

COMBINED GOVERNANCE AND AUDIT AND JOINT SCRUTINY COMMITTEE REPORT

Date Written	18 th January 2022
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Service Area	Finance
Committee Date	26 th January 2022

To: Chair, Ladies and Gentlemen

Revenue Budget 2022/23 and Medium Term Financial Plan Update

1.0 SUMMARY OF THE REPORT

- 1.1 The Provisional Welsh Local Government Settlement was announced on 21st December 2021 and resulted in a funding increase of 9.0% for Merthyr Tydfil for the 2022/23 financial year. Indicative all Wales average Settlements of +3.5% and +2.4% were announced for 2023/24 and 2024/25 respectively.
- 1.2 The Medium Term Financial Plan (MTFP) 2021/22 to 2024/25 was approved at Council of 3rd March 2021 and indicated a projected best case scenario budget deficit of £5.264 million for 2022/23 and a cumulative budget deficit of £11.628 million over the period of the MTFP.
- 1.3 Prior to the determination of the Council Tax decision for 2022/23, the revised MTFP outlines a budget surplus of £503,000 for 2022/23 and a cumulative budget deficit of £7.621 million to the financial year 2024/25.
- 1.4 A provisional Budget requirement of £143.894 million is proposed for 2022/23 resulting from the +9.0% Settlement announcement and MTFP budgeted Council Tax increase of 3.55%.
- 1.5 The Final Local Government Settlement is due to be announced on 1st March 2022 with no revisions anticipated.

2.0 RECOMMENDATIONS that

2.1 The content of this report be discussed and noted.

3.0 INTRODUCTION AND BACKGROUND

3.1 The Provisional Local Government Settlement for 2022/23 was announced on 21st December 2021 and is governed by the following characteristics:

- A total revenue funding increase for all Welsh Local Authorities of 9.4% (£437 million) from an adjusted 2021/22 base of £4.670 billion to £5.107 billion.
- A revenue funding increase for Merthyr Tydfil of 9.0% (£9.1 million) from an adjusted 2021/22 base of £101.5 million to £110.6 million.
- Merthyr Tydfil's revenue settlement is ranked 16th best of all 22 Welsh Local Authorities but 3rd best on a per capita basis.
- The Social Care specific grant, held outside of the revenue settlement, has reduced from £50 million to £45 million reflecting the transfer into the Settlement of £5 million, with Merthyr Tydfil's share being £107,250.
- Rebecca Evans, Minister for Finance and Local Government, confirmed that the enhanced Settlement includes monies to address Pay Award implications, to meet the additional costs of introducing the Real Living Wage for care workers and to cover the increased cost arising from the UK Government's announcement to increase National Insurance Contributions for employers.
- Indicative revenue settlements for the following 2 years of +3.5% for 2023/24 and +2.4% for 2024/24 are provided.

3.2 The summary Provisional Revenue Settlement for 2022/23 is included as Appendix 1. The Final Local Government Settlement is to be announced on 1st March 2022 with no revisions anticipated.

4.0 WHERE WE WERE

4.1 The Medium Term Financial Plan (MTFP) 2021/22 to 2024/25 approved by Council on 3rd March 2021 indicated a Revenue Budget of £133.342 million for Merthyr Tydfil for the financial year 2021/22 and indicative best case scenario budget deficits for years 2 to 4 as follows:

- 2022/23 projected deficit of £5.264 million
- 2023/24 projected deficit of £2.718 million
- 2024/25 projected deficit of £3.646 million

4.2 The cumulative projected budget deficit for the term of the MTFP was £11.628 million and was based on the following key assumptions:

- Employee Pay Award of 1.75% per annum
- Welsh Government funding increase of 4% for 2022/23 and 2% per annum thereafter
- Council Tax increase of 3.55% per annum over the term of the MTFP
- Additional Demands of £4 million for 2022/23 and a further £3 million per annum thereafter

5.0 WHERE WE ARE NOW

Medium Term Financial Plan

5.1 As noted in paragraph 4.1 the indicative budget deficit was reported as £5.264 million for 2022/23 and a cumulative £11.628 million over the term of the MTFP, based on the assumptions contained within the MTFP. Table 1 outlines the current MTFP position, with 2025/26 currently being determined.

Table 1 – Revised MTFP Position

Description	2022/23 £'000	2023/24 £'000	2024/25 £'000
Projected Budget Deficit at +4%	5,264	7,982	11,628
Impact of Revenue Settlement	-5,361	-7,132	-7,737
Additional Demands	4,879	5,894	6,431
Less Budgeted Additional Demands	-4,000	-4,000	-4,000
Less Hardship Fund	-2,064	0	0
Efficiency Proposals	-1,435	-2,394	-2,580
Pay Award Projection	1,432	2,477	3,097
Real Living Wage for Care Workers	782	782	782
Council Tax Decision	**	**	**
Revised Budget Deficit	-503	3,609	7,621

5.2 Prior to the Council Tax decision for 2022/23 being determined, current estimates indicate a budget surplus of £503,000 for 2022/23 and a cumulative budget deficit of £7.621 million for the period 2022/23 to 2024/25.

Revenue Settlement

5.3 The Welsh Government's Provisional Local Government Settlement was announced on 21st December 2021 and resulted in an increase in Merthyr Tydfil's Aggregate External Finance (AEF) for 2022/23 of 9.0%. Indicative Wales average AEF figures of +3.5% for 2023/24 and +2.4% for 2024/25 were also announced by the Welsh Government thus supporting Local Authorities' ability to effectively plan over the medium term.

- 5.4 The budget impact from the provisional settlement is detailed in Appendix 2 and demonstrates increased spending power of £5.361 million for 2022/23.

Additional Demands

- 5.5 Managers have identified a number of additional financial demands, considered unavoidable, for inclusion in the MTFP, resulting from service financial pressures such as demographic growth, legislative changes, new initiatives, loss of income and changes to grants terms and conditions.
- 5.6 These additional budget requirements are detailed in Appendix 3 and total £4.879 million for 2022/23 compared to the indicative budget requirement of £4 million. Council / Cabinet have already approved £2.110 million of the requested additional demands.
- 5.7 Included within additional demands are a further £1.193 million (over and above the £871,000 already included in the MTFP) relating to the additional cost for homelessness provision in providing temporary accommodation for those individuals presenting themselves as homeless. The total cost for 2022/23 of £2.064 million has been pre-booked in 2021/22 and claimed from the Covid-19 Hardship Fund as per Welsh Government guidance. No Welsh Government financial support is available thereafter.
- 5.8 It is recognised that without reflecting these additional expenditure requirements within the MTFP the Council will face significant financial pressures in remaining within Budget for 2022/23 and the medium to long term. All additional demand requirements however are subject to ongoing review with any identified amendments, owing to updated information, reported in due course. The potential for further demand requests should also be noted.

Efficiency Proposals

- 5.9 Managers have identified efficiencies of £1.435 million for 2022/23 as detailed in Appendix 4. These efficiency proposals reflect additional income, the realignment of budgets by reviewing MTFP assumptions in recognising current circumstances and the positive financial impact from the introduction of cost avoidance initiatives. Efficiencies totalling £720,000 result from investment in initiatives already approved by Council
- 5.10 No service budget cuts are proposed and no efficiency contribution is requested from schools.

Pay Award Projection

- 5.11 The National Employers for Local Government Services in negotiation with the Trades Unions are yet to announce the negotiated agreed pay award for 2021/22, although +1.75% has been tabled by the Employers as a final offer. A Pay Award of +1.75% per annum was included in the MTFP when approved March 2021.

- 5.12 It is considered prudent to reflect the UK Government's Office for Budget Responsibility (OBR) projections for average earnings growth included in its economic and fiscal outlook documentation, in determining potential future pay awards. This results in projected increases of +4.0% for 2022/23, +2.5% for 2023/24, +2.3% for 2024/25 and +3.1% for 2025/26. The projected additional cost for Merthyr Tydfil for 2022/23 is £1.432 million, as detailed in Appendix 5.

Real Living Wage for Care Workers

- 5.13 Welsh Government has stated that the Revenue Settlement includes funding to enable Local Authorities to meet the additional costs of paying the Real Living Wage of £9.90 per hour to Social Care Workers from 1st April 2022. It applies to Care Workers within the independent sector since Merthyr Tydfil is currently paying all employees above the Real Living Wage.
- 5.14 Welsh Government estimates that the financial commitment across Local Authorities and Health Boards in Wales is £43.2 million, with £6.7 million being financed from Health budgets, leaving the Local Authority estimate at £36.5 million. Merthyr Tydfil's proportion of the all Wales Personal Social Services Indicator Based Assessment, which informs the Settlement distribution, is 2.14% resulting in a Merthyr Tydfil projected cost of £782,000.

Council Tax Increase

- 5.15 The Council Tax increase for 2022/23 is currently budgeted at 3.55% reflecting the approved increase for the 2021/22 financial year. No decision has yet been determined for 2022/23. Every 1% increase or decrease to the budgeted Council Tax increase of 3.55% has a circa £250,000 net impact on the revised budget surplus outlined in Table 1.

6.0 WHERE WE WANT TO BE

- 6.1 The Council is required to set its Budget for 2022/23, including the Council Tax increase, by 11th March 2022.
- 6.2 Under the Local Government Act 2003, the Chief Finance Officer is required to report upon the robustness of the estimates made for the purposes of the budget and council tax setting calculations and the adequacy of the proposed financial reserves. It is therefore critical that the Council sets a balanced budget considering all known and projected financial pressures.
- 6.3 All additional demands detailed in this report have been subjected to robust challenge by Corporate Management Team in determining the criticality of each demand within the budget. It is recognised that without reflecting these unavoidable additional demand requirements the Council will not be setting a balanced budget for 2022/23.
- 6.4 In setting a balanced budget the provisional Budget Requirement for 2022/23 totals £143.894 million based on a Council Tax increase of 3.55%. Compared to the

adjusted 2021/22 Budget (adjusted for transfers into the settlement) this equates to a net Budget increase of 7.90% for 2022/23.

7.0 WHAT WE NEED TO DO NEXT

- 7.1 Cabinet of 2nd February 2022 will consider all proposals within this report with the intention of recommending for approval to Council of 2nd February 2022.
- 7.2 Further deliberations in respect of the Council Tax increase for 2022/23 will be held over the coming weeks with a final decision welcomed by mid February 2022.
- 7.3 Following the announcement of the Final Local Government Settlement for 2022/23 on 1st March 2022, Council of 2nd March 2022 will be requested to set a balanced Budget for 2022/23 including approval of the Council Tax increase.

8.0 CONTRIBUTION TO WELLBEING OBJECTIVES

- 8.1 The Council's wellbeing objectives are supported since the proposals are critical in ensuring the financial sustainability of the Council thus enabling the continued delivery of essential Council services for the community.

ELLIS COOPER
CHIEF EXECUTIVE

COUNCILLOR CHRIS DAVIES
CABINET MEMBER FOR GOVERNANCE
AND CORPORATE SERVICES

BACKGROUND PAPERS		
Title of Document(s)	Document(s) Date	Document Location
Medium Term Financial Plan 2021/22 to 2024/25	Council 3 rd March 2021	Council agenda and minutes / Finance Department
Provisional Local Government Settlement 2022/23	Announced 21 st December 2021	Finance Department
Medium Term Financial Plan / Budget Working Papers	March 2021 to January 2022	Finance Department
Does the report contain any issue that may impact the Council's Constitution?		No

Consultation has been undertaken with the Corporate Management Team in respect of each proposal(s) and recommendation(s) set out in this report.

Provisional Local Government Settlement 2022/23**Table 1a: Change in Aggregate External Finance (AEF), adjusted for transfers, by Unitary Authority**

	£'000			
Unitary Authority	2021-22 Final Aggregate External Finance	2022-23 Provisional Aggregate External Finance	Percentage difference	Rank
Isle of Anglesey	104,872	114,549	9.2%	12
Gwynedd	195,905	213,210	8.8%	17
Conwy	167,356	183,308	9.5%	5
Denbighshire	159,060	173,637	9.2%	15
Flintshire	212,608	232,174	9.2%	14
Wrexham	189,233	207,060	9.4%	7
Powys	192,088	210,257	9.5%	6
Ceredigion	110,006	119,419	8.6%	19
Pembrokeshire	179,422	196,253	9.4%	8
Carmarthenshire	285,262	311,597	9.2%	11
Swansea	353,571	386,585	9.3%	9
Neath Port Talbot	237,289	258,068	8.8%	18
Bridgend	212,755	232,364	9.2%	13
The Vale of Glamorgan	168,128	186,011	10.6%	3
Rhondda Cynon Taf	407,050	441,433	8.4%	21
Merthyr Tydfil	101,493	110,616	9.0%	16
Caerphilly	292,712	317,453	8.5%	20
Blaenau Gwent	120,657	130,795	8.4%	22
Torfaen	146,560	160,117	9.3%	10
Monmouthshire	101,003	112,275	11.2%	1
Newport	240,957	265,612	10.2%	4
Cardiff	492,095	544,715	10.7%	2
Total unitary authorities	4,670,080	5,107,507	9.4%	

Impact of Provisional Settlement

Description	2022/23 £'000	2023/24 £'000	2024/25 £'000
Budgeted Settlement (Note 1)	105,535	107,646	109,799
Provisional Settlement (Note 2)	110,616	114,487	117,235
Additional Funding	-5,081	-6,841	-7,436
Budgeted Council Tax Levy (Note 3)	32,998	34,169	35,382
Provisional Council Tax Levy (Note 4)	33,278	34,460	35,683
Additional Council Tax Levy	-280	-291	-301
Net Impact of Settlement	-5,361	-7,132	-7,737

Notes

1. Based on Settlements of +4.0% for 2022/23, +2.0% for 2023/24 and +2.0% for 2024/25
2. Based on Settlements of +9.0% for 2022/23, +3.5% for 2023/24 and +2.4% for 2024/25
3. Based on budgeted Council Tax base of 18,430.74 (as per 2021/22)
4. Based on actual Council Tax base of 18,587.44

Additional Demands

Ref.	Description	2022/23 £'000	2023/24 £'000	2024/25 £'000
1	Financing the Recovery, Transformation and Improvement (RTI) Plan – approved Council 14 th July 2021	675	725	723
2	Capacity Exercise Phase 2 – approved Council 6 th October 2021	873	911	921
3	Additional Learning Needs Education Tribunal Act 2018 – approved Cabinet 1 st December 2021	360	360	360
4	Tree Officer Post – approved Council 16 th June 2021	48	49	49
5	Wales Probation Service – approved Council 16 th June 2021	21	21	21
6	Night Closure of Cemetery Gates at Cefn Coed and Pant Cemeteries – approved Council 3 rd March 2021	36	37	38
7	Senior Management Structure – approved Council 3 rd November 2021	97	103	110
8	Individual Schools Budget (ISB) – relates to adjustments arising from the updated September 2021 pupil data	155	325	503
9	Special Recoupment – relates to the impact of an additional 6 placements in respect of pupils residing in the County Borough attending out of county schools with accompanying transport, together with the loss of income from 4 placements residing outside of the County Borough no longer attending Greenfield School	250	271	293

Additional Demands

Ref.	Description	2022/23 £'000	2023/24 £'000	2024/25 £'000
10	Welsh Education – relates to Welsh in Education Strategic Plan (WESP) monies for compliance work for the Welsh Language Strategy and WESP	10	10	10
11	Housing Temporary Accommodation – relates to the additional cost of homelessness provision in addition to the £871,000 already included in the Medium Term Financial Plan (MTFP). Circa 100 rooms have been booked encompassing the Castle Hotel, Tregenna Hotel, Tredegar Chambers, Tredegar Arms Hotel, Maesycoed Guest House and Park Hotel.	1,193	1,193	1,193
12	Grounds Maintenance – relates to 7 additional agency grass cutters employed for 32 weeks to replace kickstart staff. Current capacity to cut 1 metre swathe on highly visible grass areas. Additional resource will allow those areas to be cut to an amenity standard whilst keeping 6 large and 10 small areas for biodiversity.	105	107	108
13	Home to School Transport – relates to revisions to school contract costs resulting from increases in pupil numbers. Additional costs of £10,000 in the Summer Term and £81,000 in the Autumn and Spring Terms less £3,000 personal contract savings.	88	89	91

Additional Demands

Ref.	Description	2022/23 £'000	2023/24 £'000	2024/25 £'000
14	Household Waste Recycling Centres – relates to the increase in the number of operatives at the Aberfan site from 1 to 2. Also an increase in the number of operatives at the Dowlais site from 3 to 4 to allow for identification to be checked at the site entrance, that is “meet and greet”.	78	80	81
15	Children Looked After Residential Placement Services – relates to additional placements. No changes to the projected 11 placements in 2022/23 but additional costs per placement. Increase in projected placements from 10 to 13 in 2023/24 and from 10 to 12 in 2024/25.	66	684	741
16	Initial Response Services – relates to an additional Supervisor Post to strengthen service provision in line with inspectorate recommendations. The current management and supervisory levels do not provide sufficient resilience to cover annual leave and due to the increase in frontline staff in this area additional capacity is required to supervise staff in line with the regulatory requirements under the Registration and Inspection of Social Care Wales Act.	39	41	43
17	Initial Response Services – relates to additional grant match funding commitments. The new Health and Social Care Grant requires a match funding commitment of 10% for 2022/23 to 2023/24, 30% for 2024/25 and rising to 50% for 2025/26	50	50	150

Additional Demands

Ref.	Description	2022/23 £'000	2023/24 £'000	2024/25 £'000
18	Glynmil – relates to additional repairs and maintenance costs which are now the responsibility of the Council after taking over the running of the site	9	9	9
19	Land Drainage – relates to increasing costs of maintaining the land drainage infrastructure as increasing adverse weather becomes the norm. The severe storms of the last few years has increased pressure on this budget.	11	11	11
20	Corporate Property and Estates – relates to the projected loss of revenue income resulting from the reduction in capital receipts from sale of assets below the de minimis level of £10,000. Original budget was £85,000.	75	75	71
21	Transport – relates to additional transport costs for Ysgol Y Graig school resulting from additional pupils requiring transport. Additional costs of £8,000 in the Summer Term and £15,000 in the Autumn and Spring Terms.	23	23	24
22	Street Cleansing – relates to an additional 'Hit Squad' for the Summer period involving 3 agency staff and a vehicle.	53	54	55

Additional Demands

Ref.	Description	2022/23 £'000	2023/24 £'000	2024/25 £'000
23	Grounds Maintenance – relates to a new Groundsman Post within Parks providing enhanced maintenance thus raising standards for the public. The post will ensure that the Green Flag status is maintained and extended in parks throughout the County Borough.	28	29	30
24	National Insurance Contributions – relates to Chancellor’s Autumn Budget 2021 announcement of a 1.25% employer’s increase in National Insurance Contributions to bring extra funding to the NHS and to help with the current social care crisis	477	493	505
25	Energy Inflation – relates to widely publicised increase in energy costs reflecting a 12% increase for Gas and 14% for Electricity	131	132	132
26	Council Tax Reduction Scheme – relates to revised projections based on current figures and future projections. As at 1 st January 2022, total caseload was 6,205 at a total cost of £6.8 million. The MTFP currently shows a budget of £7.1 million for 2022/23.	-57	60	174
27	General MTFP Review – relates to the consolidation of a number of adjustments Council wide encompassing revision of assumptions, correction of salary grades, inclusion of job evaluation outcomes	-15	-48	-15
	Total	4,879	5,894	6,431

Efficiency Proposals

Ref.	Description	2022/23 £'000	2023/24 £'000	2024/25 £'000
1	Commercial Income – relates to the “Proposed Acquisition of St Tydfil’s Shopping Centre” report approved Council 20 th October 2021	-650	-650	-650
2	Corporate Vacancy Factor – relates to the salary savings resulting from the natural delay between a post becoming vacant and subsequently being filled. It is considered prudent to increase this budget saving from the originally budgeted £650,000 to £1 million reflecting the projected outturn of £1.3 million for 2021/22 and actual outturns of £1.2 million for 2020/21 and £1.0 million for 2019/20.	-350	-350	-350
3	Employee Severance Costs – relates to re-aligning budget to current commitments reflecting 2022/23 being the final year for the payment of Early Pension Payment (EPP) costs attributable to previous years’ Voluntary Early Retirement (VER) initiatives. No further VER scheme is proposed owing to the investment the Authority has undertaken in addressing its capacity concerns. Original Budget for 2022/23 was £956,000.	-165	-664	-806
4	Insurance Contribution – relates to the net impact of a projected decrease in insurance claims from £440,000 to £300,000 and projected increase in insurance premiums from £549,000 to £582,000. The Council also has an Insurance Fund which currently stands at £2.1 million.	-107	-106	-104

Efficiency Proposals

Ref.	Description	2022/23 £'000	2023/24 £'000	2024/25 £'000
5	Street Lighting – relates to the provision being brought in-house. The proposal relates to the appointment of a full time Electrician and a Trainee Street Lighting Technician to undertake all maintenance, underground cable faults and electrical testing in maintaining the 7,504 street lights within the County Borough. This will replace the current part-time Street Lighting Engineer and external contractor arrangement whilst securing efficiency savings of £30,000 over the 3 year period, that is from £258,000 to £228,000.	-10	-10	-10
6	Building Control – relates to the projected additional income generated following the approval of an additional Building Control Officer through the Capacity Phase 2 exercise.	-20	-21	-22
7	Agile Working/Estate Rationalisation – relates to the agile working agenda whereby employees working from home and office release office space in Unit 5 which is then available to rent to other organisations, thus generating an income for the Authority. The income received for 2022/23 relates to the Coroners Service.	-20	-100	-120
8	Roundabout and Other Advertising – relates to the introduction of advertising on highway roundabouts	-15	-15	-15

Efficiency Proposals

Ref.	Description	2022/23 £'000	2023/24 £'000	2024/25 £'000
9	Fees for Temporary Traffic Light Applications – relates to the charging of a fee to applicants who require road space for highway activities such as temporary traffic lights or the closure of lanes and footways	-5	-5	-5
10	Thomastown Park – relates to the potential income realised from the introduction of a mobile unit or kiosk providing snacks and beverages to customers	-2	-2	-2
11	Roads and Street Works Act (RASWA) – relates to the projected additional income generated by the RASWA Inspector approved through the Capacity Phase 2 exercise. The post will identify all companies (in particular utility) who are undertaking works without permits and will undertake daily checks to ensure all utility companies working on the highways are in compliance with the New Roads and Street Works Act 1991. Fines can be issued for non-compliance or defects noted.	-50	-75	-100
12	Marsh House – relates to the projected cost reduction in the homelessness provision by increasing the available in-house accommodation to provide temporary accommodation to those presenting as homeless. Up-front capital investment requirement included in the Capital Programme for 2022/23.	0	-282	-282

Efficiency Proposals

Ref.	Description	2022/23 £'000	2023/24 £'000	2024/25 £'000
13	Llysfaen – relates to the projected cost reduction in the homelessness provision by providing additional supported accommodation and self contained flats to ease the pressure on the temporary accommodation budget. No capital investment required since it is anticipated that up-front costs will be met through external grant.	0	-73	-73
14	CCTV Provision – relates to broadband and electrical costs savings resulting from the modernisation of the Council's CCTV footprint. Cameras where previously the Council would have paid for broadband access have been replaced with cameras linking via Wi-Fi, precluding the need for hard wiring. In addition electricity costs have reduced owing to the removal of some cameras.	-11	-11	-11
15	Change of Debit/Credit Card Provider – relates to testing the market based on intelligence from the Council's current e-payments provider. The Council is charged a small % (< 0.5%) for every card payment received.	-30	-30	-30
Total		-1,435	-2,394	-2,580

Pay Award Projection

Ref.	Description	2022/23 £'000	2023/24 £'000	2024/25 £'000
1	Relates to the additional cost resulting from a revision of the MTFP projections reflecting a +1.75% Pay Award per annum over the period of the MTFP. The original MTFP projections were £1.35 million for 2022/23, £1.74 million for 2023/24 and £2.19 million for 2024/25.	7	211	380
2	Relates to the additional cost (over and above the +1.75%) of reflecting the Office for Budget Responsibility (OBR) projections for average earnings growth over the term of the MTFP. Projections are +4.0% for 2022/23, +2.5% for 2023/24, +2.3% for 2024/25 and +3.1% for 2025/26.	1,425	2,266	2,717
Total		1,432	2,477	3,097