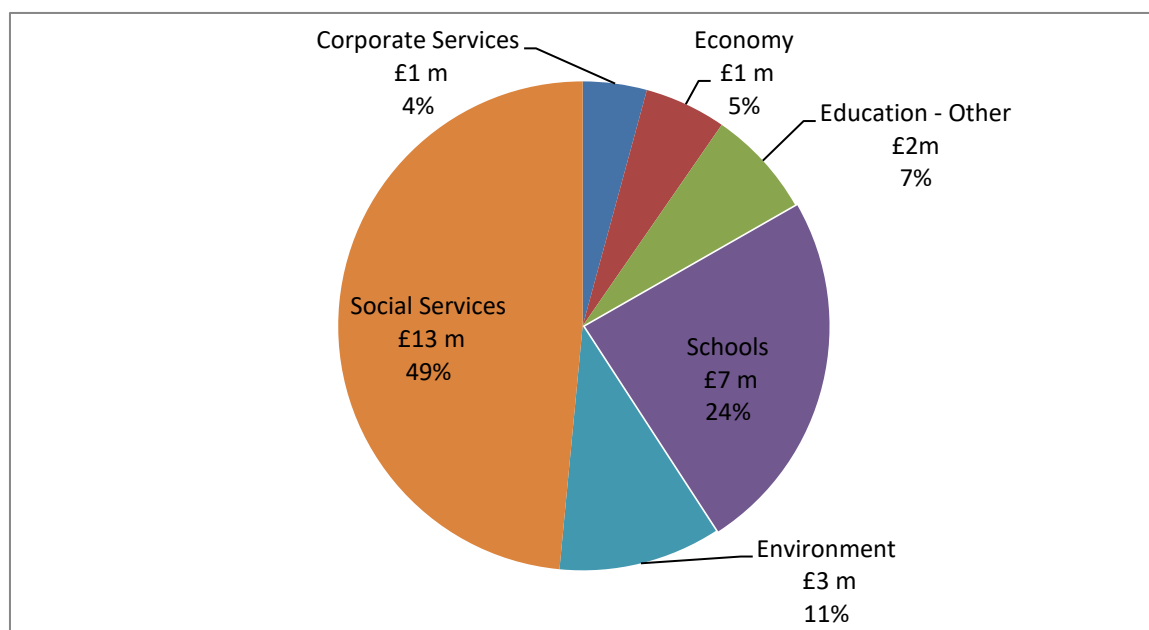
- Capital charges - £8m
- Fire & Apprenticeship Levy – £3.8 m
- Council Tax Reduction Scheme - £9.9m
- IT, Administration Buildings & Insurance - £5.9m
- Cross Cutting Budgets - £2.2m
- Other - £1m.

3.10 In addition, to the agreed net budget, the Council spends a further £28m per annum to support the delivery of services. The Council receives specific revenue grant to fund this expenditure.

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.

3.11 Specific revenue grant allocations across Portfolios is shown in figure 4 below and shows the estimated level of grant awards for 2021/2022 (based on 2020/2021 levels).

Figure 4: Specific Revenue Grant Funding Per Portfolio 2021/2022



- 3.12 The global Covid-19 pandemic and the response had a significant impact on the Council both financially and on the delivery of services throughout 2020/2021. The changing circumstances during 2020/2021 saw a number of services being suspended or being delivered in an alternative way. Council buildings have been closed to the public, staff have been working from home where possible and/or redeployed to support front line services and the Council has established a new local Test, Trace and Protect Service as part of the regional pandemic response.
- 3.13 Welsh Government provided significant one-off financial support to both reimburse additional costs borne by the Council as a result of the required response to the pandemic and also compensate for loss of income incurred due to closure of facilities and the suspension of services.
- 3.16 The 2020/2021 outturn position was positive for the Council, allowing for an increase in both earmarked reserves and the General reserve. This places the Council in a much better position to respond to increased levels of risk.
- 3.17 Welsh Government continues to provide financial support to Local Authorities for the current financial year. However, there remains uncertainty as to the full impact of the pandemic in the medium/long term with no guarantee of funding after March 2022.

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 Covid-19 on service delivery.
- 4.2 The table below identifies the key assumptions included in the MTFS.

Table 1: Key Financial Planning Assumptions

	Financial Planning Key Assumptions
Pay	<p>Non-Teaching staff – The pay award offer for 2021/2022 is 1.75%, however no agreement has been reached with the unions currently balloting members.</p> <p>Therefore, being prudent, 2% has been assumed for 2022/2023 onwards.</p> <p>Teaching Staff:</p> <p>Teaching staff have been awarded a pay rise of 1.75% from September 2021.</p> <p>2% pay award has been assumed for 2022/2023 onwards.</p> <p>Incremental Pay Progression – the estimated cost of annual pay progression has been applied based on existing staffing</p> <p>Pension – 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 2022/2023 onwards.</p> <p>Vacancy Factor of 1.5% has been built into staffing budgets to reflect the financial impact of staff turnover.</p>

Price
Inflation
(Non
Schools)

The Consumer Price Index (CPI) increased to 3.2% in August 2021, and this was a result of the lifting of restrictions following the Covid-19 pandemic. It is expected that this will reduce to its previous 2% level over the remainder of the MTFS.

Forecasts for the UK economy: A comparison of independent forecasts (August 2021), suggests the annual CPI to be:

	Independent Forecasts	Office for Budget Responsibility (OBR)	
		March 2021	October 2021
2022	2.8%	1.8%	4%
2023	2.2%	1.9%	2.6%
2024	2.1%	1.9%	2.1%
2025	2%	2%	2%

The Bank of England has a target of 2% CPI Inflation.

The continued uncertainty with Covid-19 and exiting the EU is having an impact on the economy with disruption to food supplies and staff shortages which could have an impact on consumer prices.

It is proposed to maintain the annual inflationary increase in the MTFS at 2%, (in line with the Bank of England's target) and include as a cost pressure the financial impact from any short term increases.

Utilities – Headline figures are indicating an increase in energy prices of 40% from April 2022, however, this is a volatile and changing picture. Therefore, 2% per annum has been included in the MTFS and the financial impact of price increases will be monitored and reported as part of cost pressures.

Income Inflation – Increase in discretionary fees and charges in line expenditure inflation above.

Council Tax Reduction Scheme – This has been increased in line with the assumed increase in Council Tax of 4.0%.

Schools Growth (ISB)	<p>No inflationary increase has been applied to the Individual Schools Budget (ISB), a cash flat budget has been assumed for the term of the MTFS in line with the assumption for Welsh Government funding.</p> <p>Projected increases or decreases in pupil numbers will impact upon the ISB and based on September 2021 data collection and projecting the pupils through the year groups:</p> <table><tr><td></td><td>Increase / (Decrease) in Pupils</td><td>Financial Impact Increase / (Decrease) in Funding (£'000)</td></tr><tr><td>2022/2023</td><td>114</td><td>543</td></tr><tr><td>2023/2024</td><td>12</td><td>(83)*</td></tr><tr><td>2024/2025</td><td>102</td><td>507</td></tr><tr><td>2025/2026</td><td>-64</td><td>(138)</td></tr><tr><td>2026/2027</td><td>-16</td><td>(53)</td></tr></table> <p>*The decrease in funding is due to a shift in pupils from Secondary to Primary and the Age Weighted Pupil Unit is lower for Primary schools.</p> <p>The financial impact has been included on the Cost Pressure appendix.</p>		Increase / (Decrease) in Pupils	Financial Impact Increase / (Decrease) in Funding (£'000)	2022/2023	114	543	2023/2024	12	(83)*	2024/2025	102	507	2025/2026	-64	(138)	2026/2027	-16	(53)
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Specific Grant Funding	<p>This has been assumed to remain at the 2020/2021 level (as identified on the Revenue Grants Register) and excluding Hardship Funding.</p> <p>It is assumed that any reduction in funding is offset by a reduction in expenditure.</p>																		
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. For 2022/2023 onwards, it has been assumed that there is no change to the capital adjustment in the MTFS. This will be updated in line with the revised MRP charge following the re-calculation of the MRP as a result of the Policy Review.</p>																		

Council Tax	<ul style="list-style-type: none"> • Council Tax increased by 3.3% in 2021/2022. For planning purposes, it has been assumed that Council Tax will increase by 4% per annum. (1% increase will generate approximately £354,000 additional funding). • No additional funding has been assumed at this stage from an increase in the Council Tax Base for 2022/2023 onwards. This will be reflected in the Growth proposals within the BtG proposals.
Estimated Funding reduction (Aggregate External Funding)	<p>Welsh Government does not currently provide funding forecasts for future years. 2021/2022 saw an increase of 3.6% (£4.2m) in AEF (after allowing for transfers of grant into the settlement).</p> <p>For planning purposes, a cash flat budget for Blaenau Gwent has been assumed for the next 5 years.</p>
Reserves	The financial modelling assumes a minimum contribution to General or specific reserves of £200,000 per annum.

4.3 **Medium Term Financial Forecast**

4.4 The table below identifies the funding gap after applying the above assumptions to the 2021/2022 approved Estimates.

Table 2: Assessed Budget Gap

	Medium Term Budget Gap				
	2022/2023 £'000	2023/2024 £'000	2024/2025 £'000	2025/2026 £'000	2026/2027 £'000
Draft Expenditure					
Draft Estimates	160,860	163,936	167,078	170,287	173,564
Revenue Grants	28,000	28,000	28,000	28,000	28,000
Assumed Savings	0	(2,458)	(4,004)	(5,555)	(7,110)
Adjusted Draft Budget	188,860	189,478	191,074	192,732	194,454
Draft Funding					
AEF	120,360	120,360	120,360	120,360	120,360
Council Tax	38,242	39,772	41,363	43,017	44,738
Revenue Grants	28,000	28,000	28,000	28,000	28,000
Total Draft Funding	186,602	188,132	189,723	191,377	193,098
Budget Gap	(2,258)	(1,346)	(1,351)	(1,355)	(1,356)
Contribution to Reserves	(200)	(200)	(200)	(200)	(200)
Adjusted Funding Gap	(2,458)	(1,546)	(1,551)	(1,555)	(1,556)

- 4.5 The table identifies a potential funding gap of £8.6m over the next 5 years should the Council continue to deliver services in their existing form and before considering cost pressures.

4.6 **Additional Costs Built into the MTFS**

- 4.7 The draft estimates have been prepared based on the approved 2021/2022 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 2021/2022 Budget

	2022/2023 £'000	2023/2024 £'000	2024/2025 £'000	2025/2026 £'000	2026/2027 £'000
Pay, Increments and Pension Inflation	1,698	1,727	1,757	1,787	1,817
General Inflation –					
Third party Expenditure	1,242	1,267	1,292	1,318	1,344
Fees & Charges	(322)	(328)	(335)	(341)	(348)
Council Tax Reduction Scheme	396	412	428	445	463
Capital Charges	1,981	0	0	0	0
TOTAL	4,995	3,078	3,142	3,209	3,276

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 2023/2024 onwards based on cost pressures awarded over the last few years. 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 2022/2023, consideration have been given to:
- Covid-19 and the potential additional / increased costs arising from the response to the pandemic as the Council and the economy recovers
 - Cost pressures identified as part of the 2021/2022 financial reporting within overspending portfolios
 - Changes in demand for services
 - New services/ responsibilities
 - Changes in legislation/policy

4.11 Covid-19 Pandemic

4.12 The Council has received significant financial support during 2020/21 and 2021/2022 to fund the additional costs and loss of income incurred in responding to the pandemic.

4.13 As the Council continues to respond and recover from the pandemic and services return to “business as usual”, it is anticipated that the additional costs being incurred will diminish and funding for ongoing costs will need to be absorbed into the Council’s budget, as there is no guarantee that WG will continue to fund these cost pressures past

March 2022 into 2022/2023. These costs have been included on Appendix 1 - Cost Pressures & Growth.

- 4.14 The impact the pandemic has had on the economic environment, resulted in an increase of 5.3% in new applications for council tax support between March and July 2021. However, as restrictions have been lifted, there has been a decline in the number of claimants:

Table 4: Analysis of Claimants for Council Tax Support

As at	No. of Claimants	% Increase (compared to 28/02/2020)
28/02/2020	8,883	
31/3/2020	8,907	0.3%
20/07/2020	9,356 (peak)	5.3%
06/04/2021	9,268	4.3%
20/09/2021	8,958	0.8%

- 4.15 The current forecast is an underspend on the Council Tax Reduction Budget (based on Quarter 2 2021/2022), however this will need to be monitored to assess the impact that the end of the job retention scheme, on 30 September 2021, will have on unemployment within the borough and the number of claimants eligible for CTRS.
- 4.16 The longer term impact of Covid-19 and exiting the EU upon the wider economy of Blaenau Gwent, Wales and the UK remains uncertain. Unemployment in Wales increased to 4.6% (as at September 2020) from 2.7% before the pandemic hit. There has been a decline in the rate of unemployment as restrictions have been eased to 4.1% (as at June 2021). However, as mentioned above, the end of the Job Retention Scheme in September 2021 may result in a further potential increase in unemployment.
- 4.17 **2021/2022 Cost Pressures**
- 4.18 Current in year cost pressures have been reviewed to assess the likely continuation into 2022/2023. An assessment has also been undertaken to evaluate the portfolios ability to mitigate cost pressures from within existing budgets e.g. budget realignment.

4.19 **Service Demand**

- 4.20 **Education** – The pupil population data is collected at the end of September. Any increase will require an increase in funding to the Individual School Budget. As identified in Table 1 – Key Planning Assumptions, pupil population has increased significantly between September 2020 and September 2021 and the current forecast is that the pupil population will continue to increase over the medium term.
- 4.21 This increase is as a result of positive parental choice in placing their children in Blaenau Gwent schools, as well as the impact of the Growth Strategy and increased house building within the borough attracting new families.
- 4.22 This will have an impact on school funding and the revenue support grant received from Welsh Government in future years.
- 4.23 **Social Services (Adults)** – Payments made to Community Care commissioned services, decreased by 1% (£0.2m) between 2019/2020 and 2020/2021, (this comparison excludes the additional financial support funded from the Welsh Government Hardship Fund) and in-house provision decreased by 4% (£0.3m). This can be attributed to the impact of the pandemic on social care, and a reduction in the number of service users, however demand for services are already increasing following the easing of restrictions.
- 4.24 Historically, Blaenau Gwent has not seen an increase in the demand for clients accessing social care services. Between 2016/2017 and 2018/2019, the impact of the Council's strategy of prevention and early intervention is that the total clients receiving services reduced by 261 (9.9%). However, the fragility of the social care market, including the recruitment and retention of staff, as it recovers from the pandemic, and the loss of financial support from the Welsh Government Hardship fund, could lead to increased costs for the Council to ensure that there is sufficient capacity within the sector to meet demand.
- 4.25 The increase in the Social Care Grant for 2021/2022 and the Social Care Recovery Grant are assisting with the management of increased costs within existing budgets. There is no indication that these grants will continue into 2022/23, therefore, the financial impact in future years will need to be continually reviewed.

- 4.26 **Social Services Children's** – The number of Children Looked After continues to decline with an overall reduction of 23 children between April 2019 (218) June 2021 (195), and the number of children in residential care has reduced from 17 to 11 (as at September 2021), 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.
- 4.27 The most significant cost pressure currently within Children's Services is the cost of legal fees, expenditure was £1.1m in 2020/2021 and it is forecast to remain at this level for 2021/2022. A cost pressure was awarded during the budget setting process for 2021/2022 of £350,000, however, this remains a cost pressure with a forecast overspend of £363,000.
- 4.28 These costs are currently being managed within the overall budget for the Social Services Portfolio and the Council is exploring alternatives to mitigate these costs in the longer term.
- 4.29 **Environment – Waste and Recycling Services** – Waste Services is a reactive service and has overspent against budget for the last few years due to increasing costs and volatility in the market for the sale of recycle.
- 4.30 To achieve future WG targets for recycling (70% by 2024/25) will require the service to increase / expand Waste and recycle collected. This will potentially impact upon budgets and will need to be monitored carefully.
- 4.31 **Changes in Legislation/Policy**
- 4.32 National insurance contributions paid by both employees and employers will increase by 1.25% from April 2022 and is designed to fund the Health & Social Care crisis following the pandemic. The potential additional cost relating to Council staff, schools and commissioned services within Social Care have been included on the Cost Pressure list. There may also be a knock on impact on other services commissioned by the Council.
- 4.33 The Minimum Living Wage is currently £8.91 per hour (age 23 & over), in his 2021 Budget the Chancellor of the Exchequer announced that from April 2022 this would increase to £9.50 (5.7%). This will result in

increased costs particularly for commissioned services, and a potential pressure for the service.

- 4.34 The cost pressures identified for 2021/2022 is attached at Appendix 1 with £5.4m being built into the MTFs for 2022/2023. The table below shows the impact the cost pressures have on the funding gap.

Table 4: Assessed Budget Gap including Cost Pressures

	Medium Term Budget Gap				
	2022/2023 £'000	2023/2024 £'000	2024/2025 £'000	2025/2026 £'000	2026/2027 £'000
Funding Gap	(2,458)	(1,546)	(1,551)	(1,555)	(1,556)
Cost Pressures	4,235	2,000	2,000	2,000	2,000
Growth					
Adjusted Funding Gap	(6,693)	(3,546)	(3,551)	(3,555)	(3,556)

- 4.35 The potential funding gap increases to £21m over the next 5 years with the inclusion of cost pressures.
- 4.36 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.
- 4.37 **Sensitivity Analysis**
- 4.38 The funding gap identified in table 4 (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.
- 4.39 Given the uncertainty with the assumptions applied, 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 5: Sensitivity Analysis

Pay	ISB	Council Tax	AEF Change	2022/2023	2023/2023	2024/2025	2025/2026	2026/2027	Total
MTFS Assumptions				Funding Gap					
				£'000	£'000	£'000	£'000	£'000	£'000
2%	0%	4%	0%	(6,693)	(3,546)	(3,551)	(3,555)	(3,556)	(20,901)
	+/- 1% £'000								
472	466	368	1,204						
1.75%	1%	3.5%	+1%	(6,021)	(2,874)	(2,879)	(2,883)	(2,884)	(17,541)
1.50%	2%	3.0%	+2%	(5,349)	(2,202)	(2,207)	(2,211)	(2,212)	(14,181)
1.50%	3%	2.5%	+3%	(4,795)	(1,648)	(1,653)	(1,657)	(1,658)	(11,411)
2.00%	3%	2.0%	+3%	(5,215)	(2,068)	(2,073)	(2,077)	(2,078)	(13,511)
2.00%	0%	2.0%	-1%	(8,633)	(5,486)	(5,491)	(5,495)	(5,496)	(30,601)
2.00%	0%	2.5%	-2%	(9,653)	(6,506)	(6,511)	(6,515)	(6,516)	(35,701)
2.00%	0%	3.0%	-3%	(10,673)	(7,526)	(7,531)	(7,535)	(7,536)	(40,801)

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 been developed to deal with potential 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 2021/2022, £0.76m was identified through the strategic business reviews. This resulted in a surplus budget of £1m which and this was set aside in a specific reserve to support medium term financial planning.
- 5.3 Appendix 2 provides a summary of the current Strategic Business Reviews, and the latest assessment of the estimated financial achievement for 2022/2023 to 2025/2026.
- 5.4 The Council’s income generation ability has been impacted by the Covid-19 pandemic. The current assessment of the savings that could be delivered between 2022/2023 and 2026/2027 is £6.8m and the impact on the funding gap (after allowing for cost pressures) is shown in the table below.

Table 9: Assessed Budget Gap and the Impact of Bridging the Gap

	Medium Term Budget Gap				
	2022/2023 £'000	2023/2024 £'000	2024/2025 £'000	2025/2026 £'000	2026/2027 £'000
Adjusted Funding Gap (with Cost pressures)	(6,693)	(3,546)	(3,551)	(3,555)	(3,556)
Estimated Achievement - BtG	2,688	1,180	1,262	846	846
Adjusted Funding Gap	(4,005)	(2,366)	(2,289)	(2,709)	(2,710)

- 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 inevitable 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 is linked to the increase in AEF.
- 6.2 For 2021/2022, the Individual Schools Budget received an uplift of 3.3%, and this reflected a gross uplift of 3.6%, in line with the Council's increase in AEF, adjusted for a reduction in demographics.
- 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 10: Potential Cost Increases for Schools

	2022/2023 £'000	2023/2024 £'000	2024/2025 £'000	2025/2026 £'000	2026/2027 £'000
Expenditure					
Pay increases	863	880	898	916	934
Pension Increase – APT&C	127	129	132	134	137
Inflation – non pay	203	207	211	215	219
Inflation – Utilities	21	21	22	22	23
Total Expenditure Increase	1,214	1,237	1,263	1,287	1,313

6.4 The table indicates that schools are potentially facing financial cost increases of £1.2m per annum over the next 5 years based on the assumptions within the MTFS. A number of cost pressures have also been identified on the Cost Pressure appendix, including:

- Increase in Pupil Demographics – £0.6m
- Increase in energy Costs - £0.3m
- Impact of an increase in NI contributions - £0.4m

6.5 School Balances have been increasing over the last few years, with an overall increase of £2.35m when compared to 2019/2020 and £3.4m increase when compared to 2017/2018. An analysis across sectors is shown in the table below:

Table 11 – Actual School Balances (Surplus/ (Deficit))

Phase	2017/2018 £'000	2018/2019 £'000	2019/2020 £'000	2020/2021 £'000 (Provisional)
Secondary	189	285	336	810
All Through	(847)	(762)	(829)	(260)
Primary	857	1,285	1,604	2,744
Special	81	246	214	387
TOTAL	280	1,055	1,325	3,681

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 Council's agreed protocol for the management of general reserves specifies a target level for general reserves of 4% of the last reported actual net revenue expenditure (as included in the Revenue Outturn return).
- 7.4 The provisional level of the general reserve at 31 March 2021 is £7.8m, an in-year increase during the year of £1.42m. This outturn position represents 5.78% of net revenue expenditure as reported for 2020/21, exceeding the target by 1.78%.
- 7.5 Earmarked reserves are held by the Council to meet potential future expenditure on specifically identified risks, liabilities and commitments.
- 7.6 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.
- 7.7 The provisional level of earmarked reserves has increased from £8.27m at 1 April 2020 to £20.78m at 31 March 2021 (an increase of £12.51m).
- 7.8 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.
- 7.9 A number of factors have contributed to this exceptional increase, including:
- Service underspends resulting from reduced expenditure due to closure of facilities, reduced service provision, delays in filling vacant posts
 - Receipt of additional specific grants and un-hypothecated grants which have offset in year core costs

- Increase in school balances of £2.3m.
- 7.10 The positive 2020/2021 provisional outturn has enabled the Council to establish a number of new reserves and strengthen its financial resilience and to assist with the ongoing response to Covid-19 and these include:
- An increase of £1m to the Financial Resilience Reserve
 - Establishment of Covid-19 reserve of £2m.
- 7.11 In setting the 2021/2022 budget, a planned increase in reserves has been agreed with a £200,000 contribution to general reserves and a further increase of £1.05m to the financial resilience reserve to continue to support medium term financial planning.
- 7.12 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.
- 7.13 Given the current level of the General Reserve, it is not planned to utilise any of this reserve to balance the annual budget. 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.
- 7.14 This would result in an increase to reserves of £1m over the period of the MTFS.
- 7.15 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 March 2021, to reflect the additional capital investment approvals agreed since October 2019, along with the annual Capital Strategy.
- 8.2 The capital strategy identifies capital funding of:
- 2021/22 - £28.7m
 - 2022/23 - £31m

- 2023/24 – 22.4m.

8.3 A contingency of £1m has been built into the Programme to mitigate cost increases and to enable the Council to react to new / changes in priorities.

8.4 The Capital Programme is attached at Appendix 2.

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 2022/2023 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 **Covid-19 Pandemic**

- Loss of Funding - Welsh Government have indicated that funding to support Local Authorities with additional costs in responding to and recovering from the pandemic will end on 31 March 2022. There is a risk that additional costs will continue into 2022/2023.
- Staff Retention & Recruitment – Recruitment and retention of staff within Health and Social Care 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.
- Covid-19 Sickness within Schools – There is currently a shortage of supply staff within the sector coupled with increased levels of sickness within schools could result in school closures/blended learning.
- Further national lockdowns imposed which will lead to further pressures on businesses and households and additional costs to the Council in providing support.

9.2.2 **Other Economic Risks:**

- Increase in Inflation – Over the last year, inflation rose from just under 2% to 3.2% and it is anticipated that it could increase to

4% by December 2021. This will have 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 reopen, 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.

9.2.3 A Covid-19 earmarked reserve has been established for £2m to provide financial resilience in the short to medium term.

9.2.4 Uncertainty around future WG Funding levels

The absence of any future year guidance on levels of likely settlement from WG makes financial planning into the medium term more difficult.

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 4.28 to 4.37 above models the impact on the funding gap for a range of scenarios.

9.2.6 Achievement of Bridging the Gap proposals

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

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.

Document History			
Author	Version		Date
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G. Taylor	Draft v3	Corporate Overview	