



SPECIAL CABINET – 19TH JANUARY 2022

SUBJECT: DRAFT BUDGET PROPOSALS FOR 2022/23

REPORT BY: CORPORATE DIRECTOR FOR EDUCATION & CORPORATE SERVICES

1. PURPOSE OF REPORT

- 1.1 To present Cabinet with details of the draft budget proposals for the 2022/23 financial year to allow for a period of consultation prior to a final decision by Council on the 24th February 2022.

2. SUMMARY

- 2.1 The report provides details of draft budget proposals based on the Welsh Government (WG) Provisional Local Government Financial Settlement for 2022/23.
- 2.2 The report also provides details of a range of cost and service pressures that require funding, along with a proposed increase of 2.5% in Council Tax to enable the Authority to set a balanced budget for the 2022/23 financial year.
- 2.3 An updated indicative Medium-Term Financial Plan (MTFP) is also appended to the report showing a potential savings requirement of £9.753m for the two-year period 2023/24 to 2024/25.

3. RECOMMENDATIONS

- 3.1 Cabinet is asked to: -
 - 3.1.1 Endorse the 2022/23 draft budget proposals.
 - 3.1.2 Support the proposal to increase Council Tax by 2.5% for the 2022/23 financial year to ensure that a balanced budget is achieved (Council Tax Band D being set at £1,261.33).
 - 3.1.3 Support the proposal to top-up the Covid-19 Earmarked Reserve to £5m as detailed in paragraph 5.5.3 of the report.
 - 3.1.4 Agree that the draft budget proposals should now be subject to consultation prior to final 2022/23 budget proposals being presented to Cabinet/Council in February 2022.
 - 3.1.5 Note the indicative potential savings requirement of £9.753m for the two-year period 2023/24 to 2024/25.

4. REASONS FOR THE RECOMMENDATIONS

- 4.1 Council is required annually to approve proposals to set a balanced budget and agree a Council Tax rate.
- 4.2 Council is required to put in place a sound and prudent financial framework to support service delivery.

5. THE REPORT

5.1 Welsh Government (WG) Provisional Local Government Financial Settlement for 2022/23

5.1.1 The Local Government Financial Settlement received from WG on an annual basis is referred to as Aggregate External Finance (AEF). This consists of a Revenue Support Grant (RSG) and Redistributed Non-Domestic Rates (business rates). Details of the Provisional Local Government Financial Settlement are normally announced by WG in early October each year. However, due to the delay in undertaking the UK Government spending review, details of the Provisional Local Government Financial Settlement for 2022/23 were not released until the 21st December 2021.

5.1.2 The key points of the WG Provisional 2022/23 Local Government Financial Settlement are the following: -

- An overall increase of 9.4% in Aggregate External Finance (Revenue Support Grant (RSG) and Redistributed Non-Domestic Rates) on an all-Wales basis. This increase includes a specific grant of £5m that has been transferred into the Settlement (Social Care Workforce and Sustainability Grant).
- The level of increase for individual Local Authorities is determined by changes in datasets that drive the funding formula. For Caerphilly CBC there is a cash uplift of 8.5% in the Aggregate External Finance (AEF) for 2022/23 which equates to £25.1m.
- Caerphilly CBC's element of the £5m specific grant transferred into the Settlement is £297k and this will be pass-ported to the Social Services budget.
- Changes to other pass-ported grants in the Provisional Settlement result in a net reduction of £202k in relation to the tapering of WG funding for PFI Schemes.
- The capital allocations available to Caerphilly CBC in the RSG and from the General Capital Grant have decreased by £1.541m from the 2021/22 financial year.
- The Provisional Financial Settlement includes funding to enable Local Authorities to meet the additional costs of introducing the Real Living Wage for care workers. This is intended to apply to staff employed directly by Local Authorities and for services commissioned from the independent sector.
- The Provisional Financial Settlement also includes indicative uplifts in Aggregate External Finance (AEF) for 2023/24 and 2024/25 on an all-Wales basis. These are 3.5% and 2.4% respectively.

5.1.3 WG has provided substantial grant funding to Local Authorities in both the 2020/21 and 2021/22 financial years through the Covid-19 Hardship Fund to meet additional costs and income losses arising from the pandemic. The Hardship Fund will cease on the 31st March 2022 so Local Authorities will be required to meet ongoing financial pressures due to the pandemic from the funding provided in the Provisional Financial Settlement. The impact of this is considered in more detail in Section 5.5 of this report.

5.2 2022/23 Draft Budget Proposals

5.2.1 The proposals contained within this report will deliver a balanced budget for 2022/23 on the basis that Council Tax is increased by 2.5%. Table 1 provides a summary: -

Table 1 – Summary

Paragraph	Description	£m	£m
5.1.2	Aggregate External Finance (8.5% uplift)		25.086
5.2.3 – 5.2.11	Schools cost pressures	5.775	
5.2.12 – 5.2.19	General Fund Services inflationary cost pressures and transfers in	12.479	
5.2.20 – 5.2.23	General Fund inescapable service pressures/proposed new investments	9.397	
5.3.1 – 5.3.3	2022/23 savings		0.356
5.4.1 – 5.4.2	Proposed Council Tax increase (2.5%)		2.210
	TOTAL: -	27.651	27.651

5.2.2 The significant increase in the Provisional Financial Settlement is very welcome during these challenging times but Members should note that circa £17.3m of the increase will be needed to fund inescapable inflationary pressures. However, based on Council Tax being increased by 2.5% there will be circa £10m available for investment in key service areas as the Authority recovers from the ongoing pandemic. Some of the key features of this investment are the following: -

- £6.2m for Social Services to meet the commitment to pay the Real Living Wage for care workers, address increases in demand in both Adult and Children’s Services, and to provide funding to assist with additional costs that may continue to arise as a consequence of the ongoing pandemic.
- Protection of budgets for schools.
- £250k for a new apprenticeship scheme.
- Significant investment in public protection services to increase capacity in key teams such as Trading Standards, Enforcement and Environmental Health.
- Additional investment in the Community Safety Warden Service.
- £235k to help target flood prevention and £180k in the Business Enterprise & Renewal Team to lever in external funding and to promote the development of our town centres.

5.2.3 The Schools cost pressures totalling £5.775m are set out in Table 2 below -

Table 2 – Schools Cost Pressures

	£m
Teachers’ Pay Award at 1.75% (Sept 2021) and 3% (Sept 2022)	2.389
APT&C Pay Award at 3% (April 2022)	0.441
Teachers’ NI Increase (1.25% from April 2022)	1.058
APT&C NI Increase (1.25% from April 2022)	0.176
APT&C Increase in Employer Pension Contributions at 1%	0.141
Real Living Wage	0.050
Non-Pay Inflation at 4%	0.909
Other Service Pressures	0.612
TOTAL: -	5.775

5.2.4 **Teachers’ Pay** – Teachers’ pay increased by 1.75% with effect from September 2021 and funding has been provided in the Provisional Settlement to reflect the 2022/23 impact of this. In respect of the 2022/23 teachers’ pay award from September 2022, WG will not be making any further funding available in-year so Local Authorities will need to meet the cost of this through the funding provided in the Financial Settlement.

- 5.2.5 In light of the significant increases in inflation over recent months it is considered prudent at this stage to include provision in budgets for a 3% increase in teachers' pay from September 2022. This funding will be held corporately in the first instance and released to school budgets once the actual pay award has been determined.
- 5.2.6 **APT&C Pay** – The pay award for APT&C staff for the 2021/22 financial year is yet to be finalised, with a final offer of 1.75% still not being accepted at this stage. In terms of the budget for the 2022/23 financial year it is currently assumed that the 2021/22 pay award will be 1.75% with a further increase of 3% from April 2022. The 3% uplift will be held corporately in the first instance and released to school budgets once the actual pay award has been determined.
- 5.2.7 **NI Increases** – The UK Government has announced an increase of 1.25% in National Insurance contributions from April 2022. This increase results in an additional cost of £1.058m for teaching staff and £176k for APT&C staff in schools.
- 5.2.8 **APT&C Employer Pension Contributions** - The Greater Gwent (Torfaen) Pension Fund is subject to an independent triennial valuation of its assets and liabilities. The results of the latest valuation concluded that no increase would be required in the employer contributions for the 2020/21 and 2021/22 financial years with an increase of 1% being required for 2022/23.
- 5.2.9 **Real Living Wage** – Caerphilly CBC is a Living Wage Foundation employer, so a sum is included in the draft budget proposals in respect of relevant school staff to allow for annual increases in the Foundation Living Wage hourly rate.
- 5.2.10 **Non-pay Inflation at 4%** - The Consumer Prices Index (CPI) inflation rate has been steadily increasing in recent months with the rate in the 12 months to November 2021 being 5.1%. This is the highest 12-month inflation rate since September 2011, when it stood at 5.2%. Although it is expected that there will be a return to lower inflation rates over time it is considered prudent to include provision in the 2022/23 budget for a 4% increase in non-pay inflation.
- 5.2.11 **Other Schools Service Pressures** – This includes the following: -
- Floor area related changes.
 - Additional pupils at Trinity Fields School along with an associated increase in transport costs.
 - Potential for further costs arising from formula changes linked to updated Free School Meals data.
- 5.2.12 The General Fund Services inflationary cost pressures totalling £12.479m are set out in Table 3 below: -

Table 3 – General Fund Services Inflationary Cost Pressures and Transfers In

	£m
APT&C Pay Award at 3% (April 2022)	4.352
APT&C NI Increase (1.25% from April 2022)	1.273
APT&C Increase in Employer Pension Contributions at 1%	1.017
Living Wage	0.218
Non-pay Inflation at 4%	5.936
Non-pay inflation (Fees and Charges) at 4%	(0.614)
Transfer In – Social Care Workforce and Sustainability Grant	0.297
TOTAL: -	12.479

- 5.2.13 **Pay at 3% (APT&C staff)** – As outlined in paragraph 5.2.6 the pay award for APT&C staff for the 2021/22 financial year is yet to be finalised and it is also considered prudent to budget for a further 3% increase in pay from April 2022. The 3% uplift will be held corporately in the first instance and released to budgets once the actual pay award has been determined.

- 5.2.14 **NI Increase (1.25%)** – The cost of the 1.25% increase in NI contributions for General Fund Services is £1.273m
- 5.2.15 **Foundation Living Wage (APT&C staff)** – £218k is included in the 2022/23 Draft Budget Proposals to allow for an increase in the Foundation Living Wage hourly rate for General Fund Services staff.
- 5.2.16 **Employer Pension Contributions (APT&C staff)** – As mentioned in paragraph 5.2.8 the results of the latest triennial valuation of the Pension Fund concluded that no increase would be required in the employer contributions for the 2020/21 and 2021/22 financial years with an increase of 1% being required for 2022/23.
- 5.2.17 **Non-pay Inflation at 4%** - The proposed uplift of 4% for non-pay inflation requires additional budget provision of £5.936m for General Fund Services.
- 5.2.18 **Non-pay Inflation (Fees and Charges) at 4%** - A generic increase of 4% is assumed for Fees and Charges.
- 5.2.19 **Transfer In** – There is a transfer into the Settlement of £297k in relation to the Social Care Workforce and Sustainability Grant which will be passported to the Social Services budget.
- 5.2.20 Table 4 provides a summary of the 2022/23 General Fund Services inescapable service pressures and proposed new investments totalling £9.397m. Full details are provided in Appendix 1 for Members' consideration.

Table 4 – Summary of General Fund Inescapable Service Pressures and Proposed New Investments

	£m
Corporate Services	1.374
Education & Lifelong Learning	0.341
Economy & Environment	1.599
Social Services	6.166
Miscellaneous Finance	0.051
Other Pass-ported Grants (PFI)	(0.202)
City Deal (Partnership revenue contribution)	0.007
City Deal (debt charges)	0.062
TOTAL: -	9.397

- 5.2.21 Members will note the significant proposed growth of £6.166m for Social Services. For some time now, independent sector social care providers have reported difficulties in recruiting care staff due to the relatively low rates of pay that they can afford to offer compared with other sectors of the job market. WG has recognised this in the Provisional Financial Settlement by including funding to enable Local Authorities to meet the additional costs of introducing the Real Living Wage (RLW) for care workers. This is intended to apply to staff employed directly by Local Authorities and for services commissioned by Social Services from the independent sector. The current RLW hourly rate is £9.90 until November 2022. Further detailed work will now be required with providers on an open book basis to establish fee rates moving forward that will ensure that all care staff in commissioned services can be paid the RLW.
- 5.2.22 Throughout the 2021/22 financial year, the Social Services Directorate has experienced a significant increase in demand for supported living placements for adults, residential placements for children, and after care support for adolescents. Short-term grant funding, service restrictions due to the Covid-19 pandemic and social care staff shortages have all helped to smooth the financial impact of this increased demand in 2021/22. However, as we begin to recover from the pandemic the demand for these services is likely to remain but the

short-term savings experienced in 2021/22 will not. As a result, further investment will be required in these service areas in 2022/23.

- 5.2.23 Given the detailed work that needs to be undertaken with providers in respect of the RLW and the uncertainties around the budgetary impact of demand as we begin to recover from the pandemic, the proposed growth of £6.166m will be held corporately in the first instance and subsequently released into the Social Services budget in-year once fee levels have been confirmed and the increasing demand on services is evidenced.

5.3 2022/23 Savings

- 5.3.1 The following savings totalling £356k are included in the 2022/23 Draft Budget Proposals: -

Table 5 – 2022/23 Savings

	£m
Termination of lease at Ty Pontygwindy	0.180
Fire Service Levy	0.176
TOTAL: -	0.356

- 5.3.2 The lease at Ty Pontygwindy is due to be terminated at the end of March 2022 with staff being relocated to other council premises. This will result in a net revenue budget saving of circa £180k. A one-off cost will be payable in respect of dilapidations and the funding of this will be subject to a Cabinet report once agreement has been reached with the landlord.
- 5.3.3 The 2022/23 Draft Budget Proposals include provision for of 4% uplift in non-pay inflation. The draft 2022/23 budget for the South Wales Fire & Rescue Service requires an increase in Caerphilly CBC's contribution of 2.06%, resulting in a reduction of £176k against the 4% uplift that has been assumed corporately.

5.4 Council Tax Implications 2022/23

- 5.4.1 The draft budget proposals within this report include a proposed increase of 2.5% in Council Tax for the 2022/23 financial year. This will increase the Caerphilly CBC Band D precept from £1,230.57 to £1,261.33 i.e. an annual increase of £30.76 or weekly increase of £0.59.
- 5.4.2 The proposed increase of 2.5% for 2022/23 will result in the following totals for the Caerphilly CBC element of the Council Tax (the Police & Crime Commissioner and Town/Community Council precepts will be added to these totals when confirmed at a later date): -

Table 6 – 2022/23 Council Tax (CCBC Element) at 2.5% Increase

Band	Council Tax (CCBC Element) £	Weekly Increase £
A	840.89	0.39
B	981.04	0.46
C	1,121.19	0.53
D	1,261.33	0.59
E	1,541.63	0.72
F	1,821.93	0.85
G	2,102.22	0.99
H	2,522.67	1.18
I	2,943.11	1.38

5.5 Ongoing Financial Impact of Covid-19

- 5.5.1 WG has provided substantial grant funding to Local Authorities in both the 2020/21 and 2021/22 financial years through the Covid-19 Hardship Fund to meet additional costs and income losses arising from the pandemic. The Hardship Fund will cease on the 31st March 2022 and Local Authorities will be required to meet ongoing financial pressures linked to the pandemic from the funding provided in the Provisional Financial Settlement.
- 5.5.2 Alongside the funding received from WG, the Council has also previously approved the establishment of a Covid-19 Earmarked Reserve totalling £3.5m to meet potential unfunded additional costs arising from the pandemic. The balance on this reserve is currently £2.516m.
- 5.5.3 Whilst the 2022/23 Budget Proposals include significant budgetary growth in a number of key service areas, additional pandemic related costs will continue to be incurred at least in the short to medium-term. These include additional costs in relation to waste collection, cleaning, protective equipment, sickness cover, homelessness etc. Furthermore, income levels will take some time to recover in a number of service areas as restrictions are eased moving forward. It is therefore recommended that the Covid-19 Earmarked Reserve is topped-up to £5m by transferring uncommitted balances on other previously approved reserves, along with a small contribution from the projected underspend on the 2021/22 Revenue Budget.

Table 7 – Proposed Top-Up of Covid-19 Earmarked Reserve

	£m	£m
Current balance on Covid-19 Earmarked Reserve		2.516
Proposed transfer of uncommitted balances on reserves: -		
- Trehir Reserve	0.235	
- Contingency for MTFP staffing reductions	0.381	
- MTFP savings delivery reserve	1.173	
- Brexit reserve	0.686	2.475
Contribution from 2021/22 projected revenue budget underspend		0.009
TOTAL: -		5.000

- 5.5.4 Significant uncertainty remains in relation to the ongoing financial impact of the pandemic and this will be kept under close review as we progress through the 2022/23 financial year.

5.6 Financial Outlook for Future Years

- 5.6.1 Due to the ongoing programme of austerity and increasing demand for a number of services, the financial position for Local Government has been very challenging in recent years. During the period 2008/09 to 2021/22 Caerphilly CBC has delivered savings of £106m to address reductions in funding and inescapable cost and service pressures.
- 5.6.2 Whilst the 8.5% uplift in the 2022/23 Provisional Financial Settlement is welcomed, the future funding situation for Local Government is likely to be more challenging due to the unprecedented fiscal impact of Covid-19 and the strain that will put on public finances.
- 5.6.3 The UK Government spending review undertaken in 2021 focussed on the 3-year period 2022/23 to 2024/25 and this resulted in details of indicative funding allocations being provided to the devolved administrations for 2023/24 and 2024/25. As a result, the Provisional Local Government Financial Settlement includes indicative uplifts in Aggregate External Finance (AEF) for 2023/24 and 2024/25 on an all-Wales basis. These are 3.5% and 2.4% respectively and provide a useful base in terms of financial planning for the medium-term.

5.6.4 The Council's Medium-Term Financial Plan (MTFP) has been updated based on a range of assumptions, resulting in a potential savings requirement of £9.753m for the two-year period 2023/24 to 2024/25. Details are provided in Appendix 2 and the following is a summary of the key assumptions: -

- An uplift in WG funding of 3.16% for 2023/24 and 2.17% for 2024/25. This is based on the all-Wales indicative uplifts adjusted for Caerphilly CBC's position in terms of the average uplift for 2022/23.
- An increase of 2.5% per annum for Council Tax.
- 2% per annum for pay inflation (all staff including teachers).
- 1% per annum for APT&C employer pension contributions.
- Non-pay inflation at 2.5% for 2023/24 and 2% for 2024/25

5.6.5 In addition to the above significant work has been undertaken with Directors and Heads of Service to identify further potential service cost pressures that will need to be considered in future years. These are currently estimated at circa £5.9m for 2023/24 and £2.4m for 2024/25. This is work in progress and the figures will be subject to change moving forward.

5.6.6 Detailed work will be undertaken in the coming months to further refine the MTFP and the Council's Transformation Programme and associated Corporate Reviews will be key components in addressing the projected financial gap. A report will be presented to Cabinet in early autumn providing a further updated MTFP alongside detailed proposals in terms of addressing the savings requirement moving forward.

5.7 Conclusion

5.7.1 This report provides details of the Draft Budget Proposals for 2022/23 based on the WG Provisional Local Government Financial Settlement.

5.7.2 A balanced budget can be delivered based on a proposed Council Tax increase of 2.5%.

5.7.3 There will be ongoing financial impacts as a result of Covid-19 in the 2022/23 financial year and in recognition of this it is proposed to increase the Covid-19 Earmarked Reserve to £5m.

5.7.4 The report also provides details of the updated Medium-Term Financial Plan (MTFP), which currently shows a potential savings requirement of £9.753m for the two-year period 2023/24 to 2024/25.

6. ASSUMPTIONS

6.1 A range of assumptions have been made throughout the report in respect of pay and non-pay inflationary increases, inescapable service pressures, and the level of funding settlements moving forward.

7. SUMMARY OF INTEGRATED IMPACT ASSESSMENT

7.1 Draft Budget Proposals

An Impact Assessment has been conducted on the draft budget proposals and will be updated once the consultation responses have been analysed for the reports to Cabinet on the 23rd February and Council on the 24th February. There are no negative effects identified in any of the draft budget proposals for any protected characteristic groups and there is no socio-economic impact (please see separate integrated impact assessment that considers the proposed increase in Council Tax). The budget is allowing for investment in essential services and, as such, the impacts on delivery of the well-being objectives are positive.

<https://www.caerphilly.gov.uk/CaerphillyDocs/IIA/IIA-main-2022>

7.2 Proposed Increase in Council Tax

The proposed below inflation increase in Council Tax of 2.5% will result in weekly increases ranging from 39p for Band A properties to £1.38 for Band I properties. 75.91% of properties in the county borough are in bands A to C. The proposed increase is the lowest since 2017. The level of increase, combined with funding from Welsh Government, will allow the Council to invest a total of circa £10million in service provision, including circa £6million for social care services to support the most vulnerable. Vulnerability is associated with socio-economic disadvantage and for individuals with one or more protected characteristics. The Council Tax Reduction Scheme (CTRS) mitigates against the socio-economic impacts on the most vulnerable households. 16,300 households receive support with their Council Tax payments from the scheme, representing 20.34% of all households in the county borough. 11.27% (9,034 households) receive the maximum 100% level of support.

<https://www.caerphilly.gov.uk/CaerphillyDocs/IIA/IIA-council-tax-2022>

8. **FINANCIAL IMPLICATIONS**

8.1 As detailed throughout the report.

9. **PERSONNEL IMPLICATIONS**

9.1 There are no direct impacts on existing staff arising from the 2022/23 Draft Budget Proposals.

9.2 Where staff reductions may be required as a consequence of savings proposals in future years the Council will firstly try to achieve this through 'natural wastage' and not filling vacancies. However, where this is not possible the Council will utilise agreed HR policies and compulsory redundancies will only be considered as a last resort after all other options have been fully exhausted.

9.3 The Trade Unions will be fully consulted on the 2022/23 Draft Budget Proposals.

10. **CONSULTATIONS**

10.1 It is important that residents have their say on the Draft Budget Proposals so a public consultation was launched on the 13th January 2022. Residents are able to take part and submit feedback in a number of ways. A leaflet is being distributed to every home in the county borough with details of the consultation and how to get involved. Information and an online survey can also be found on the Caerphilly CBC website: -

www.caerphilly.gov.uk/caerphilly-conversation2022

www.caerffili.gov.uk/trafodaeth-caerffili2022

10.2 A Joint Scrutiny Committee meeting is scheduled for the 24th January 2022 which will provide an opportunity for all Elected Members to consider and comment upon the Draft Budget Proposals.

11. **STATUTORY POWER**

11.1 The Local Government Acts 1998 and 2003.

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Appendices: -

Appendix 1 – General Fund Inescapable Service Pressures and Proposed New Investments

Appendix 2 – Updated Medium-Term Financial Plan