

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO CABINET

14 SEPTEMBER 2021

REPORT OF THE INTERIM CHIEF OFFICER – FINANCE, PERFORMANCE AND CHANGE

MEDIUM TERM FINANCIAL STRATEGY (MTFS) 2022-23 to 2025-26 UPDATE

1. Purpose of report

- 1.1 The purpose of this report is to present Cabinet with an update on the development of the Medium Term Financial Strategy 2022-23 to 2025-26, following the revision of in-built assumptions, and updated information received since the MTFS 2021-22 to 2024-25 was approved by Council in February 2021.

2. Connection to corporate well-being objectives / other corporate priorities

- 2.1 This report assists in the achievement of the following corporate well-being objectives under the **Well-being of Future Generations (Wales) Act 2015**:

1. **Supporting a successful sustainable economy** – taking steps to make the county borough a great place to do business, for people to live, work, study and visit, and to ensure that our schools are focussed on raising the skills, qualifications and ambitions for all people in the county borough.
2. **Helping people and communities to be more healthy and resilient** - taking steps to reduce or prevent people from becoming vulnerable or dependent on the Council and its services. Supporting individuals and communities to build resilience, and enable them to develop solutions to have active, healthy and independent lives.
3. **Smarter use of resources** – ensuring that all resources (financial, physical, ecological, human and technological) are used as effectively and efficiently as possible and support the creation of resources throughout the community that can help to deliver the Council's well-being objectives.

- 2.2 The allocation of budget determines the extent to which the Council's well-being objectives can be delivered. The Council reviewed and updated its Corporate Plan targets in July 2021 and it will be updated for 2022-23 and presented to Council for approval in February 2022. It is important that actions identified in the Corporate Plan to deliver outcomes are commensurate with the resources identified in the MTFS.

3. Background

- 3.1 The Medium Term Financial Strategy 2021-22 to 2024-25, which was approved by Council on 24 February 2021, identified a potential budget gap of £22 million over the period 2021-22 – 2024-25, with savings of £1.76 million required in 2021-22 and estimated future years' savings as follows:

	2022-23 £000	2023-24 £000	2024-25 £000	Total £000
Best Scenario	4,837	4,637	4,431	13,905
Most Likely Scenario	6,959	6,780	6,596	20,335
Worst Scenario	9,081	8,881	8,676	26,638

The future years' savings were predicated on the basis of 0% change to Aggregate External Finance (AEF) alongside a council tax increase of 4.5%. This is on the back of £62.247 million of savings being made between 2012-13 and 2021-22.

- 3.2 At the time the budget was set there was still a large degree of uncertainty around pay and price increases for 2021-22, along with the longer term impact of the Covid-19 pandemic and Brexit on the Council's finances. Assumptions were built into the budget around potential pay awards for teachers and non-teaching staff for 2021-22, which are yet to be finalised. In addition, provisions for price increases were made based on what had been a low inflation year in 2020-21, ranging from 0.3% CPI increase up to 1.0% increase.
- 3.3 The Revenue Budget Outturn 2020-21 Report, which was presented to Council in June 2021, outlined the significant reliance that the Council had placed on additional Welsh Government (WG) grant funding, through the Covid-19 Hardship Fund and other grants to enable it to return a balanced position at year end. This included funding from WG to support the shortfall in council tax income during the year, alongside additional support for council tax payers.
- 3.4 The Statement of Accounts 2020-21 notes a total of £24.643 million of Covid-19 grants received during the financial year to cover additional expenditure on homeless individuals in providing them with accommodation, provision of free school meals (including during school holidays), additional staffing costs along with provisions to support social distancing and learning in schools, and additional costs of providing care and support for voids in Adult Social Care. The amount received also included support for loss of income mainly in respect of the reduction in school meal income and a contribution to the net loss of running the leisure services during the pandemic. Whilst it is anticipated that the majority of these costs will be either one-off or short term, and will reduce as we recover from the pandemic, there will be other cost pressures that will remain into the medium and longer term.
- 3.5 The Welsh Government has allocated £206.6 million in its current budget to the Hardship fund to support local government for the first six months of 2021-22. In relation to support beyond this period, WG have recently confirmed the extension of Covid-cost related support for the adult social care sector up to the end of the current financial year. No further financial support for non-adult social care services is currently in place, which could place additional pressures on the 2021-22 and future years' budgets.

4. Current situation/proposal

- 4.1 The MTFs outlines the principles and detailed assumptions which drive the Council's budget and spending decisions, outlines the financial context in which the Council is operating, and tries to mitigate any financial risks and pressures going forward, at the

same time as taking advantage of any opportunities arising. Given the unprecedented financial and economic situation the Council finds itself in at this time, it is felt that a review of the assumptions underlying the MTFS is warranted, and an updated budget strategy developed.

The Economic and Financial Climate

- 4.2 In the one-year Comprehensive Spending Review (CSR) in November 2020 the Chancellor said that as the restrictions are eased, they expect the economy to start recovering, but that even with growth returning, "our economic output is not expected to return to pre-crisis levels until the fourth quarter of 2022". He also said that the Spending Review would deliver stronger public services with billions in additional funding, including £1.3 billion for Wales. He also announced targeted pay increases for NHS workers and those on low pay, with a pay freeze for most of the rest of the public sector.
- 4.3 Following the CSR the Welsh Government's budget, and therefore provisional local government settlement, was delayed until December 2020. Bridgend received an increase in AEF of 4.3%, compared to an average of 3.8% across Wales in the settlement, which was a much better settlement than had been anticipated. No changes were made to these figures in the final local government settlement announced in March 2021.
- 4.4 In the March 2021 Budget the Chancellor of the Exchequer said his immediate priority continues to be supporting those hardest hit, with extensions to the Job Retention Scheme (JRS) or furlough scheme, self-employed support, business grants, loans and VAT cuts – bringing total fiscal support to over £407 billion. He also set out plans to drive jobs, growth and investment to help the economy rebound. However, at a certain point in time some of these measures will come to an end and the impact will be felt throughout the county borough. The JRS will end at the end of September 2021 and it is envisaged that this will impact negatively on employment rates. In addition, a number of businesses have been supported by business grants and business rates reliefs, which will also come to an end. The potential financial impact of these on the local economy, collection of council tax, council tax support, housing benefits and free school meals levels will need close monitoring and considering as part of the MTFS 2022-2026.

2021-22 Budget Position

- 4.5 When the MTFS 2021-25 was approved in February 2021 it was based on 4.3% increase in AEF, a 3.9% increase in council tax, and included funding of £7.502 million for budget pressures, including for eradicating rough sleeping, demographic growth, additional learning needs and the National Living Wage. These were offset by £1.76 million of budget reductions to balance the budget.
- 4.6 A review of the MTFS scenarios was also undertaken at this time and the funding scenarios improved, taking into account the actual funding levels received over recent years, the worst of which was -0.1% in 2019-20. It was stated that these would continue to be monitored and amended as further fiscal and economic information is made known.
- 4.7 The Council's net budget (currently £298.956 million) is funded from 3 sources:

	£	%
Revenue Support Grant	163,404,268	54.66
Non Domestic Rates	48,787,286	16.32
Council Tax Income	86,764,691	29.02
Total	298,956,245	100%

Levels of Revenue Support Grant and Non Domestic Rates are set by Welsh Government so the Council only has control over the level and amount of council tax that is raised. Given that council tax only constitutes approximately 30% of the Council's overall net funding, due to the 'gearing effect' any increase in council tax rate will have a disproportionate impact on the additional funding collected e.g. a 1% increase in council tax will only generate around 0.3% increase in the budget available (equivalent to around £870,000).

- 4.8 The Council also collects council tax on behalf of Town and Community Councils and South Wales Police, and assumes risks of non-collection for those sums of monies too. Consequently a 1% reduction in collection tax collection can equate to around £1 million as it includes not only the BCBC element. For the 2020-21 financial year Welsh Government provided additional grant to meet such shortfalls but no funding has yet been committed for 2021-22 onwards. However, in anticipation of a shortfall in council tax collection during this financial year, when the council tax base was set in November 2020 the assumed collection rate was reduced from 98% to 97.5%.
- 4.9 A report was presented to Cabinet on 20 July 2021 outlining the revenue budget forecast for 2021-22 as at 30 June 2021. The position is a projected overspend of £904,000 which reflects a number of continuing base budget pressures such as Adult Social Care. These will need resolving to ensure that there are not unmet underlying pressures going forward into 2022-23.

Key Pressures

- 4.10 It is clear that there are a number of known key pressures that will need considering as part of the 2022-23 budget strategy, not least:

Pay Awards

As mentioned in paragraph 3.2 the pay awards for teachers and non-teachers for 2021-22 are still under discussion. The pay award for teachers is out for consultation and is based on 1.75% increase across all grades from September 2021. The pay award for NJC staff is still being considered. Going forward for 2022-23 it is difficult to know what the position will be, with so much uncertainty even in the current year, so an assumption of around 2% is not unreasonable.

In addition, the Council is required to pay the National Living Wage (NLW), and also funds its external commissioned providers to do the same. The increase for 2021-22 was 2.2% but it is currently estimated that this could increase by 3% - 4% in 2022-23 as we move towards the Low Pay Commission target of the NLW reaching two-thirds of median earnings for workers aged 21 and over by 2024.

Price Inflation

The fallout from the pandemic and Brexit is being manifested in higher prices through inflationary increases. Whilst inflation was low in 2020-21, since the beginning of the year the consumer price index (CPI) annual rate has increased from 0.7% in January 2021 to 2.0% currently (as at July 2021). The Council's Treasury Management advisors, Arlingclose, have stated that while the CPI rate may continue to rise in the coming months, they expect this will moderate towards year end. However, there will still be pressure on costs of goods and services, and contract costs, as we go forward.

Demographic Pressures

In terms of Bridgend's overall population, indications are that the population will continue to increase over the next 10 to 15 years, from 143,000 in 2020 to 148,000 in 2038. This will place increased pressure on the Council's budget if no additional funding is provided, particularly in terms of school places, adult social care, infrastructure and transportation. However, whether or not this will attract additional funding will depend on population growth across Wales as a whole.

In addition, Office for National Statistics data shows that between 2018 and 2048, the proportion of the UK population aged over 80 is set to increase from 6% in 2018 to 11% in 2048, and the proportion of the population aged 20-59 will fall from 51% in 2018 to 46% in 2048. The fact that people live longer is a very positive development, but it does mean that the nature of demand for some public services will change. Also, the decline in the working age population potentially affects the tax base in Wales.

Budget Strategy 2022-23

- 4.11 The MTFs approved in February 2021 was based on the Most Likely scenario of 0% change to AEF and 4.5% council tax increase. Since then discussions with Cabinet and Corporate Management Board (CCMB) have centred around seeking the right balance in assumptions going forward on likely increases to AEF, what is a realistic level of savings targets given the historical level of savings made, level of funding required to meet unavoidable budget pressures, and subsequent required council tax increases to balance the budget.
- 4.12 A review of provisions set aside for pay, prices and pressures has been undertaken, along with an analysis of different scenarios in respect of changes to AEF and council tax increases, and the outcome is as follows:

	AEF change	Council Tax change							
		+0%	+0.5%	+1%	+2%	+3%	+3.5%	+4%	+4.5%
		£000	£000	£000	£000	£000	£000	£000	£000
Best	+3%	3,535	3,101	2,667	1,799	932	498	64	-370
Most Likely	+2%	5,657	5,223	4,789	3,921	3,054	2,620	2,186	1,752
Worst	+1%	7,779	7,345	6,911	6,043	5,176	4,742	4,308	3,874
Cash Flat	0%	9,900	9,466	9,032	8,164	7,297	6,863	6,429	5,995

A lower council tax increase will result in an increase to the level of savings to be made, but would be offset (partly or in full) by an increase in AEF.

- 4.13 CCMB currently feel that an increase in AEF of 2% by Welsh Government is prudent. Given the scenarios set out in the table above this would result in the following savings targets for different levels of council tax increase:

Council Tax Increase	Savings Target £000
+1%	4,789
+2%	3,921
+3%	3,054
+4%	2,186

For example, if the intention is for a 3% increase in council tax, then savings of £3.054 million would still be required. Every effort will be made to minimise council tax increases and mitigate savings requirements, but this will ultimately depend on the settlement received from Welsh Government. Should the settlement be higher than a 2% increase then these will be able to be mitigated in part or in full. An additional increase in funding from Welsh Government of 1% would generate an additional £2.1 million. Conversely, a settlement lower than 2% could result in an increased savings requirement or council tax.

- 4.14 Currently very few budget reduction proposals have been put forward by Directorates so there is a risk of not being able to set a balanced budget in February 2022, so work will continue, with support and input from the Budget Research and Evaluation Panel (BREP), to bring together budget reduction proposals for consideration and consultation on over the remainder of the financial year.
- 4.15 The Council has recently received a report on its financial sustainability from Audit Wales. The conclusion from Audit Wales was that the Council has maintained a strong financial position during the pandemic and that there are no apparent risks to the Council's financial sustainability. However, they also say that the immediate impact on the Council's financial sustainability was mitigated by Welsh Government funding, which we know will not continue indefinitely, and that while the Council has a track record of delivering the majority of its in-year planned savings, like other Councils going forward, identifying and delivering future savings will be more challenging. As a general comment they did indicate that Councils that show a pattern of unplanned use of reserves to plug gaps in their revenue budget that result in reductions of reserve balances reduce their resilience to fund unforeseen budget pressures in future years.

Budget Consultation

- 4.16 Following on from the Budget Consultation 2020, which focussed on recovery and access to services, we anticipate that this year's consultation will focus on similar themes, with the aim to find out which services are most important to our residents, where they see the priorities for the future and where they would like to see investment opportunities.
- 4.17 Like last year we will need to adapt to the limited face to face interactions that Covid-19 and social distancing presents, therefore the budget consultation will be pre-launched on social media prior to the live survey date. The public consultation is expected to go live on 20 September 2021 and close on 14 November 2021, with the outcome of the consultation reported to Cabinet on 14 December 2021. Consultation will also take place with scrutiny committees, the School Budget Forum and business

rate payers prior to the budget being presented to Council for approval in February 2022.

Capital Programme

- 4.18 The Council sets a 10 year rolling capital programme, which is updated and reported to Council for approval on a quarterly basis. The capital programme is based on the framework set out in the Council's Capital Strategy, which is approved annually by Council alongside the MTFS.
- 4.19 A report was presented to Council in June 2021 outlining a range of new capital schemes to be funded from Bridgend County Borough Council (BCBC) resources, including capital receipts and revenue contributions from earmarked reserves that were established at the end of 2020-21 from year end underspends. The schemes identified were part of an investment proposal to help accelerate the recovery of the County Borough from Covid-19 and to support its residents. These included grants to support businesses, apprentice and graduate schemes, wider regeneration investment highways maintenance, decarbonisation and active travel schemes.
- 4.20 The capital programme will be updated for new schemes in line with the regular reporting cycle. The Council's disposal strategy has been successful in recent years, with total receipts generated from the enhanced disposal programme between 2014 and 2020 of £21.36 million. A significant amount of this funding was used to match fund the Welsh Government 21st Century Schools Band A Programme, as well as funding a range of other capital schemes, including a number of regeneration schemes and the Depot Rationalisation Programme. Consequently the availability of capital receipts is very much reduced, meaning the Council will either have to use the limited capital funding it receives from WG, already established earmarked reserves (most of which are committed to specific schemes), or borrowing, to fund new schemes, where allowable. However, borrowing has long term financial consequences and will result in a cost pressure to the Council's revenue budget. The affordability of any repayment costs needs to be considered over the life of the borrowing (usually 25-30 years), especially given the challenges facing the budget overall and the potential level of savings already required.
- 4.21 In order to advance some schemes the Council will also continue to seek to secure external grant funding towards schemes where possible, to reduce the impact on in-house budgets.

Budget Timetable

- 4.22 Welsh Government has indicated that the announcement of its draft budget, and subsequently the provisional local government settlement for 2022-23 is likely to, once again, be approximately two months later than usual, due to fact that the outcome of the Comprehensive Spending Review by the UK government is not likely to be until later in the year. This will mean that the final budget for 2022-23 is likely to be based on the provisional local government settlement as has happened in the last two years. The likely budget timetable is as follows:

Date	Action
Sept – Nov 2021	<ul style="list-style-type: none">• CCMB to firm up budget proposals – budget reductions, budget pressures• Public Budget Consultation period

November 2021	<ul style="list-style-type: none"> • Council Tax base approved by Council
December 2021	<ul style="list-style-type: none"> • Report to Cabinet on Budget Consultation • Welsh Government Draft Budget • Provisional Local Government Settlement
January 2022	<ul style="list-style-type: none"> • Report to Cabinet on Draft MTFS 2022-2026 • Scrutiny Committees consideration of MTFS
February 2022	<ul style="list-style-type: none"> • Corporate Overview and Scrutiny Committee makes recommendations to Cabinet • Final MTFS 2022-2026 presented to Cabinet and Council based on provisional settlement alongside the Corporate Plan, Capital Strategy and Treasury Management Strategy
March 2022	<ul style="list-style-type: none"> • Final Welsh Government Budget • Final Local Government Settlement

4.23 In addition, during the period September 2021 to January 2022, the BREP will meet with key officers to discuss the budget proposals and make recommendations to support Cabinet in shaping the budget.

5. Effect on policy framework and procedure rules

5.1 The budget setting process is outlined within the Council's Constitution and Financial Procedure Rules.

6. Equality Act 2010 implications

6.1 The protected characteristics identified within the Equality Act, Socio-economic Duty and the impact on the use of the Welsh Language have been considered in the preparation of this report. As a public body in Wales the Council must consider the impact of strategic decisions, such as the development or the review of policies, strategies, services and functions. This is an information report, therefore it is not necessary to carry out an Equality Impact assessment in the production of this report. It is considered that there will be no significant or unacceptable equality impacts as a result of this report.

6.2 A high level Equality Impact Assessment (EIA) will be undertaken on the Council's budget proposals going forward and individual EIAs will be completed for 2022-23 proposed budget reduction proposals which may impact on certain groups of citizens within the County Borough.

7. Well-being of Future Generations (Wales) Act 2015 implications

7.1 The well-being goals identified in the Act were considered in the preparation of this report. As the report is for information it is considered that there will be no significant or unacceptable impacts upon the achievement of well-being goals/objectives as a result of this report.

8. Financial implications

8.1 The financial implications are mostly set out in the body of the report. The Section 151 officer has statutory duties in relation to the financial administration and stewardship of the authority. This includes reporting to members on the overall budget performance

and recommending corrective action where appropriate, providing financial information and preparing the revenue budget and capital programme and reporting to full Council on the robustness of the estimates and the adequacy of reserves.

- 8.2 The level of Council reserves is sufficient to protect the Council in light of unknown demands or emergencies and current funding levels. It must be emphasised that the biggest financial risks the Council is exposed to at the present time relate to the uncertainty of Welsh Government funding, including longer term funding to mitigate the effects of Covid-19, the increasing difficulty in the delivery of planned budget reductions as well as the identification of further proposals. Therefore, it is imperative that the Council Fund balance is managed in accordance with the MTFS Principle 9, as set out in the MTFS, and it is essential that revenue service expenditure and capital expenditure is contained within the identified budgets.

9. Recommendation

- 9.1 Cabinet is asked to note the report on the updated MTFS 2022-23 to 2025-26.

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Background Documents: Final Local Government Revenue and Capital Settlements
2021-22