

Committee: **Joint Budget Scrutiny Committee**
 Date of meeting: **23 February 2021**
 Report Subject: **Revenue budget 2021/2022**
 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) |
| | 28/01/2021 | | | | 23/02/2021 | 24/02/2021 | 04/03/2021 | |

1. Purpose of the Report

1.1 This report is presented to Members to:

- i) provide an update on the positive provisional local government settlement for 2021/22 and its impact upon the Council's budget
- ii) consider and propose the detailed revenue budget for 2021/22
- iii) proposes level of Council Tax increase for the 2021/2022 financial year in line with the Medium Term Financial Strategy assumptions.

2. Scope and Background

2.1 The revised Medium Term Financial Strategy was agreed by Council in December 2020, this report updates Members with the latest financial position regarding the budget following the announcement of the provisional local government settlement for 2021/22. The report covers the following:

| Section | Contents |
|-----------------------|--|
| 2.7 – 2.18 | National Aggregate External Finance (AEF) Position |
| 2.19 – 2.25 | Blaenau Gwent AEF position |
| 5.1.1 - 5.1.3 | Aggregated External Finance (AEF) funding compared to MTFS |
| 5.1.7 – 5.1.10 | Cost Pressures and Growth |
| 5.1.11-5.1.13 | Individual Schools Budget |
| 5.1.14 | Revised funding gap |
| 5.1.15–5.1.20 | Bridging The Gap Programme |
| 6.1.1 | Revenue Budget 2020/21 – half year position |
| 6.1.2 | General Revenue Reserves 2020/21 – half year position |

2.2 The Provisional Settlement contains details of the revenue funding that Welsh Authorities can expect to receive in 2021/22 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 2022/23 financial year and beyond have not been provided at this stage. The written statement from the Minister for Housing and Local Government is attached as Appendix 1.

- 2.3 Revenue funding from Welsh Government (WG) is provided in the form of Aggregate External Finance (AEF) which is made up of the Revenue Support Grant (RSG) and National Non Domestic Rates (NNDR). This AEF funding is un-hypothecated i.e. it is not earmarked for specific services and it is up to individual Councils to decide how to allocate to services in order to fit with their priorities (while taking into account statutory responsibilities).
- 2.4 Revenue funding also comes in the form of specific grants, in which case the funding is earmarked for a particular purpose. It is the long term intention of the WG that the number of specific grants is reduced, with funding being transferred into the AEF, giving Local Authorities more flexibility on distributing funding to services. Hence, this form of funding should diminish over time.
- 2.5 Capital funding is provided in the form of General Capital funding, made up of an Un-hypothecated Supported Borrowing (USB) approval and General Capital Grant approval. The USB approval is a borrowing approval for which revenue support is provided within the AEF to cover debt financing costs i.e. principal and interest. It is un-hypothecated, meaning that borrowing can be carried out for any capital purpose. The General Capital Grant is, as its name suggests, a grant that can be used for any capital purpose.
- 2.6 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.
- 2.7 **National Position (All Wales)**
- 2.8 On the 22 December 2021, the Minister for Housing and Local Government published the provisional local government settlement. The overall headline increase in AEF quoted by WG is 3.8%, after taking into account transfers into the settlement. Compared to the Welsh average the 3.7% increase for Blaenau Gwent places us in the bottom third of the all-Wales table (see Appendix 2).
- 2.9 There have been two transfers into the settlement:
- £3.98m for the teachers' pay grant
 - £1.1m for the Coastal Risk Management Programme (no impact for this Council)
- 2.10 Certain Specific Revenue Grants data has only been published on an all-Wales basis, totalling £968m. Funding for some grants has increased e.g. Social Care Workforce Grant (£10m), Free Concessionary Bus Travel Grant (£29m), Road Safety Grant (£1m). Some grants have decreased e.g. the Childcare Offer Grant (£13m), Transformation Fund Grant (£3m), Sustainable Waste Management Grant (£1m).
- 2.11 In terms of capital grants, there are some significant increases in the 21st Century Schools, Welsh Medium Education, Local Transport Fund, Resilient Roads Fund, Childcare Offer and Ultra Low Emissions Vehicle transformation Grant.

- 2.12 Further details of the specific grants for local government will be published alongside the final RSG settlement in March 2021.
- 2.13 With the exception of the NHS and for those on the lowest pay, the UK Government's decision to pause public sector pay increases has meant that Welsh Government did not receive additional funding to provide for the wider public sector pay awards. As a consequence, any financial impact arising from pay increases will therefore need to be accommodated within the overall funding settlement.
- 2.14 The current policy and funding arrangements for Council Tax Reduction Schemes (CTRS) continues into 2021/2022. 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 2021/2022 will fall to Local Authorities (of the £244m, the Council receives £8m towards costs of £9.6m).
- 2.15 The non-hypothecated general capital funding for 2021/2022 will be £198 million (including £20 million for public highways refurbishment grant) – remaining unchanged from the 2020/2021 financial year.
- 2.16 Welsh Government have confirmed that funding for Covid-19 pressures for increased costs and income losses will be considered separately within the WG final budget. This provides clarity that the settlement does not provide funding for cost pressures relating to the pandemic in 2021/2022.
- 2.17 The Minister states this is a good settlement and one which should alleviate some of the anticipated pressures.
- 2.18 The provisional settlement announcement marked the start of a seven week consultation period which ends on 9th February 2021. After this the Minister will consider whether further amendments are to be made, before the final settlement is announced on 2 March 2021.
- 2.19 **Blaenau Gwent Position**
- 2.20 The headline increase for BGCBC after allowing for transfers is 3.6% (£4.2m), compared to the all Wales increase of 3.8%. 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 budget for 2021/2022.
- 2.21 The Standard Spending Assessment (SSA) increase, quoted as 4.1%, is the joint 5th lowest in Wales (compared to an all Wales increase of 4.4%).
- 2.22 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.

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

Population – Blaenau Gwent's population has increased by 0.1% compared to the Welsh average increase of 0.8%.

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

Education – Nursery & Primary pupil numbers have reduced by 1.9% compared to the Welsh average reduction of 0.8%. Secondary school pupil numbers have increased by 4.3%, compared to the Welsh average increase of 2.2%. 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 0.1% compared to the Welsh average increase of 3.6%. This has had an impact on the SSA increase.

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

- 2.25 General Capital Funding has reduced slightly by £54,000 from 2020/2021 to £3.8m. Blaenau Gwent's allocation of the Public Highways refurbishment grant is expected to be in the region of £370,000.

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 2021/2022 revenue budget as shown in table 2 in paragraph 5.1.14.

- 3.1.2 Members to provide comment on the outcomes within the overall provisional RSG Settlement and note the potential for further change in the Final RSG Settlement (paragraphs 2.7 – 2.18).

- 3.1.3 Members to provide comment on the outcomes within the BGCBC provisional RSG Settlement and its impact upon the Medium Term Financial Strategy (paragraphs 2.19 – 2.25).

- 3.1.4 Members to consider and recommend to Executive & Council the cost pressures and growth items (£2.074m in total) identified in Appendix 3 (paragraphs 5.1.7 – 5.1.10) for inclusion in the Council’s budget.
- 3.1.5 Members consider and recommend to Executive & Council an uplift of £1.472m which equates to a net 3.3% increase to the ISB. This reflects a gross uplift of 3.6% (which incorporates the Teachers pay grant transferring into the settlement of £84,000) adjusted for a £150,000 reduction in demographics (paragraphs 5.1.11 to 5.1.13).
- 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 (paragraph 5.1.21).
- 3.1.7 Members recommend to Executive & Council a Council tax increase of 4% for 2021/22 (paragraph 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 and the Medium Term Financial Strategy (MTFS) supports the Corporate Plan outcome “an ambitious and innovative Council delivering the quality services we know matter to our communities” and ensures effective forward planning arrangements are in place to support the Council’s financial resilience.
- 4.2 The revenue & capital budgets support the delivery of all the Council priorities.
- 4.3 To comply with statutory responsibilities, the Council must set a balanced budget and set its Council Tax for the forthcoming year by 10 March.

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 17th 2020) indicates (prior to the identification of budget reductions or increased income) funding gap of:-

5.1.2 **Table 1 – MTFS Funding Gap (as at December 2020)**

| 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 | Total |
|---------|---------|---------|---------|---------|--------|
| £2.9m | £4.7m | £2.7m | £2.7m | £2.7m | £15.7m |

5.1.3 These are based upon a number of assumptions including:

- cash flat level of funding from WG
- a Council Tax increase of 4% per annum
- cost pressures arising as a direct response to Covid-19 will continue to be funded by Welsh Government during 2021/2022.
- contribution to General Reserve of £200,000

5.1.4 **Comparison to MTFS**

5.1.5 **AEF Funding**

5.1.6 Clearly, the unadjusted provisional settlement increase in funding of £4.3m (3.7%) for 2021/2022 for Blaenau Gwent is better than the MTFS modelled position. As a result, the original funding gap can now be revised. Table 2 takes account of the provisional settlement and revised cost pressures.

5.1.7 **Service Cost Pressures and Growth**

5.1.8 Existing, new service cost pressures and growth items totalling £2.819m for 2021/2022, have been included in the MTFS and the funding gap identified in table 1 above. £1m per annum has been assumed for 2022/2023 onwards.

5.1.9 Cost pressures and Growth items are regularly reviewed and updated to take into account updated/new information. The updated cost pressures and growth items are attached at Appendix 3 and total £2.074m.

5.1.10 In addition to the cost pressures identified on Appendix 3, cost pressures have been identified relating to the Covid-19 pandemic. Currently these are estimated to be in the region of £445,000 per month and reflect additional costs incurred and lost income. It has been assumed that Welsh Government will continue to fund these costs into the next financial year.

5.1.11 It is proposed that the revised cost pressures and growth items totalling £2.074m are agreed and built into the Council's budget from 2021/22.

5.1.12 ***Individual Schools Budget (ISB)***

5.1.13 Given that the Council will receive an uplift of 3.6% (after adjusting for the transfer of grant for the Teachers pay award), it is proposed to also uplift the ISB by 3.6%. The financial impact would increase the ISB by £1.472m after taking into account a reduction in pupil demographics of £150,000 (net increase of 3.3%). The increase would be inclusive of the transfer of the pay award grant into the settlement of £84,000.

5.1.14 The increase in funding will need to provide for the cost of the pay awards during 2021/2022, as Welsh Government have indicated that there will be no further financial support for pay awards during 2021/2022.

5.1.15 The table below shows the financial impact on the funding gap should the cost pressures and growth of £2.074m and the increase in the ISB of £1.472m be approved.

5.1.16 **Table 2 - Funding Gap based on 2021/2022 Provisional RSG***

| | 2021/2022 | 2022/2023 | 2023/2024 | 2024/2025 | 2025/2026 |
|---------------------------------------|--------------|--------------|--------------|--------------|---------------|
| | £000s | £000s | £000s | £000s | £000s |
| Funding | | | | | |
| AEF | (120,361) | (120,361) | (120,361) | (120,361) | (120,361) |
| Council Tax @ 4% | (36,786) | (38,257) | (39,788) | (41,379) | (43,034) |
| Total Funding | (157,147) | (158,618) | (160,149) | (161,740) | (163,395) |
| Draft Estimates - Prior to savings | 152,853 | 161,659 | 165,997 | 170,394 | 174,854 |
| Funding Gap /(surplus) | (4,294) | 3,041 | 5,848 | 8,654 | 11,458 |
| Cost Pressures/growth | 2,074 | 1,000 | 1,000 | 1,000 | 1,000 |
| Increase in ISB | 1,472 | | | | |
| Contribution to Reserves | 200 | 200 | 200 | 200 | 200 |
| Funding Gap /(surplus) | (548) | 4,241 | 7,048 | 9,854 | 12,658 |

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

5.1.17 **BRIDGING THE GAP – Position Statement**

5.1.18 The pandemic has had a significant impact on the progress of delivering the outcomes of the strategic business reviews as the Council continues to respond to Covid-19. In light of this the estimated financial impact has been reviewed and updated.

5.1.19 The table below provides a summary of the estimated achievement of the Strategic Business Reviews, details of the individual strategic reviews are attached at Appendix 4.

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

| Estimated Achievement Range: | 2021/2022 | 2022/2023 | 2023/2024 | 2024/2025 | 2025/2026 |
|------------------------------|-----------|-----------|-----------|-----------|-----------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Low | 500 | 1,073 | 764 | 846 | 846 |
| High | 1,000 | 2,083 | 1,314 | 1,446 | 1,446 |

5.1.21 For 2021/22 the most recent estimate against Bridging the Gap indicates that achievement will surpass the low estimate and reach **£755,000**.

5.1.22 Factoring in this revised amount and assuming the lower level achievement of the proposals for 2022/23 onwards the funding gap/(surplus) is as follows:

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

| | 2021/2022 | 2022/2023 | 2023/2024 | 2024/2025 | 2025/2026 |
|------------------------------------|----------------|--------------|--------------|--------------|---------------|
| | £000s | £000s | £000s | £000s | £000s |
| Revised Funding Gap | (548) | 4,241 | 7,048 | 9,854 | 12,658 |
| BTG low current year | (755) | (1,073) | (764) | (846) | (846) |
| BTG prev. year | | (755) | (1,828) | (2,592) | (3,438) |
| Final funding Gap/(surplus) | (1,303) | 2,413 | 4,456 | 6,416 | 8,374 |

5.1.24 When factoring in the achievement of Bridging the Gap for 2021/2022, there is a budget surplus of £1.3m.

5.1.25 ***Transfer to Earmarked Reserves***

5.1.26 It is proposed that the achievement of Bridging the Gap which exceeds the budget requirement of £1.3m 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 on 4 March 2021.
- 5.2.3 If grant funding does not continue at the current level, there is a risk that cost pressures will emerge particularly where grants are used to support core services, e.g. sustainable social services grant. This can be mitigated by close monitoring of the budget and consultation with Welsh Government/WLGA on service pressures.
- 5.2.4 There is a risk that Welsh Government will not continue to fund the ongoing cost of responding to the pandemic. However, Wales Government have indicated that there will be further announcements alongside the final settlement with regards to funding the response to the pandemic.
- 5.2.5 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.
- 5.2.6 There is a risk that there will be an adverse financial impact on the procurement of goods and services as a result of the UK Exiting the EU. This risk can be mitigated through the governance processes that the Council has introduced to monitor the impact.

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 There will be service change implications arising from the continued commercial activity and transformation of services, which may impact upon staff in the future. Following Council's agreement to establish community hubs, it is likely that some existing posts will be repurposed. This may lead to changes in responsibilities, opportunities for redeployment or redundancies.

6. Supporting Evidence

6.1 *Performance Information and Data*

6.1.1 **Revenue Budget 2020/21 – Half Year Position**

At the end of September 2020, i.e. the half year position for the current financial year, Portfolios and Committees forecast an overspend of £0.248m.

6.1.2 **General Revenue Reserves 2020/2021 – Half Year Position**

As at the end of September 2020 it is forecast that the General Reserve will decrease from the 31st March 2020 provisional level (subject to external audit) of £6.435m, to £6.39m. Over the last 5 years however the level of the General Reserve has increased by £1.3m, addressing the improvement needed in reserves which was highlighted by the Audit Wales 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 including the creation of community hubs and the co-location of some council services, 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 positive Welsh Government settlement means that there will be no impact on frontline services in the financial year 2021/22. As a result, the consultation on the budget focuses on people's views on the Council's priorities and the proposed Council Tax increase for 2021/22.

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:

- Budget proposals being considered on a five year rolling programme basis.
- The MTFS as agreed by Council in December 2020 covers the period 2021/2022 to 2024/2025 and will roll forward one year, every year. The MTFS will be reviewed and updated during 2021/2022.
- Proposals within the Bridging the Gap programme are taking a long term view of opportunities for development.
- The current approved capital programme covers the period 2019/2020 to 2025/2026 in line with the 21st Century schools programme and it is reviewed and updated periodically.

6.5 **Preventative focus**

6.5.1 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 **EqIA**

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

7. **Monitoring Arrangements**

7.1 Wider Corporate Leadership Team, political groups, Joint Budget Scrutiny, Executive and Council.

Background Documents /Electronic Links

- *Appendix 1*
- *Appendix 2*
- *Appendix 3*
- *Appendix 4*