



COMBINED GOVERNANCE AND AUDIT AND JOINT SCRUTINY COMMITTEE REPORT

Date Written	15 th February 2023
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Service Area	Finance
Exempt/Non Exempt	Non Exempt
Committee Date	26 th February 2024

To: Chair, Ladies and Gentlemen

Revenue Budget 2024/25 – Budget Proposals

1.0 SUMMARY OF THE REPORT

- 1.1 The Medium-Term Financial Plan (MTFP) 2023/24 to 2026/27 approved by Council on 8th March 2023 indicated an indicative budget deficit of £10.517 million for 2024/25 and a cumulative budget deficit of £23.341 million over the term of the MTFP.
- 1.2 Provisional Settlement indicated an increase for Merthyr Tydfil of 3.4% (£4.0 million) from an adjusted 2022/23 base of £118.9 million to £122.9 million..
- 1.3 On 7th February 2024, Welsh Government announced an additional £25m of funding for Local Government, which resulted in additional funding of £500k for the Council, with £215k restoring an earlier cut to our Social Workforce Grant and the remaining £285k being allocated through the Revenue Support Grant
- 1.4 This resulted in a revised deficit of £12.524 million for 2024/25, the highest deficit in recent years and highlights the challenge faced by the Council in addressing unprecedented additional unavoidable external financial pressures.
- 1.5 Directorates of been working towards individual budget targets and the report includes detail of proposed savings totalling £9.433m
- 1.6 The impact on the 24/25 budget deficit of these savings and other realignments is a revised budget deficit of £1.710m.
- 1.7 The remaining budget gap above assumes a Council Tax increase of 4.7% and the use of £1.5m Earmarked Reserves (the equivalent underspend in 2022/23 revenue

budget). Work continues to determine the appropriate levels of Council Tax and Earmarked Reserves Utilisation in order to set a balanced budget for 2024/25. Once this work has been finalised, the impact of these changes on the MTFP will be reported.

2.0 RECOMMENDATIONS that

2.1 The content of this report be discussed and noted.

3.0 INTRODUCTION AND BACKGROUND

3.1 The Medium-Term Financial Plan (MTFP) 2023/24 to 2026/27 approved by Council on 8th March 2023 indicated an indicative budget deficit of £10.517 million for 2024/25 and a cumulative budget deficit of £23.341 million over the term of the MTFP. This report focuses on the budget deficit for 2024/25 with later years addressed in future budget reports.

3.2 The assumptions underpinning the indicative budget deficit of £10.517 million for 2024/25 were as follows:

- A Revenue Settlement of +3.1% for 2024/25 based on the indicative Settlement announced by the Welsh Government with an estimated +2.4% for 2025/26 and +2.0% for 2026/27
- A Pay Award of +6.0% for 2023/24 with 2024/25 to 2026/27 based on previous UK Government's Office for Budget Responsibility (OBR) projections for average earnings growth of +2.3%.
- A Council Tax increase of 4.7% per annum
- No utilisation of Reserves from 2024/25 onwards
- Indicative new Additional Demands of £3 million per annum

3.3 Since the approval of the MTFP in March 2023 the economic position and outlook for the UK has continued to deteriorate with both high inflation and interest rates.

4.0 PROVISIONAL SETTLEMENT 2024/25

4.1 The Provisional Local Government Settlement for 2024/25 was announced on 20th December 2023 and is governed by the following characteristics:

- A total revenue funding increase for all Welsh Local Authorities of 3.1% (£403 million) from an adjusted 2022/23 base of £5.520 billion to £5.690 billion.
- A revenue funding increase for Merthyr Tydfil of 3.4% (£4.0 million) from an adjusted 2022/23 base of £118.9 million to £122.9 million.
- Merthyr Tydfil's revenue settlement is ranked 5th best of the 22 Welsh Local Authorities.

- No 'Transfers In or Out of the Settlement' and no 'New Responsibilities'

- 4.2 The Final Welsh Government Budget 2024-25 will be published on 27th February 2024.
- 4.3 In recognising the challenges faced by Local Authorities, Rebecca Evans MS, Minister for Finance and Local Government, in her letter to Council Leaders accompanying the Settlement, stated "I recognise that while the recent very high rates of inflation are now decreasing, they are still high by the standards of the last 15 years. Baseline costs for staff and services have increased and are not reducing. Demand for services, alongside cost pressures mean that your Authorities will need to make difficult decisions on services, efficiencies, and council tax in setting your budgets. I know you will seek to engage meaningfully with your local communities as you consider priorities for the forthcoming year."
- 4.4 On 7th February 2024, Welsh Government announced an additional £25m of funding for Local Government, which resulted in additional funding of £500k for the Council, with £215k restoring an earlier cut to our Social Workforce Grant and the remaining £285k being allocated through the Revenue Support Grant.

5.0 WHERE WE WERE

- 5.1 As noted in paragraph 3.1 the indicative budget deficit was reported as £10.517 million for 2024/25 based on the assumptions contained within the MTFP. Table 1 outlines the current Budget position for 2024/25.

Table 1 – Revised Budget Position 2024/25

Description	2024/25 £'000
Opening Projected Budget Deficit	10,517
Impact of Revenue Settlement	-632
Pay Award	1,706
Impact of Additional funding	-500
Energy Review	-698
Adjustments to Council Tax base	202
Additional Demands	1,971
Accountancy Review of Assumptions	-289
Inflationary Impact	247
Revised Budget Deficit	12,524

5.2 The revised Budget Deficit of £12.524 million for 2024/25 is the highest deficit in recent years and highlights the challenge faced by the Council in addressing unprecedented additional unavoidable external financial pressures.

6.0 WHERE WE ARE NOW

6.1 Following notification of the provisional revenue settlement, individual directorates were given budgetary targets to work towards and tasked with finding savings to achieve those targets. In order to determine the appropriate levels of budgetary targets for each directorate, the following criteria were considered:

- The amount of statutory services in that directorate
- The amount of uncontrollable costs vs discretionary spend
- The demand levels within the directorate
- The priority of that directorate in achieving the Council's Vision

6.2 Based on 2023/24 budgets those targets were as follows:

- Education +4.5%
- Social Services +4.5%
- Neighbourhood Services -10%
- Economy & Public Protection -10%
- Governance & Resources -10%

6.3 Throughout January, directorates continued to build on the work done over the course of the year where lists of options were developed and shared with members, to finalise savings proposals to achieve those targets. Those savings are summarised below:

Education

Schools Contribution

6.4 The School Budget Forum of 5th December 2023 was advised by the Chief Finance Officer that owing to the Council projected budget deficit of £13.4 million for 2024/25 and the unprecedented financial challenges faced, it was possible that a contribution from schools would be required.

6.5 Following the announcement of the Provisional Local Government Settlement, the School Budget Forum of 11th January 2023 was advised by the Chief Finance Officer that the contribution from schools was required to be £2.1m. This message was also communicated at the Joint Headteachers Forum and to Chairs of Governors on 16th January 2024.

6.6 Through utilisation of grant monies, the Education Directorate were able to reduce the contribution required from schools to £1.9m and School Budget Forum were advised of this by the Chief Finance Officer at their meeting of 23rd January 2024. School Budget Forum voted to reject the proposal and a period of formal

consultation was then initiated with all schools. The consultation questionnaire is attached as Appendix 1.

6.7 It should be noted that this budget reduction of £1.988 million is applied after increasing the schools budget base for increased pupil numbers, pay awards, energy cost increases, new demands and inflationary impacts. Although a real term reduction of 3.9% year on year, the schools' budget is increasing in cash terms by £1.7m

6.8 Non-ISB Education savings proposals are included in the table below:

Saving Proposal	2024/25 Financial Saving £'000
Home to school transport post-16 (See Appendix 2)	27
Summary Officer Led Decisions (See Appendix 3)	473
Total Education Savings	2,461

Social Services

Saving Proposal	Financial Saving £'000
Summary Council & Officer Led Decisions (See Appendix 4)	2,897
Total Social Services Savings	2,897

Neighbourhood Services

Saving Proposal	Financial Saving £'000
Exempt items (see additional report)	461
SAB Design Engineer Post (See Appendix 5)	50
Street Lighting Electrician Post (See Appendix 6)	49
Increase Waste FPN (See Appendix 7)	7
Summary Council & Officer Led Decisions (See Appendix 8)	651
Total Neighbourhood Services Savings	1,218

Economy & Public Protection

Saving Proposal	Financial Saving £'000
Summary Officer Led Decisions (See Appendix 9)	1,313
Total Economy & Public Protection Savings	1,313

Governance & Resources

Saving Proposal	Financial Saving £'000
Reduce Contact Magazine by 1 issue per year (See Appendix 10)	5
Remove Help For Pensioners Scheme (See Appendix 11)	30
Exempt Items (See additional report)	541
Summary Officer Led Decisions (See Appendix 12)	715
Total Governance & Resources Savings	1,291

6.9 The total savings included across all directorates totals £9,180m with additional reduction in growth of £253k within the Education directorate of. The impact that has on the 2024/25 Revenue Budget is included below:

Area	2024/25 Budget £'000
Education	62,877
Social Services	48,191
Economy & Public Protection	9,626
Neighbourhood Services	11,830
Governance & Resources	8,684
Corporate Authority	24,065
Non-General Fund Allocations	-935
Discretionary NDR Relief	44
Collection Fund Surplus	-700
Corporate Vacancy Factor	-1,000
Use of Reserves	-1500
Net Expenditure	161,182
Revenue Settlement	-123,208
Council Tax	-36,264

Net Income	-159,472
Budget Deficit	1,710

- 6.10 The remaining budget gap above assumes a Council Tax increase of 4.7% and the use of £1.5m Earmarked Reserves (the equivalent underspend in 2022/23 revenue budget). Work continues to determine the appropriate levels of Council Tax and Earmarked Reserves Utilisation in order to set a balanced budget for 2024/25. Once this work has been finalised, the impact of these changes on the MTFP will be reported.
- 6.11 Work will continue throughout 2024/25 to identify savings and transformation opportunities as the Council continues to strive for long-term financial sustainability.

7.0 WHERE WE WANT TO BE

- 7.1 The Council is required to set its Budget for 2024/25, including the Council Tax increase, by 11th March 2024.
- 7.2 It is recognised that the following considerations will be required to set a balanced budget for 2024/25:
- Acceptable level of service efficiencies / reductions
 - Reasonable level of use of reserves
 - Acceptable level of council tax increase
- 7.3 Discussions are continuing between Cabinet and Corporate Management Team to determine the optimum balance between all three considerations outlined in paragraph 6.2 in addressing the indicative residual budget deficit for 2024/25.

8.0 WHAT WE NEED TO DO NEXT

- 8.1 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.
- 8.2 The Council Tax increase for 2024/25 is currently budgeted at 4.7% reflecting the approved increase for the 2023/24 financial year. Every 1% increase to the budgeted Council Tax increase provides the Council with a net additional £280,000. A reasonable council tax increase is required to be approved for 2024/25, one which balances the increased demand on the council taxpayer with the objective of

ensuring the provision of quality and efficient services to the County Borough's communities is maintained.

- 8.3 Special Cabinet and Council meetings of 28th February 2024 will consider savings proposals, together with appropriate utilisation of earmarked reserves and Council Tax rate for 2024/25 in order to set a balanced budget.

9.0 CONTRIBUTION TO WELLBEING OBJECTIVES

- 9.1 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 ANDREW BARRY
CABINET MEMBER FOR GOVERNANCE
AND RESOURCES

BACKGROUND PAPERS		
Title of Document(s)	Document(s) Date	Document Location
Medium Term Financial Plan 2023/24 to 2026/27	Council 8 th March 2023	Agenda and minutes / Finance Department
Provisional Local Government Settlement 2024/25	Announced 20 th December 2023	Finance Department
Revenue Budget 2024/25	Cabinet and Council 17 th January 2024	Agenda and minutes / Finance Department
Medium Term Financial Plan / Budget Working Papers	March 2023 to January 2024	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