



Cyngor Bwrdeistref Sirol

# Blaenau Gwent

County Borough Council

## **MEDIUM TERM FINANCIAL STRATEGY**

**2021/2022 to 2025/2026**

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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 covers a 5 year period 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 has provided the Council an opportunity to build on the positive work of the past few months 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:

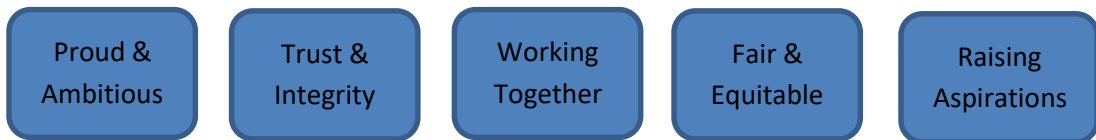
### **Our Core Vision:**

Proud Heritage

Strong Communities

Brighter Future

## Our Core Values:



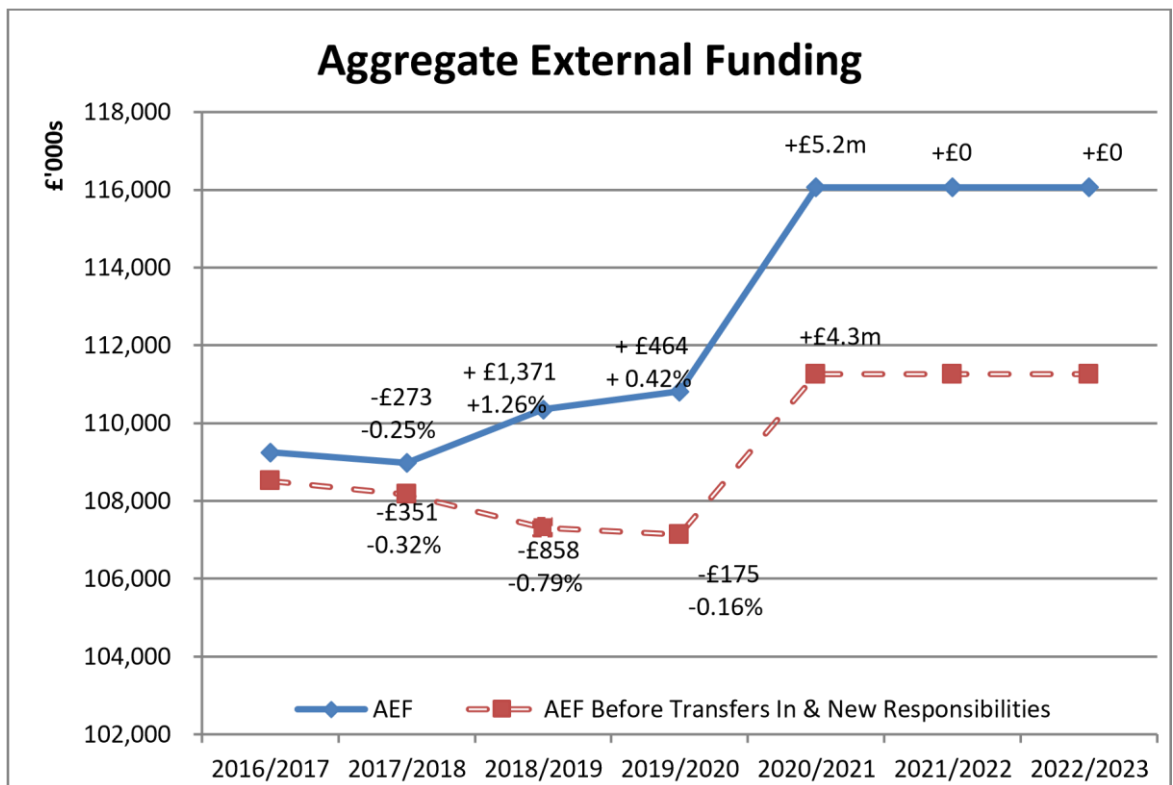
## Our Outcome Statements:

- 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 2020/2021 revenue settlement was the first year since 2013/2014 that the Council received an increase in the Revenue Support Grant from Welsh Government.
- 3.2 The Council's revenue settlements for the period 2016/2017 to 2020/2021 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 £6.8m between 2016/17 and 2020/21. However, in real terms, when Grants transferring into the settlement and new responsibilities are excluded, the funding increase is reduced to £3m. However, RSG is still lower in cash terms by £1.1m than in 2013/2014.

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 2020/2021 Revenue Budget

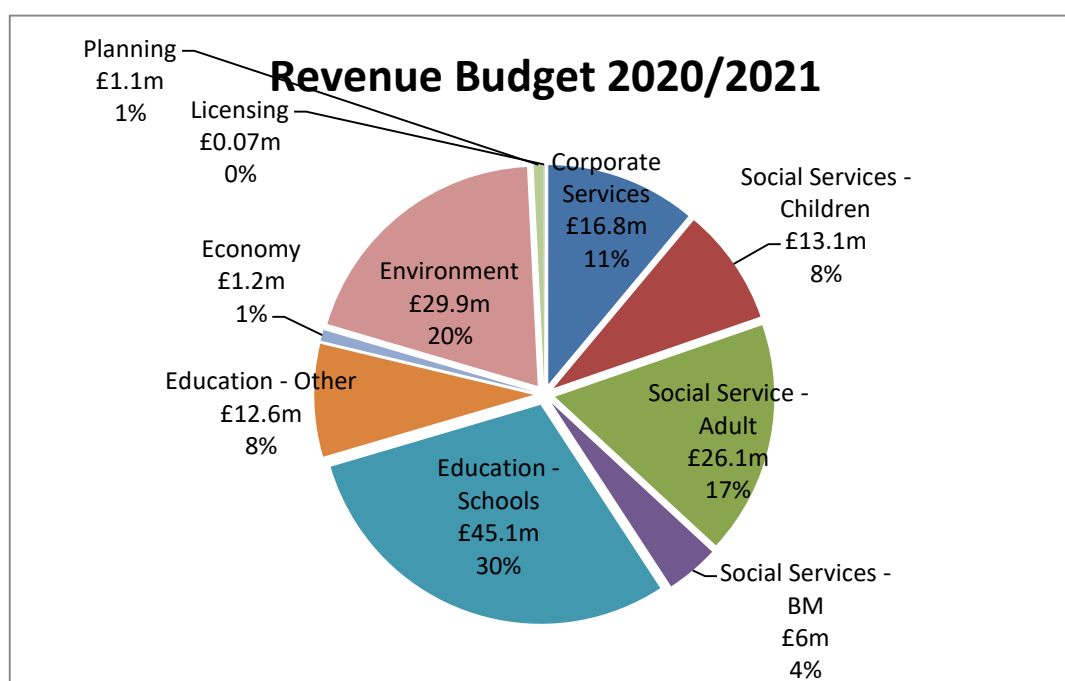
3.6 The baseline revenue funding the Council received in 2020/2021 from Welsh Government after allowing for transfers was 3.9% (£4.3m). The all Wales increase in the Local Government Settlement was 4.3%.

3.7 In setting the 2020/2021 budget, the Council agreed:-

- All grants transferring into the Settlement would be transferred to the relevant service
- Additional funding of £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 £1.4m
- A contribution to the General Reserve of £0.2m
- The creation and contribution to a specific reserve to support medium term financial planning - £1.5m □ Council Tax increase of 3.9% □ High level budget for 2021/2022.

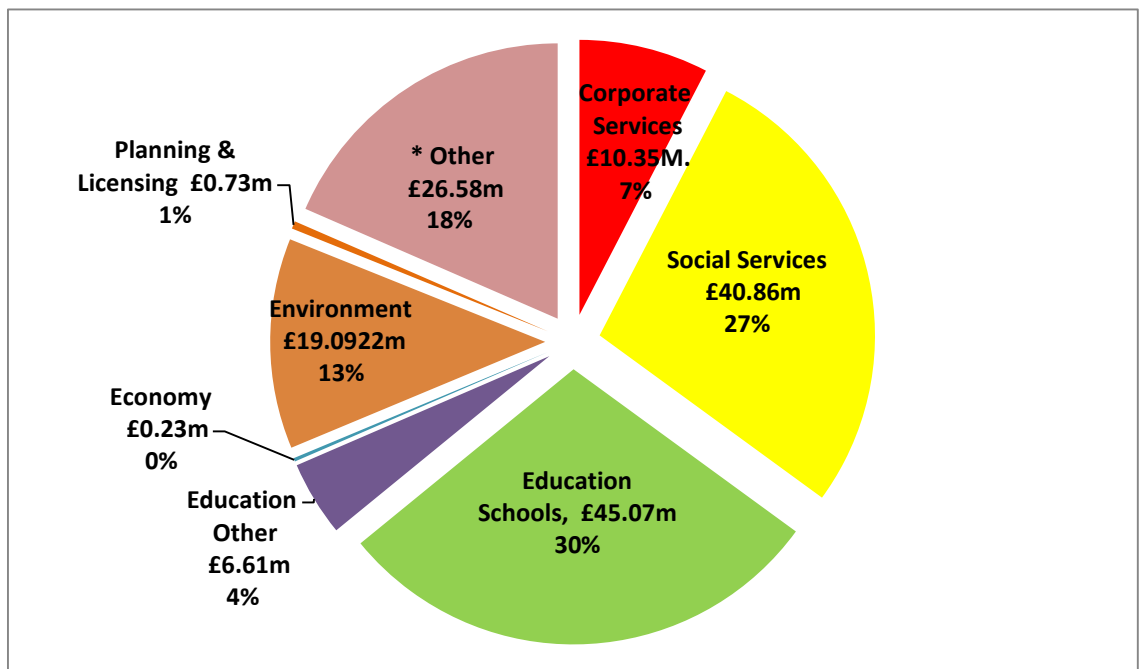
3.8 For the current financial year, the Council agreed a net budget requirement of £151.7m. The budget allocation across Portfolios is shown in figure 2 below:

Figure 2: 2020/2021 Revenue Budget per Portfolio



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

**Figure 3: 2020/2021 Direct Service Costs per Portfolio**



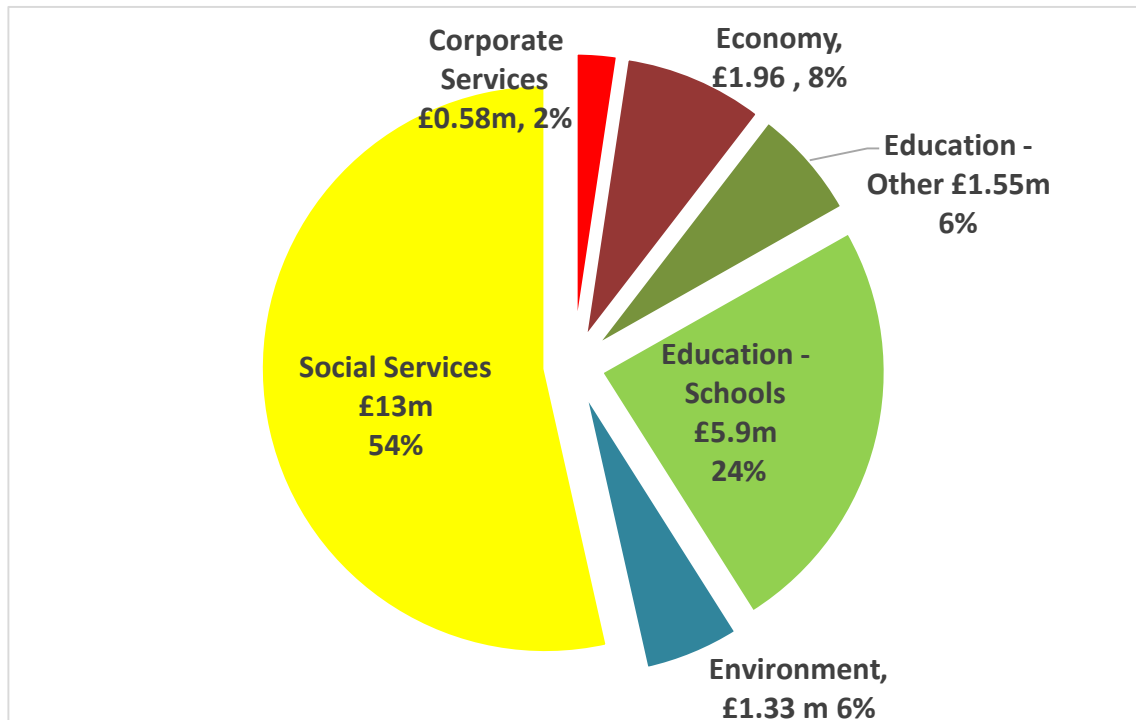
\*Other includes:

- Capital charges - £7.3m
- Fire & Apprenticeship Levy – £3.7m
- Council Tax Reduction Scheme - £9.3m
- IT, Administration Buildings & Insurance - £5.2m □ Other - £1m

3.10 In addition, to the agreed net budget, the Council spends a further £24m 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 it shows the current grant awards assumed for 2020/2021 as at 2019/2020 levels.

**Figure 4: Specific Revenue Grant Funding Per Portfolio 2020/2021**



3.12 During the first 6 months of 2020/2021, the global Covid-19 pandemic and the required response resulted in significant additional costs and loss of income across the public sector and beyond. The financial impact of Blaenau Gwent’s response has been additional costs in excess of £4m up to October 2020 and a reduction in expected income of £0.4m per quarter.

3.12 The Council (and business across the borough) have received significant financial support from Welsh Government to assist with these financial pressures:

- Hardship Funding of £3.1m (April to September 2020)
- Income loss funding for quarter 1 - £0.78m
- CTRS funding for April to September - £0.18m
- Job Retention Scheme funding for the period March to July of £0.33m
- Business Grants funding £18.3m (up to 24 November 2020)
- Test, Track and Protect – funding of £0.9m (up to March 2021) via Public Health Wales

Central Government has announced a further £260m financial assistance for Welsh Local Government to March 2021 to support additional Covid-19 related expenditure and lost income. However,



there remains uncertainty as to the full financial impact of the pandemic in the medium/long term with no guarantee of funding from WG after March 2021.

#### 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**

<b>Financial Planning Key Assumptions</b>	
Pay	<p>Non-Teaching staff - The Chancellor of the Exchequer announced of a pay freeze for public sector workers, however pay is determined between the employers and Trade Unions (either nationally or locally). Therefore, being prudent, 2% has been assumed for 2021/2022.</p> <p>A pay award of 2% per annum for 2022/2023 onwards</p> <p>Teaching Staff:</p> <p>As non-teaching staff above for 2021/2022. A further 3% has been assumed for subsequent academic years.</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, LGPS employer pension contributions (non-teaching) will remain cash flat for 2021/2022 and 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>
<p>Price Inflation (Non Schools)</p>	<p>The Consumer Price Index (CPI) fell from an average 1.5% in March 2020 to 0.5% in May 2020 as a result of the Covid-19 pandemic. As restrictions have been eased, CPI increased to 1% from July 2020.</p> <p>Forecasts for the UK economy: A comparison of independent forecasts, suggests CPI to be:</p> <p>2021 – 1.5% 2022 onwards – 2.1%</p> <p>Given the uncertainty with Covid-19 and the impact of exiting the EU potentially without a trade deal, it is proposed to maintain the annual inflationary increase at 2%.</p> <p>Utilities – Based on forecasts provided by Crown Commercial Services for 2021/2022, energy prices are expected to decrease. However, to remain prudent, 2% per annum increase have been assumed.</p> <p>Income Inflation – Increase in discretionary fees and charges in line expenditure inflation above.</p> <p>Council Tax Reduction Scheme – This has been increased in line with the assumed increase in Council Tax of 4.0%.</p>
<p>Schools Growth (ISB)</p>	<p>No inflationary increase has been applied to the Individual Schools Budget (ISB), it is assumed to be cash flat 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 2020 data collection and projecting the pupils through the year groups:</p>

		Increase / (Decrease) in Pupils	Financial Impact Increase / (Decrease) in Funding
	2021/2022	(81)	(150,000)
	2022/2023	(23)	45,000 *
	2023/2024	(83)	(213,000)
	2024/2025	15	126,000
	*The increase in funding is due to a shift in pupils from Primary to Secondary and the Age Weighted Pupil Unit is higher for Secondary schools.		
Specific Grant Funding	<p>This has been assumed to remain at the 2019/2020 level (as identified on the Revenue Grants Register). It is assumed that any reduction in funding is offset by a reduction in expenditure.</p> <p>Hardship Funding – It has been assumed that Covid19 related expenditure will continue to be funded by Welsh Government</p>		
Capital Financing	<p><b>Capital Financing</b> – 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, the MRP charge will increase to approximately £2.6m per annum from £0.75m in 2021/2022. However, this is still lower than the MRP charge under the previous policy of £3.8m.</p> <p>The revised MRP policy has enabled the MRP charges to be reduced by £15m during the period 2017/2018 to 2021/2022. The MRP figure is incorporated into the overall revenue budget through the Capital Adjustment. Taking into account the above, the forecast overall impact in the Capital Adjustment in 2022/2023, will be an increased cost of £1.8m per annum.</p>		

Council Tax	<ul style="list-style-type: none"> <li>• Council Tax increased by 3.9% in 2020/2021. For planning purposes, it has been assumed that Council Tax will increase by 4% per annum.</li> </ul>
	<p>(1% increase will generate approximately £354,000 additional funding).</p> <ul style="list-style-type: none"> <li>• No additional funding has been assumed at this stage from an increase in the Council Tax Base for 2021/2022 onwards.</li> </ul>
Estimated Funding reduction (Aggregate External Funding)	<p>Welsh Government does not currently provide funding forecasts for future years. 2020/2021 saw an increase of 3.9% (£4.3m) in AEF (after allowing for transfers of grant into the settlement). Following a cash flat budget for 2019/2020.</p> <p>For planning purposes, a cash flat budget for Blaenau Gwent has been assumed for the next 5 years.</p>
Reserves	<p>The financial modelling assumes a minimum contribution to General or specific reserves of £200,000 per annum.</p>

#### 4.3 **Medium Term Financial Forecast**

4.4 The table below identifies the funding gap after applying the above assumptions to the 2020/2021 approved Estimates.

Table 2: Assessed Budget Gap

	<b>Medium Term Budget Gap</b>				
	2021/2022 £'000	2022/2023 £'000	2023/2024 £'000	2024/2025 £'000	2025/2026 £'000
<b>Draft Expenditure</b>					
Draft Estimates	152,740	157,940	161,120	160,730	162,380
Revenue Grants	24,350	24,350	24,350	24,350	24,350
Assumed Savings	0	(91)	(3,729)	(1,740)	(1,748)
<b>Adjusted Draft Budget</b>	<b>177,090</b>	<b>182,199</b>	<b>181,741</b>	<b>183,340</b>	<b>184,982</b>
<b>Draft Funding</b>					
AEF	116,063	116,063	116,063	116,063	116,063
Council Tax	36,786	38,257	39,788	41,379	43,034
Revenue Grants	24,350	24,350	24,350	24,350	24,350
<b>Total Draft Funding</b>	<b>177,199</b>	<b>178,670</b>	<b>180,201</b>	<b>181,792</b>	<b>183,447</b>
<b>Budget Gap</b>	<b>109</b>	<b>(3,529)</b>	<b>(1,540)</b>	<b>(1,548)</b>	<b>(1,535)</b>
Contribution to Reserves	(200)	(200)	(200)	(200)	(200)
<b>Adjusted Funding Gap</b>	<b>(91)</b>	<b>(3,729)</b>	<b>(1,740)</b>	<b>(1,748)</b>	<b>(1,735)</b>

4.5 The table identifies a potential funding gap of £9m 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 2020/2021 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 2019/20 Budget

	2021/2022 £'000	2022/2023 £'000	2023/2024 £'000	2024/2025 £'000	2025/2026 £'000
Pay and Pension Inflation	1,226	1,725	1,745	1,766	1,787
General Inflation –					
Third party Expenditure	1,295	1,320	1,346	1,373	1,400
Fees & Charges	(210)	(214)	(218)	(222)	(226)
Council Tax Reduction Scheme	370	385	400	416	433
Capital Charges	243	1,981	0	0	0
<b>TOTAL</b>	<b>2,924</b>	<b>5,197</b>	<b>3,273</b>	<b>3,333</b>	<b>3,394</b>

#### 4.8 **New and Emerging Cost Pressures**

4.9 New and emerging Cost Pressures and Growth items have been assumed at £1m per annum for 2022/2023 onwards.

4.10 In identifying the Cost Pressures and Growth items for 2021/2022, consideration have been given to:

- Covid-19 and the potential additional / increased costs arising from the response to the pandemic
- The impact the pandemic has had on income generation and the achievement of the Bridging the Gap proposals
- Cost pressures identified as part of the 2020/2021 financial reporting within overspending portfolios
- Changes in demand for services
- New services/ responsibilities

#### 4.11 **Covid-19 Pandemic**

4.12 The Council has incurred additional expenditure of £4m for the period April to October 2020 in responding to the pandemic, the majority of which has been funded by the Welsh Government Hardship Fund. However, it is uncertain if these additional costs will continue to be required and there is no guarantee that WG will continue to fund these cost pressures passed March 2021 into 2021/2022.

4.13 As a result of the impact the pandemic has had on the economic environment, the Council has seen an increase of 4.5% in new applications for council tax support between March and October 2020. A cost pressure has been included on the Cost Pressure list split between:

- Covid-19 Pandemic Cost pressure of £350,000 (£29,000 per month) – this relates to the element of the cost pressure currently being funded by the hardship funding
- Existing Service Cost Pressure of £280,000.

4.14 The longer term impact of Covid-19 and exiting the EU without a Trade Deal, upon the wider economy of Blaenau Gwent, Wales and the UK remains uncertain with the risk that applicants will continue to increase following business contracting or failing. Unemployment in Wales increased to 4.6% (as at September 2020) - the largest

increase in joblessness in the UK and the end of the Job Retention Scheme in March 2021 may result in a further potential increase in unemployment.

- 4.15 There has been an impact on the fees & charges collected by the Council, the most significant being within the catering service relating to paid meals (£340,000 for the period April to June 2020). It has been assumed that income levels will return to normal levels of activity for 2021/2022 as services become fully operational, however a number of cost pressures have arisen in particular within the growth strategy areas of the Bridging the Gap proposals for 2020/2021 onwards.

#### 4.16 2020/2021 Cost Pressures

- 4.17 Current in year cost pressures have been reviewed to assess the likely continuation into 2021/2022. An assessment has also been undertaken to evaluate the portfolios ability to mitigate cost pressures from within existing budgets e.g. budget realignment.

#### 4.18 Service Demand

- 4.19 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 declined between September 2019 and September 2020 and the current forecast is that the pupil population will continue to reduce over the medium term. This will have an impact on school funding and the revenue support grant received from Welsh Government in future years.

- 4.20 Social Services (Adults) – Expenditure on Community Care increased by 7% (£1.4m) between 2018/2019 and 2019/2020, whilst the number of clients receiving services have been reducing. Between 2016/2017 and 2018/2019, the total clients receiving services reduced by 261 (9.9%). Despite this costs are continuing to increase and this can be attributed to:

- the annual increase in the minimum living wage (an increased by 11.4% between April 2018 and April 2020),
- reduction in fees due to an increase in the capital limit for means testing
- increased complexity of care.

The current level of specific grant funding received / forecast for Social Services (Intermediate Care Fund and Welsh Government Winter pressures funding), are assisting with the management of these increased costs within existing budgets.

- 4.21 Social Services Children's – The number of Children Looked After has reduced from 237 to 214, and the number of children in residential care has reduced from 18 to 13 (as at September 2020), 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.
- 4.22 The most significant cost pressure within Children's Services is the cost of legal fees, expenditure was £0.78m in 2019/2020, with a potential increase in 2020/2021 (costs incurred for April to September 2020 is £0.55m compared to £0.32m for the same period in 2019/2020).
- 4.23 These costs are currently being managed within the overall budget for the Social Services Portfolio.
- 4.24 Corporate Services - Shared Resource Services – The Council has recently agreed the Business Case with the SRS and Partners to move to a new data centre with additional revenue costs for the Council is estimated to be £11,000 per annum.
- 4.25 The ICT budget was established with an assumed contribution of £130,000 from reserves and an assumption that efficiencies could be identified over a period of time. However, cost reductions/efficiencies have not materialised to mitigate the reserve funding. Therefore, this has been included as a cost pressure.
- 4.26 Environment – Waste and Recycling Services – The financial impact of Covid-19 during the current financial year on waste and recycling services, due to the requirement to maintain social distancing requiring additional staffing and vehicles, the suspension of services (bulky waste collection) and loss of income from the sale of recycle and trade waste has resulted in significant increased costs. The cost pressure has been mitigated through the Welsh Government Hardship fund for 2020/2021. The current MTFS assumes that Covid-19 related expenditure will continue to be funded by WG.



4.27 The cost pressures identified for 2021/2022 is attached at Appendix 1 and the table below shows the impact the non Covid cost pressures have on the funding gap.

**Table 4: Assessed Budget Gap including Cost Pressures**

	<b>Medium Term Budget Gap</b>				
	<b>2021/2022 £'000</b>	<b>2022/2023 £'000</b>	<b>2023/2024 £'000</b>	<b>2024/2025 £'000</b>	<b>2025/2026 £'000</b>
<b>Draft Expenditure</b>					
Draft Estimates	152,740	160,759	162,122	161,730	163,380
Revenue Grants	24,350	24,350	24,350	24,350	24,350
Assumed Savings	0	(2,910)	(4,729)	(2,742)	(2,746)
Cost Pressures	2,621	1,000	1,000	1,000	1,000
Growth	198	0	0	0	0
<b>Adjusted Draft Budget</b>	<b>179,909</b>	<b>183,199</b>	<b>182,743</b>	<b>184,338</b>	<b>185,984</b>
<b>Draft Funding</b>					
AEF	116,063	116,063	116,063	116,063	116,063
Council Tax	36,786	38,257	39,788	41,379	43,034
Revenue Grants	24,350	24,350	24,350	24,350	24,350
<b>Total Draft Funding</b>	<b>177,199</b>	<b>178,670</b>	<b>180,201</b>	<b>181,792</b>	<b>183,447</b>
<b>Budget Gap</b>	<b>(2,710)</b>	<b>(4,529)</b>	<b>(2,542)</b>	<b>(2,546)</b>	<b>(2,537)</b>
Contribution to Reserves	(200)	(200)	(200)	(200)	(200)
<b>Adjusted Funding Gap</b>	<b>(2,910)</b>	<b>(4,729)</b>	<b>(2,742)</b>	<b>(2,746)</b>	<b>(2,737)</b>

4.28 The potential funding gap increases to £16m over the next 5 years with the inclusion of cost pressures.

4.29 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.

4.30 If the cost pressures identified as a result of the Covid-19 pandemic, estimated at £0.4m per month continue into 2021/2022, and Welsh Government are not in a position to provide financial support, this will impact on the funding gap.

### 4.31 Sensitivity Analysis

4.32 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 may change over time. The following tables show the impact of changes on the Revenue Support Grant and potential decisions relating to Council Tax levels, pay & funding for Schools.

### 4.33 Revenue Support Grant (RSG)

4.34 Table 5 below indicates the impact on the funding gap based on a range of scenarios for Welsh Government funding for 2021/2022 as compared to the 2020/2021 base position. (Note: a +/-1% change in WG funding equates to approximately £1.16m).

Table 5: Impact of changes to RSG

	2021/2022	2022/2023	2023/2024	2024/2025	2025/2026
Funding Gap - Cash Flat (as per MTFS)	<b>£2.9m</b>	<b>£4.7m</b>	<b>£2.7m</b>	<b>£2.7m</b>	<b>£2.7m</b>
<b>Impact on the Funding Gap, with a reduction of:</b>					
1%	£4.1m	£5.7m	£3.9m	£3.9m	£3.9m
1.5%	£4.7m	£6.4m	£4.4m	£4.4m	£4.4m
2%	£5.2m	£7m	£5m	£5m	£5m
2.5%	£5.8m	£7.6m	£5.6m	£5.6m	£5.6m
3%	£6.4m	£8.2m	£6.2m	£6.2m	£6.2m
<b>Impact on the Funding Gap, with an increase of:</b>					
1%	£1.7m	£3.5m	£1.5m	£1.5m	£1.5m
1.5%	£1.2m	£3m	£1m	£1m	£1m
2%	£0.6m	£2.4m	£0.4m	£0.4m	£0.4m
2.5%	(£0.0m)	£1.8m	(£0.2m)	(£0.2m)	(£0.2m)
3%	(£0.5m)	£1.2m	(£0.8m)	(£0.8m)	(£0.8m)
(figures in brackets denotes a surplus)					

### 4.35 Council Tax

4.36 The Council increased Council Tax in 2020/2021 by 3.9%. The Council Tax increase is assumed to be 4% each year through to 2025/2026 in the MTFS. The table below sets out the implications on the Council's resources on a range of scenarios on future changes:

**Table 6: Impact of changes to Council Tax Assumptions**

<b>Council Tax</b>	<b>2021/2022 £'000</b>	<b>2022/2023 £'000</b>	<b>2023/2024 £'000</b>	<b>2024/2025 £'000</b>	<b>2025/2026 £'000</b>
Increase in Council Tax Yield as per MTFs – 4% per annum	1,415	1,471	1,530	1,591	1,655
Increase in Council Tax Yield per year - 4%; 3.5%; 3%; 2.5% 2% (in respective years)	1,415	1,287	1,142	980	804
<b>Impact on Funding Gap - Increase</b>	<b>0</b>	<b>+184</b>	<b>+388</b>	<b>+611</b>	<b>+851</b>
3% increase per annum	1,061	1,093	1,126	1,160	1,194
<b>Impact on Funding Gap - Increase</b>	<b>+354</b>	<b>+378</b>	<b>+404</b>	<b>+431</b>	<b>+461</b>
6% increase per annum	2,122	2,250	2,385	2,528	2,671
<b>Impact on Funding Gap - Decrease</b>	<b>-707</b>	<b>-779</b>	<b>-855</b>	<b>-937</b>	<b>-1,016</b>

#### 4.37 **Pay**

4.38 The MTFs provides for a pay award of 2% per annum totalling £1m for 2021/2022. A change in the assumption would impact as follows:

**Table 7: Impact of Changes to Pay Assumptions**

<b>Assumption Change</b>	<b>+/- £'000</b>
0.5%	250
0.75%	375
1.0%	500
2% (Pay freeze)	1,000

#### 4.39 **Individual School Budgets (ISB)**

4.40 The MTFs assumes no inflationary increase to the ISB in line with the Welsh Government funding assumption of a cash flat budget.

However, at September 2020, there has been an overall decrease in pupil demographics of 81 pupils when compared to September 2019, the will result in a reduction in the funding requirement of £150,000 and this has been included in the assessed funding gap in Table 2.

4.41 The 2020/2021 ISB budget is £45m. A change in the assumption would impact on the funding gap as follows:

Table 8: Impact of changes to ISB Assumptions

Assumption Change	+/- £'000
0.5%	225
1%	450
2.0%	900

## 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 will identify 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. Following year on year funding reductions increasing costs and changes in demand, the Council needs to redesign and reshape services in order to reduce costs and maximise income. The approach has a particular emphasis on:

- Maximising the potential of income generation and taking a clearly commercial approach where it is appropriate to do so;
- Re-procurement and re-negotiation of contracts;
- Exploiting the opportunity that digital transformation can provide;
- Making best use of our assets and property;
- Considering what action we can take to influence and reduce demand;
- Looking for opportunities to support residents to do more for themselves;
- Exploiting the opportunities to strengthen financial resilience by supporting growth in the borough

- 5.2 We will continue to ensure we have secured all efficiencies and are practicing robust ‘housekeeping’ throughout plus seeking potential to work differently through partnership and collaboration.
- 5.3 In setting the budget for 2020/2021, £1.4m was identified through the strategic business reviews and this was set aside in a specific reserve to support medium term financial planning.
- 5.4 Appendix 2 provides a summary of the current Strategic Business Reviews, an update on progress and the latest assessment of the estimated financial achievement for 2021/2022 to 2024/2025.
- 5.5 The Council’s income generation ability has been impacted by the Covid-19 pandemic. The current assessment of the range of savings that could be delivered between 2021/2022 and 2024/2025 is between £4.4m and £7.2m, 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**

	<b>Medium Term Budget Gap</b>				
	<b>2021/2022 £'000</b>	<b>2022/2023 £'000</b>	<b>2023/2024 £'000</b>	<b>2024/2025 £'000</b>	<b>2025/2026 £'000</b>
<b>Adjusted Funding Gap (with Cost pressures)</b>	<b>(2,910)</b>	<b>(4,729)</b>	<b>(2,742)</b>	<b>(2,746)</b>	<b>(2,737)</b>
<b>Low Estimated Achievement - BtG</b>	<b>500</b>	<b>1,173</b>	<b>864</b>	<b>946</b>	<b>946</b>
<b>Adjusted Funding Gap</b>	<b>(2,410)</b>	<b>(3,556)</b>	<b>(1,878)</b>	<b>(1,800)</b>	<b>(1,800)</b>
<b>High Estimated Achievement - BtG</b>	<b>1,000</b>	<b>1,733</b>	<b>1,414</b>	<b>1,546</b>	<b>1,546</b>
<b>Adjusted Funding Gap</b>	<b>(1,910)</b>	<b>(2,996)</b>	<b>(1,328)</b>	<b>(1,200)</b>	<b>(1,200)</b>

- 5.6 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 inevitably take longer to have

an impact but will potentially yield higher returns in the latter years of this MTFS.

## 6. **MTFS – SCHOOLS**

- 6.1 For 2020/2021, the Individual Schools Budget received an uplift of 4.9%, and this was due to a number of specific grants transferring into the settlement to fund teachers’ pay award and the employers’ pension contribution (£1.075m), growth and cost pressures approved for an increase in the pupil population and the unfunded element of the teachers’ pay award (£1.16m).
- 6.2 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**

	<b>2021/2022 £'000</b>	<b>2022/2023 £'000</b>	<b>2023/2024 £'000</b>	<b>2024/2025 £'000</b>	<b>2024/2025 £'000</b>
<b>Expenditure</b>					
Pay increases	705	833	858	884	911
Pension Increase – APT&C	0	105	110	110	110
Inflation – non pay	199	203	207	211	215
Inflation – Utilities	46	48	50	52	54
<b>Total Expenditure Increase</b>	<b>950</b>	<b>1,189</b>	<b>1,225</b>	<b>1,257</b>	<b>1,290</b>
<b>Funding</b>					
Proposed Increase in ISB	0	0	0	0	0
Pupil Demographics	(150)	50	(213)	125	0
Additional RSG (Grants transferred)	0	0	0	0	0
<b>Total Funding Increase / (Reduction)</b>	<b>(150)</b>	<b>50</b>	<b>(213)</b>	<b>125</b>	<b>0</b>
<b>Funding Gap</b>	<b>(1,100)</b>	<b>(1,139)</b>	<b>(1,438)</b>	<b>(1,132)</b>	<b>(1,290)</b>

- 6.5 The table indicates that schools are potentially facing financial cost pressures of £1.2m per annum based on an annual cash flat budget for the ISB.

6.6 School Balances have been increasing over the last few years, with an overall increase of £271,000 when compared to 2018/2019 and £1m increase when compared to 2017/2018. An analysis across sectors is shown in the table below:

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

Phase	2016/2017 £'000	2017/2018 £'000	2018/2019 £'000	2019/2020 £'000 (Provisional)
Secondary	325	189	285	336
All Through	128	(847)	(762)	(829)
Primary	552	857	1,285	1,604
Special	(35)	81	245	214
<b>TOTAL</b>	<b>970</b>	<b>280</b>	<b>1,054</b>	<b>1,325</b>

## 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 2020 is £6.348m, an in-year increase during the year of £0.454m. This outturn position represents 4.69% of net revenue expenditure as reported for 2019/20, exceeding the target by 0.69%.
- 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 declined from £21.437m at 1 April 2012 to £7.7m at 31 March 2020 (a reduction of £13.67m or 63.74%). This decrease in reserves highlights the application of sums for their intended purposes and to some extent the impact of reduced levels of funding for the Authority as a consequence of austerity.
- 7.8 In setting the 2020/2021 budget, a planned increase in reserves has been agreed with a £200,000 contribution to general reserves together with the establishment of a £1.5m earmarked reserve to support medium term financial planning.
- 7.9 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.
- 7.10 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.
- 7.11 This would result in an increase to reserves of £1m over the period of the MTFS.

## 8. **RISKS**

- 8.1 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 2021/2022 and beyond whilst creating the conditions for improved financial resilience.



8.2 The risks identified with the Medium Term Financial Strategy are:

### 1. Covid-19 Pandemic

There is a risk that the pandemic will continue into the medium/long term, impacting on the delivery of Council services and budgets, and the risk that WG will not continue to provide additional funding into the medium term.

There continues to be a significant impact of the pandemic on the economic environment, on businesses and residents living in Blaenau Gwent:

- the highest proportion of employment (65%) is in “covid-19 at risk” business sectors including manufacturing and retail
- 7% of the working age population is claiming unemployment benefits and this is an increase of 3% since the start of the pandemic and remains above the welsh average.

### 2. Exiting the European Union

There is a risk of a slow-down in the UK economic growth arising from exiting the EU with or without a deal. The impact could include an increase in both costs and demand for services.

The impact on the wider economy will depend to a large extent on the precise terms of the withdrawal agreement, however, the impact of Covid-19 on businesses may result in them not being prepared for the withdrawal from the EU.

It is not considered necessary at this point in time to set aside financial resources in the MTFS to assist in such a scenario.

However, this will need to be carefully monitored in the subsequent weeks/months.

### 3. Uncertainty around future WG Funding levels

The absence of any future year guidance on levels of likely settlement from WG.

### 4. 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.

#### 4. 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.

#### 5. Grant Funding

The MTFSS 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.

#### 6. Volume of Demand

Increased demand for services poses significant risks to planning and this will be monitored.

## Blaenau Gwent County Borough Council

### Medium Term Financial Strategy - addendum as at April 2021

(adjusted for Final Welsh Government Settlement & 2021/22 agreed Council Tax Increase @ 3.3%)

	<u>2021/22</u>	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>
	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>
<b><i>Draft Expenditure</i></b>					
Draft Estimates	156,399	161,904	165,169	168,802	172,416
Revenue Grant Funded Exp	24,350	24,350	24,350	24,350	24,350
Draft Expenditure	180,749	186,254	189,519	193,152	196,766
<b><i>Draft Funding</i></b>					
AEF	120,361	120,361	120,361	120,361	120,361
Council Tax	36,538	38,000	39,520	41,101	42,745
Revenue Grants	24,350	24,350	24,350	24,350	24,350
Total Draft Funding	181,249	182,711	184,231	185,812	187,456
<b>Budget Gap (1)</b>	<b>(500)</b>	3,543	5,288	7,340	9,310
Contribution to Reserves	200	200	200	200	200
<b>Adjusted Funding Gap (2)</b>	<b>(300)</b>	3,743	5,488	7,540	9,510
Bridging the Gap Est Achievement	<b>(755)</b>	<b>(1,073)</b>	<b>(764)</b>	<b>(846)</b>	<b>(846)</b>
<b>Final Budget Gap / (Surplus)</b>	<b>(1,055)</b>	2,670	4,724	6,694	8,664