

REPORT OF DIRECTOR OF CORPORATE SERVICES

Cabinet

17th January 2022

REVENUE BUDGET STRATEGY 2022/23 to 2024/25

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1. INTRODUCTION

- 1.1.** Cabinet in July 2021 received a report on the Revenue Budget Outlook for 2022/23 to 2024/25 which appraised Members of the financial outlook and the proposals for taking forward the budget preparation for the three year period.
- 1.2.** This report provides Members with the current view of the Revenue Budget for 2022/23 together with indicative figures for the 2023/24 and 2024/25 financial years. The report is based on officers' projections of spending requirements and takes account of the provisional settlement issued by Welsh Government on 21st December 2021.
- 1.3.** Whilst significant work has already been undertaken in preparing the budget, this represents an initial position statement which will be updated over the coming month as the budget is further developed, council members are engaged and public consultation takes place. The final settlement is due to be received from Welsh Government on 1st March 2022.
- 1.4.** The report is broken down into six parts:
 - Funding Projections
 - Budget Requirement
 - Impact on the Authority's budget requirement
 - Consultation
 - Conclusion
 - Recommendations

2. PROVISIONAL SETTLEMENT

2.1. The provisional settlement was announced on Tuesday 21st December 2021. Provisional figures for individual Local Authorities were provided for 2022/23, with indicative figures for 2023/24 and 2024/25.

2.2. The Westminster Comprehensive Spending Review announced in November 2021 included a significant Barnett consequential, reported at £1.6 billion, though analysis from Cardiff University indicates that year on year Welsh Government's budget still drops by over £1 billion due to the cessation of one off Covid-19 funding. There were also the following announcements which have a material impact on our budget considerations:

2.2.1. A cessation of the pay freeze proposed by the Chancellor a year earlier.

2.2.2. A national living wage of £9.50, an increase of 6.6% on the current £8.91, which is a significantly bigger increase than previous years.

2.3. The main points of the Provisional Settlement 2022/23 on an all Wales basis are as follows:

2.3.1. Local government revenue funding for 2022/23 set at £5.108 billion, an increase of 9.8% (£456 million) compared to 2021/22, before adjustments. On a like for like basis after adjustments of £19 million, the increase is 9.4% on an all Wales basis.

2.3.2. Our analysis of this is as follows:

The settlement is said to include £36 million (all Wales) funding for Local Authorities to meet the cost of Welsh Government's policy to pay social care workers a living wage, however this funding is neither clearly identifiable

nor is it shown as a transfer into the settlement which would normally be expected.

The settlement includes the part year effect of the September 2021 Teachers pay award, however this figure does not show as a transfer in, unlike previous years.

£5million (10%) of the All Wales Social Care Workforce grant has been transferred in, however there are no details explaining this treatment.

2.3.3. As with last year, there is no funding floor. Individual settlements range from +11.2% (Monmouthshire) to +8.4% (Blaenau Gwent).

2.4. The Settlement figures for Carmarthenshire are:

2.4.1. After adjustments for WG identified transfers, the increase in the provisional settlement is 9.2% (£26.335 million). The Aggregate External Finance (AEF) therefore increases to £311.957 million in 2022/23. This includes £302k in respect of Social Care Workforce grant.

This settlement is significantly above our original assumption of +2.0%, **however there is significant risk to our funding position as the minister explicitly requires Local Authorities to accommodate the risks of future pay awards, inflationary pressures and ongoing Covid-19 related costs and continuing income reduction.** The scale of these uncertainties is genuinely unprecedented, as discussed in detail later in this report.

We have adjusted our MTFP assumptions for 2023 and beyond in line with WG guidance and increased the assumed level of future inflation. Our proposed savings total £11.7 million over the three year MTFP period.

2.5. Details of the Welsh Government Service Specific Grants were provided alongside the provisional settlement on 21 December 2021 at an all Wales level. It is notable that many remain at broadly at similar level (cash value level) to previous years, which will in reality reduce outputs given the impact of pay awards and general inflation. There are however some important exceptions:

- WG funding to support schools catchup/ recovery activities from the ongoing impacts of COVID-19 on learners has been continued. The Recruit Recover Retain Standards (RRRS) Grant has been set at

£37.5 million All Wales, which is expected to provide in excess of £2 million for Carmarthenshire’s Schools.

- The Additional Learning Needs grant, introduced two years ago, has doubled from £7 million to £14 million across Wales. This recognises the cost of implementing new legislation and is estimated to contribute c. £400k to Carmarthenshire.

As with last year, there are a number of grant changes referred to in the text to the main WG budget narrative which are not reflected in the Local Government provisional grant tables, which it is assumed are due to be updated for the final settlement.

3. BUDGET REQUIREMENT 2021/22

3.1. Current Years performance (2021/22)

3.1.1. As the Authority’s core spending requirements remains constant year on year, a review of current year’s performance is important in identifying whether there are any underlying problems within the base budget

3.1.2. The current projection for the Revenue Outturn for 2021/22 (based on the October 2021 monitoring) is as follows

Service	Approved Budget £'000	Total Expenditure Forecast £'000	Variance Forecast For Year £'000
Chief Executive	16,740	16,192	-548
Communities	108,104	108,273	169
Corporate Services	29,556	28,664	-892
Education and Children's Services	179,660	179,660	0
Environment	61,390	60,936	-454
Departmental Expenditure	395,451	393,725	-1,726
Cont from Dept/Earmarked Reserves			0
Capital Charges	-20,155	-20,655	-500
Levies and Contributions	10,889	10,889	0
Transfer to/ from Reserves	0	946	946
Net Expenditure	386,185	384,906	-1,279

The main reasons for the departmental variances are as follows:

- o Chief Executive’s Department: shortfall in income generation from Commercial properties, offset by underspends across staffing budgets

- Education and Children's Services: the department's core budget is currently forecasting to break even for the year, however schools working budgets are forecasting to utilise £4.7m of their reserves in the current year.
- Communities Department: underspends in Older Peoples budgets offset by overspends in Learning Disabilities division. Without the support of the Covid Hardship Fund, the overspend would be significantly higher.
- Corporate Services: Underspends on pre Local Government Reorganisation pension costs, Rent Allowances, and Housing Benefit Administration, partially offset by a forecast increase in demand for Council Tax Reduction Scheme.
- Environment Department: Above target income on Property Maintenance and Planning service underspends, partially offset by increased demand and supplier costs in school transport

At this point the Authority is currently forecasting a variance of £1.3 million. It is proposed that £500k from the forecast underspend is set aside for decarbonisation. Whilst the Welsh Government capital settlement provides additional funding for decarbonisation, this does not commence until 2023/24. Our action would allow us to accelerate our response to the climate emergency. This will be provided as funding into the Capital Programme.

3.2. Validation

- 3.2.1. Validation reflects the changes in expenditure requirements to deliver the **current level** of services in future years. Primarily this is inflation, but also includes some service specific changes. Some areas of inflation are currently at rates that have not been

seen in recent years and present risks to our budget. The key validation factors are as follows:

	<u>2022/23</u> <u>Original</u>	<u>2022/23</u> <u>Proposed</u>	<u>2023/24</u>	<u>2024/25</u>
General inflation - Expenditure	2.5%	4.0%	3.0%	2.5%
General inflation - Fees & Charges	2.5%	2.5%	2.5%	2.5%
Electricity*	2.5%	20.0%	5.0%	5.0%
Gas*	2.5%	20.0%	5.0%	5.0%
Fuel	5.0%	5.0%	5.0%	5.0%
Pay Inflation - non teaching	2.50%	4.00%	2.50%	2.50%
Pay Inflation - Teaching	2.50%	4.00%	2.50%	2.50%
NI increase	0.00%	1.25%	0.00%	0.00%
Levies	2.9%	3.3%	2.5%	2.5%
Pension Contributions	nil	nil	nil	nil
Capital Charges	£500k	£500k	£500k	£500k

* 2022/23 increase explicitly recognised in pressures due to extraordinary scale

3.2.2. Our previous planning assumptions include future annual pay awards of 2.50% for all staff. Since the budget outlook paper was considered in July 2021, the situation has evolved:

- Teachers Pay - the September 2021 Teachers pay award has been implemented at 1.75% (vs our assumption of 2.5%), but the Office for Budget Responsibility has forecast next year's pay award at 4% (UK)
- Employers have made a final offer of 1.75% for NJC staff for 2021/22, which Unions have rejected. This pay award, once agreed, will apply from April 2021

3.2.3. The Council's 2021/22 budget was set on the basis of a 2.5% award. Against this, the latest employers offer for the majority of NJC staff (the largest share of our payroll) was 1.75%, in line with the September 2021 teachers award. This provides some potential budget headroom. Our assumption next year is increased to allow for a 4% award from September 2022 for Teachers and April 2022 for NJC staff. Depending on the extent to which current inflation persists, even at this increased level, this could still be considered a real terms reduction.

3.2.4. In September 2021, the Prime Minister announced an increase of 2.5% to National Insurance, split equally between employee and employer, to provide increased funding for health and social care. We estimate the 1.25% increase in employer rates is worth c. £2.7 million to our budgets.

3.2.5. We have received confirmation from the fire authority that their indicative budget assumes a levy increase of 3.24%. As with last year, this is based on the explicit understanding that firefighters

pension cost increases continue to be met through direct grant award.

3.2.6. As a result of these factors, validation is at its highest level ever in recent years and adds over £16 million to the current year’s budget.

3.3. Cost Reduction Programme

In anticipation of the settlement challenges, significant work to review service efficiencies/rationalisation proposals has been undertaken. This continues to be exceptionally challenging as the pandemic - and our response to it - continues to have a significant ongoing impact upon service delivery.

3.3.1. The savings targets set for each financial year are as follows:

	2022/23 £m	2023/24 £m	2024/25 £m
Original targets (July Budget Outlook report)	5.209	5.333	5.024
Proposed Savings (following Provisional Settlement)	3.839	3.908	3.982

3.3.2. Accordingly, departments have developed a range of proposals, and these efficiencies are included in **Appendix A** of this report.

- The efficiency proposals are categorised as follows:
 Managerial – Efficiencies that result in no perceivable change to the overall level of service delivery.
 Policy – Efficiency or service rationalisation proposals that will directly affect service delivery.

	2022/23 £m	2023/24 £m	2024/25 £m
Managerial	3.654	3.358	3.240
Existing Policy	0.070	0.550	0.742
New Policy	0.115	Nil	Nil
Total	3.839	3.908	3.982

(Detail at **Appendix A**)

3.3.3. The summary sheet at Appendix A sets out the savings targets set for individual departments and the value of savings currently identified.

3.3.4. More work will need to be undertaken to further develop these efficiencies when the pandemic eases.

3.4. New Expenditure Pressures

3.4.1. New expenditure pressures are the combinations of additional cost to meet existing service needs e.g. increased client base/greater service take up and the costs of meeting change in service provision e.g. policy changes.

3.4.2. The original budget outlook report included £5.5 million per annum to meet growth pressures.

This year, an extraordinary level of initial growth bids were received from departments, exceeding £30 million. Based on an evaluation of the value and unavoidable nature of pressures submitted as well as additional funding identified through grants as explained in paragraph 2.5 above, core funding for specific pressures totalling £12.5 million have been funded (plus the NI increase of £2.7m reference in Para 3.2.4).

For this budget round, social care pressures in particular have been at an unprecedented level:

- Funding required for the National Living Wage increase is significantly increased, as the Chancellor's announcement of £9.50/hour was much higher than expected (the figure forecast by the Office of Budget Responsibility). The Welsh Government has raised this even further with the commitment to raise pay in the care sector above the foundation living wage – currently £9.90/hour. Even with baseline inflation set at 4%, this adds a further £3.9 million to inescapable pressures.

Last year's budget papers foresaw that to achieve increasingly challenging statutory Welsh Government recycling targets, changes to the waste collection methodology in the coming years would be required. This budget includes a sum of £1.3 million towards this, which will also contribute towards the decarbonisation agenda.

3.4.3 The minister's letter explicitly instructs Local Authorities to assess the future financial risk of COVID19 and provide for it from the improved settlement. Carmarthenshire's total hardship claims since the start of the pandemic exceeds £50 million and we are currently claiming between £2-3 million per month. With the current uncertainty surrounding the Omicron variant, making any reliable assessment is almost impossible, and providing ongoing funding is frankly impossible given the scale of pay pressures and inflation. Given these issues, this budget strategy increases our existing Contingency budget of £1million to £2 million and adds a separate fund to recompense income loss from services, which is highly likely to be drawn in full over the year. This provides total covid corporate contingency of £3

million. In addition, there remains a dedicated £500k social care contingency within the base budget of Communities department. Should these be insufficient, the Authority would need to critically assess its reserves and forward commitments, with the first call being the review of uncommitted future capital schemes.

In total, pressures funding adds £12.5 million to the budget. The detail is provided at **Appendix B**.

3.5. Schools Delegated Budgets

3.5.1 Over recent years, our MTFP has provided in full for known pressures to school budgets including inflationary costs and pay awards. Whilst school balances increased significantly this year, this represented one off grant funding to support covid recovery and raising standards following the impact of COVID-19 on learners and the education system overall. Our current forecast is that nearly £5m of this will be drawn down this year. We have had recent indications from WG of additional funds, much of which is likely to be carried forward into next year. Whilst this will again enhance school balances this year, it is for specific activities, including repairs and maintenance, and is again only temporary in nature.

Against this backdrop, we have maintained the existing approach, including funding for pay award increases, inflation on non-pay budgets and the assumed extraordinary increase in energy prices.

Members should note that as outlined in paragraph 2.5 above, the RRRS grant (which was not expected to continue) and increased ALN grant, provides a further £2.4 million. In total, Education and Children's Services budgets will see increased funding of c. £11 million.

3.6. Internal Funding

3.6.1. Generally speaking whilst the use of reserves to support annual budgets should not be summarily discounted, it must be treated with caution. Funding on-going expenditure from such funds merely defers and compounds difficult financial problems to the following year. One-off items of expenditure within any budget proposal lend themselves better for such funding support.

3.6.2. In deliberating this point however, members must bear in mind any **inherent risks** that may be built into the budget strategy. These include:

- Uncertainty around the true economic impact of the new trading arrangements with Europe, which seem to evidently be impacting on commodity costs
- The pace of deployment and efficacy of Covid-19 vaccine upon the need for continuing public health restrictions
- Future inflation/interest rates
- The timing and severity of fiscal or expenditure measures brought in by Westminster Government to balance public sector finances.
- Additional pressure on demand lead Services

In addition it should be noted that whilst, for the first time in a number of years, Welsh Government have been able to provide indicative core funding allocations for 2023/24 and 2024/25, they are only indicative at this point in time and will be subject to change.

3.6.3. The following table summarises the main categories of reserves held by the Authority.

	1 st Apr 2021 £'000	31 st Mch 2022 £'000	31 st Mch 2023 £'000	31 st Mch 2024 £'000
Schools Reserves	7,266	2,525	2,525	2,525
General Reserves	12,034	12,813	12,813	12,813
Earmarked Reserves	114,805	76,484	55,294	50,941

3.6.4. School Reserves

- Schools have delegated responsibility for the management of their own finances. The level of reserves held by an individual school at any point in time will depend on a number of factors including the level of contingency fund that the school governing body considers appropriate, and the particular plans each school has for expenditure. Officers have yet to be informed of any transfers to/from these reserves by individual schools for future years.
- Legislation allows schools to carry forward reserves from one financial period to another. The School Funding (Wales) Regulations 2010 requires schools to limit their accumulated

reserves at year end to £50,000 for Primary Schools and £100,000 for Secondary and Special Schools or 5% of their budget dependent on what is greater. School Improvement officers are currently working with schools to ensure they comply with the guidance. As at 31st March 2021, 23 primary, 4 secondary and 1 special schools were in deficit.

3.6.5. General Reserves

- In the changeable and challenging environment currently facing Local Government the Authority is committed to maintaining a reasonable level of General reserves or Balances. Whilst there is no prescribed minimum level for Balances, Council has previously deemed 3% of net expenditure as being a prudent level, which has been accepted by our Auditors as being reasonable
- The overall level of balances is taken into consideration each year when the annual budget is set and has on occasions been utilised to augment expenditure/reduce council tax. The 2021/22 budget was set on the basis of no transfers from the General Reserves. Based upon the October Budget monitoring (outlined in paragraph 3.1.2 above) there could be a small increase of £779k to General Reserves and a fall of £4.7 million on school balances at the end of the current financial year.
- Given the ongoing impact of the pandemic response on our budgets and the uncertainty of continued WG support into next year, it is deemed imprudent at this stage to assume any further support for future years budgets from the current General Reserves.

3.6.6. Earmarked Reserves

- The Authority holds earmarked reserves which have been set up to finance the delivery of specific projects, or in protecting the authority

against future liabilities or issues. The reserves can be summarised as follows:

Reserve	31 March 2021 £'000	31 March 2022 £'000	31 March 2023 £'000	31 March 2024 £'000
Insurance	12,906	13,658	14,908	15,658
Capital Funds	51,944	19,348	12,440	13,867
Development Fund (inc. Schools Dev Fund)	940	1,075	2,195	2,249
Corporate Retirement Fund	5,276	4,276	3,276	2,276
Joint Ventures	1,427	1,359	1,325	1,276
Other	42,313	36,769	21,151	15,616
TOTAL	114,805	76,484	55,294	50,941

- As can be seen from the table above the level of earmarked reserves fluctuates greatly year on year, and whilst the level in each fund is not an exact science it is based on an informed estimate and past experience of the likely call on the authority in future years in line with the intended purpose of each reserve. Great care must therefore be taken when considering utilising such funds for purposes other than those which they were created as this could lead to the authority being faced with substantial unfunded liabilities in the future
- The budget proposals therefore assume nil contribution from reserves in support of the revenue budget in 2022/23 and a further analysis of the reserves held will be undertaken over the coming months with any further proposed utilisation being considered at the budget finalisation stage.
- Taking account of the proposals within this report, the Director of Corporate Services confirms that overall the estimated level of financial reserves (as indicated above) is adequate for the financial year 2022/23, with the General Reserves being at the appropriate level in line with guidelines and good practice, but is also very conscious of the significant risks of this Budget Strategy and the ongoing Pandemic.
- The Director is also very conscious of the ongoing commitment to capital projects and of

the demand on future services and therefore feels the reserves will need to be monitored closely going forward.

4. IMPACT ON THE AUTHORITY'S BUDGET STRATEGY

The table below provides an updated position on the current financial outlook taking account of the provisional settlement and also other recent validation changes.

4.1. The Current Financial Outlook (updated for the Provisional Settlement) is set out in the table below:

	Current MTFP		Proposed Financial Model		
	2022/23 £'000	2023/24 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Previous Year's Budget	386,185	396,609	386,185	417,799	432,744
General Inflation	2,278	2,730	6,423	5,314	3,266
Pay Inflation	6,287	6,271	9,804	6,212	6,307
Transfers in & other*	1,568	1,642	5,923	1,827	1,298
Growth	5,500	5,500	12,544	5,500	5,500
Savings proposals	-4,644	-4,093	-3,839	-3,908	-3,982
Further savings to be identified	-565	-1,240	nil	nil	nil
Funding unallocated	nil	nil	757	nil	nil
Net Expenditure	396,609	407,419	417,799	432,744	445,133
Funded by:					
Revenue Settlement	290,517	296,327	311,597	322,503	330,243
Council Tax Receipts	106,092	111,092	106,202	110,241	114,890
Council Tax Increase:	4.35%	4.40%	4.39%	3.42%	3.84%

*includes funding allocation to Covid Contingency (paragraph 3.4.3)

4.2. The total of budget reductions now required for 2022/23 is £3.8m and for the 3 year period are estimated at £12m.

4.3. The 2022/23 draft budget currently includes a contingencies totalling £3.5m in respect of additional expenditure and income loss due to COVID19. The level of risk or uncertainty will continue to be assessed

should there be either additions required or reductions possible as part of the final budget setting and will then be continually monitored during the year.

- 4.4.** The 2022/23 budget contains £757k which is as yet unallocated, which will allow members scope to consider additional information forthcoming in respect of:

- 4.4.1. Responses to the consultation process
- 4.4.2. Clarification of specific grants
- 4.4.3. Further growth pressures not currently addressed
- 4.4.4. Changes in the assessed implications of the Pandemic
- 4.4.5. Changes arising from the final settlement

5. CONSULTATION

Budget consultation has been planned for the coming month and a summary of the individual approaches are as follows:

- 5.1.** Members seminars. (17-21 January 2022)
- 5.2.** The consultation process will commence from 17 January 2022.
- 5.3.** Town & Community Councils and commercial ratepayers consultation in January 2022.
- 5.4.** Consultation with Scrutiny Committees during January & February 2022.
- 5.5.** Consultation with the Schools Budget Forum on 24 January 2022.
- 5.6.** Trade Union Consultation meeting on 26 January 2022

6. WELLBEING OF FUTURE GENERATIONS (WALES) ACT 2015

- 6.1.** In considering the budget proposals, members need to take into consideration the requirements of the Wellbeing of Future Generations (Wales) Act 2015. The Act requires that we must carry out sustainable development, improving the economic, social environmental and cultural well-being of Wales.

‘... the public body must act in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs’

- 6.2.** In doing so, we must demonstrate the following 5 ways of working:
- Looking at the long-term so that we do not compromise the ability of future generations to meet their own needs

- Understanding the root causes of the issues to prevent them recurring
- Taking an integrated approach so that we look at all well-being goals and objectives of other services and partners
- Collaboration – Working with others in a collaborative way to find shared sustainable solutions
- Involving a diversity of population in decisions that affect them

6.3. Carmarthenshire’s Well Being objectives were updated in April 2021:

Start Well

1. Help to give every child the best start in life and improve their early life experiences
2. Help children live healthy lifestyles

Live Well

3. Support and improve progress, achievement, and outcomes for all learners
4. Tackle poverty by doing all we can to prevent it, help people into work and improve the lives of those living in poverty
5. Create more jobs and growth throughout the county
6. Increase the availability of rented and affordable homes
7. Help people live healthy lives (tackling risky behaviour and obesity)
8. Support community cohesion, resilience and safety

Age Well

9. Support older people to age well and maintain dignity and independence in their later years

In a Healthy and Safe & Prosperous Environment

10. Look after the environment now and for the future
11. Improve the highway and transport infrastructure and connectivity
12. Promote Welsh Language and Culture

Corporate governance

13. Better Governance and use of Resources

7. CONCLUSION

- 7.1.** Currently the budget proposals assume the full delivery of all of the savings proposals submitted.
- 7.2.** Work needs to be undertaken to further develop the cost reductions for years 2023/24 and 2024/25 to be able to maintain the current Budget Strategy and level of council tax. Departments will be working over the forthcoming year to refine these savings.
- 7.3.** It is recognised the critical importance of minimising the Council Tax increase for our residents whilst maintaining a balanced budget in these unprecedented and challenging times.
- 7.4.** Given the current risks around this Budget Strategy and the ongoing significant impact of the pandemic. Council Tax increases have been maintained at the previous MTFP level of 4.4% for next year, with the savings identified in years 2 and 3 leading to indicative Council Tax increases of 3.4% and 3.8% respectively. This provides at least some mitigation to the savings proposals which the council needs to consider over future years of the Medium Term Financial Plan.
- 7.5.** Over the coming weeks and part of the refining of the Medium Term Financial Plan where the Authority gets further clarification on costs and grant funding and feedback on the consultation, the Authority will aim to limit the Council Tax increase as far as possible.

8. RECOMMENDATION

- 8.1.** That Cabinet:
 - 8.1.1.** Note the contents of the report and approve the three year Budget Strategy as a basis for consultation. Specifically seeking comments from consultees on the efficiency proposals in Appendix A.
 - 8.1.2.** Note the unallocated sum of £757k in the current strategy, which will be given further consideration at the completion of the consultation as noted in paragraph 4.4.
 - 8.1.3.** Approve the proposal to allocate £500k from forecast current year underspends to accelerate our Decarbonisation plans in the forthcoming year.