



CABINET – 23RD FEBRUARY 2022

SUBJECT: BUDGET PROPOSALS FOR 2022/23 AND MEDIUM-TERM FINANCIAL OUTLOOK

REPORT BY: CORPORATE DIRECTOR FOR EDUCATION AND CORPORATE SERVICES

1. PURPOSE OF REPORT

- 1.1 To seek Cabinet endorsement of the 2022/23 budget proposals contained within this report prior to final determination by Council on the 24th February 2022.
- 1.2 To provide an update on the Medium-Term Financial Plan (MTFP).

2. SUMMARY

- 2.1 At its meeting on the 19th January 2022, Cabinet endorsed the 2022/23 Draft Budget Proposals based on the Welsh Government (WG) Provisional Local Government Financial Settlement for 2022/23.
- 2.2 The report provided 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 Following a period of consultation this report now presents Final Budget Proposals for the 2022/23 financial year, with a revised proposed increase in Council Tax of 1.9%. The report also contains additional information for Cabinet consideration in respect of movements on the General Fund, and the proposed Capital Programme for the three-year period 2022/23 to 2024/25.
- 2.4 An updated indicative Medium-Term Financial Plan (MTFP) is also appended to the report showing a potential savings requirement of £9.759m for the two-year period 2023/24 to 2024/25.

3. RECOMMENDATIONS

- 3.1 Prior to consideration and determination at the Council meeting on the 24th February 2022, Cabinet is asked: -
 - 3.1.1 To endorse the revenue budget proposals for 2022/23 of £395.071m as detailed throughout the report and summarised in Appendix 1.
 - 3.1.2 To note the movements on the General Fund in Appendix 3 and the current projected balance as at the 31st March 2022 of £14.516m.

- 3.1.3 To agree that the General Fund balance will be subject to review when the 2021/22 Provisional Revenue Budget Outturn Report is presented to Cabinet and Council in July 2022.
- 3.1.4 To endorse the proposed Capital Programme for the period 2022/23 to 2024/25 as set out in Appendix 4.
- 3.1.5 To endorse the proposals for the use of £3.8m capital grant funding recently announced by the Welsh Government as detailed in paragraph 5.8.4.
- 3.1.6 To support the proposal to increase Council Tax by 1.9% for the 2022/23 financial year to ensure that a balanced budget is achieved (Council Tax Band D being set at £1,253.95).
- 3.1.7 To note the updated MTFP in Appendix 5 showing an indicative potential savings requirement of £9.759m 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 Background and Context

- 5.1.1 The Council's financial position underpins its ability to make strategic decisions in order to deliver high quality effective services to our residents.
- 5.1.2 The financial picture of the Council is complex, but in summary it consists of the following four key elements: -
 - **The Revenue Budget** – This funds the day-to-day expenditure on the range of services that we provide to our citizens including staff costs, maintaining our buildings and other assets such as the highway network, utility costs, maintaining our fleet of vehicles, and the cost of servicing debt (i.e. loan and interest payments).
 - **The Capital Budget** – This funds one-off investments to create or enhance our assets such as schools, libraries, and the highway network. This would include the construction of new buildings, major refurbishments and the acquisition of specialist vehicles and equipment.
 - **Reserves** – These are approved one-off sums that have been set aside or earmarked for a range of different purposes. A report is prepared annually providing details of the reserves held by the Council and identifying any reserves that are uncommitted and can be released for other purposes such as supporting the Capital Programme.
 - **Grants** - The Council receives a number of grants from external bodies such as the Welsh Government. These grants are for specific purposes and the Council must comply with detailed grant terms and conditions. Some of the grants are also subject to audit by our External Auditors.

- 5.1.3 To date the Council has managed the austerity measures using a “salami slicing” approach i.e. reducing budgets gradually across the whole organisation, whilst trying to protect key services such as Education and Social Services. This approach has served us well, with £106m of savings being achieved since the 2008/09 financial year.
- 5.1.4 However, if we are to remain an innovative, modern, and adaptive organisation, whilst managing increasing demands against reducing funding, we must take a longer-term strategic approach that mobilises our staff, our elected members, our partners, and our communities.
- 5.1.5 This new whole-authority transformation operating model was approved by Cabinet in June 2019 and is entitled “Team Caerphilly – Better Together”, with the underlying principle of being a Council that has a “social heart and a commercial head”. The key elements of this new operating model are: -
- Improving the way we work.
 - Enhancing relationships with our communities and partners.
 - Developing proud and trusted staff.
- 5.1.6 It is important that we strike a balance between investing in our day-to-day services and providing financial support to improve how we deliver services.
- 5.1.7 Our revenue budget is used to support service delivery on an annual basis and our capital budget is used to fund infrastructure projects across the county borough. We also make use of our reserves wherever we can to support the Council’s capital expenditure and approval has already been given to set aside £30.2m to boost the Capital Programme by investing in our Well-being & Place Shaping Framework.
- 5.1.8 It is crucial that we manage our revenue and capital budgets and our reserves closely and as a collective, in order to maximise the return on investments. As part of our new operating model we are undertaking a forensic review of our financial position through the following: -
- Introducing a structured programme of Service Reviews that will evaluate the services that we provide to ensure that they remain relevant, are provided in the most effective and efficient way and are providing value for money.
 - Encouraging and supporting more innovative approaches to service delivery.
 - Embracing new technologies to modernise the way that we work, streamline processes, improve workflow and drive out efficiencies.
 - Adopting a more commercial approach to service delivery to generate additional income to reinvest in services to help them remain resilient i.e. “profit for purpose”.
 - Routinely reviewing our reserves to identify further sums that may be available to support the Capital Programme moving forward.

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

- 5.2.1 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.

5.2.2 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.

5.2.3 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 5.7 of this report.

5.2.4 Details of the 2022/23 Final Local Government Financial Settlement will not be announced until the 2nd March 2022, however it is anticipated that this will not vary significantly from the position set out in the Provisional Settlement.

5.3 2022/23 Budget Proposals

5.3.1 The proposals contained within this report will deliver a balanced budget for 2022/23 on the basis that Council Tax is increased by 1.9%. Table 1 provides a summary: -

Table 1 – Summary

Paragraph	Description	£m	£m
5.2.2	Aggregate External Finance (8.5% uplift)		25.086
5.3.3 – 5.3.11	Schools cost pressures	5.775	
5.3.12 – 5.3.19	General Fund Services inflationary cost pressures and transfers in	12.479	
5.3.20 – 5.3.24	General Fund inescapable service pressures/proposed new investments	8.946	
5.4.1 – 5.4.3	2022/23 savings		0.356

5.6.1 – 5.6.2	Proposed Council Tax increase (1.9%)		1.759
	TOTAL: -	27.200	27.200

5.3.2 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 1.9% there will be circa £9.6m 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: -

- £5.7m 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.

5.3.3 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

5.3.4 **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.

5.3.5 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.

5.3.6 **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.

- 5.3.7 **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.
- 5.3.8 **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.
- 5.3.9 **Real Living Wage** – Caerphilly CBC is a Living Wage Foundation employer, so a sum is included in the budget proposals in respect of relevant school staff to allow for annual increases in the Foundation Living Wage hourly rate.
- 5.3.10 **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 January 2022 being 5.5%. 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.
- 5.3.11 **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.
- 5.3.12 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

- 5.3.13 **Pay at 3% (APT&C staff)** – As outlined in paragraph 5.3.6 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.
- 5.3.14 **NI Increase (1.25%)** – The cost of the 1.25% increase in NI contributions for General Fund Services is £1.273m
- 5.3.15 **Employer Pension Contributions (APT&C staff)** – As mentioned in paragraph 5.3.8 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.
- 5.3.16 **Foundation Living Wage (APT&C staff)** – £218k is included in the 2022/23 Budget Proposals to allow for an increase in the Foundation Living Wage hourly rate for General Fund Services staff.

- 5.3.17 **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.
- 5.3.18 **Non-pay Inflation (Fees and Charges) at 4%** - A generic increase of 4% is assumed for Fees and Charges.
- 5.3.19 **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.
- 5.3.20 Table 4 provides a summary of the 2022/23 General Fund Services inescapable service pressures and proposed new investments totalling £8.946m. Full details are provided in Appendix 2 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	5.715
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: -	8.946

- 5.3.21 The 2022/23 Draft Budget Proposals presented to Cabinet on the 19th January 2022 included proposed growth of £6.166m for Social Services. This sum has now been reduced to £5.715m due to the revised proposal to increase Council Tax by 1.9% instead of the original proposed increase of 2.5%.
- 5.3.22 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.
- 5.3.23 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.
- 5.3.24 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 £5.715m 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.

5.4 2022/23 Savings

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

Table 5 – 2022/23 Savings

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

5.4.2 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.

5.4.3 The 2022/23 Budget Proposals include provision for a 4% uplift in non-pay inflation. The 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.

5.5 General Fund Balances

5.5.1 Details of the projected movement on General Fund balances are provided in Appendix 3.

5.5.2 The current General Fund balance is £11.047m, which reflects the position previously agreed by Council.

5.5.3 Based on the Whole Authority Revenue Budget Monitoring Report that is also being considered by Cabinet on the 23rd February 2022, it is currently anticipated that there will be a net transfer to the General Fund of £4.519m from a projected year-end net underspend across all Directorates. This assumes that a number of proposals in the Whole Authority Budget Monitoring Report for the ring-fencing of underspends totalling £2.535m will be approved by Cabinet.

5.5.4 Cabinet will recall that in previous years the Council Tax surplus has been channelled through the General Fund each year to support the base budget in the following financial year. In normal years this surplus is estimated to be circa £1.050m but Members will be aware that Council Tax collection has been adversely impacted during the pandemic. It would not be prudent at this stage to assume that the Council Tax surplus for 2021/22 will be at the levels achieved prior to the pandemic. It is therefore recommended that the £1.050m required to support the 2022/23 budget should be funded through a call on the General Fund.

5.5.5 After allowing for the above movements the updated projected balance for the General Fund as at the 31st March 2022 is £14.516m. The Section 151 Officer usually recommends a minimum General Fund balance of 3% of the Net Revenue Budget which for 2022/23 is £11.852m. The current projected balance of £14.516m is £2.664m higher than the minimum recommended. However, given the range of financial uncertainties that we currently face, in particular inflation levels, it is recommended that the projected balance is noted at this stage and is reviewed again when the 2021/22 Provisional Revenue Budget Outturn Report is presented to Cabinet and Council in July 2022.

5.6 Council Tax Implications 2022/23

5.6.1 The budget proposals within this report include a proposed increase of 1.9% in Council Tax for the 2022/23 financial year. This will increase the Caerphilly CBC Band D precept from £1,230.57 to £1,253.95 i.e. an annual increase of £23.38 or weekly increase of £0.45.

- 5.6.2 The proposed increase of 1.9% 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): -

Table 6 – 2022/23 Council Tax (CCBC Element) at 1.9% Increase

Band	Council Tax (CCBC Element) £	Weekly Increase £
A	835.97	0.30
B	975.29	0.35
C	1,114.62	0.40
D	1,253.95	0.45
E	1,532.61	0.55
F	1,811.26	0.65
G	2,089.92	0.75
H	2,507.90	0.90
I	2,925.88	1.05

5.7 Ongoing Financial Impact of Covid-19

- 5.7.1 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 Financial Settlement.
- 5.7.2 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.
- 5.7.3 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

- 5.7.4 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.

5.8 Capital Programme

5.8.1 The proposed Capital Programme for the three-year period 2022/23 to 2024/25 is detailed in Appendix 4 of this report and summarised in Table 8.

Table 8 – Summary of Capital Programme 2022/23 to 2024/25

	2022/23	2023/24	2024/25
	£m	£m	£m
Capital Programme proposals	10.021	10.021	9.668
WG funding available	(8.157)	(8.157)	(8.157)
Capital funding gap	1.864	1.864	1.511
Funded by: -			
Surplus/(Deficit) b/fwd	0.509	0.287	0.000
One-Off funding from MRP Policy Review	1.514	1.449	1.383
RCCO budget (Miscellaneous Finance)	0.128	0.128	0.128
Total Additional Funding	2.151	1.864	1.511
Surplus/(Deficit) carried forward	0.287	0.000	0.000

5.8.2 As outlined in paragraph 5.1.7, approval has already been given to set aside £30.2m to boost the Capital Programme by investing in our Well-being & Place Shaping Framework. This funding is not currently shown in the above table and will be released into the Capital Programme as and when specific schemes are approved.

5.8.3 WG has recently announced a £70m capital grant injection for Local Authority's, with Caerphilly CBC's share being £3.8m. The grant letter states, *"One area that Local Authorities have specifically highlighted as an area of pressure is the maintenance of the existing highways network. I hope that additional funding enables improvement to be planned instead of less effective reactive patch and mend repairs to make makes roads safer, especially for active travel users."*

5.8.4 There are many areas within the highway infrastructure that are in need of urgent replacement and upgrades that will improve safety on the highway network. Following a review of the highest priorities Cabinet is asked to endorse a proposal to utilise the £3.8m grant funding in the following areas of work: -

- Highway resurfacing (£2.2m).
- Verge removal and creation of off-road parking areas - Ty Sign plus other priority areas if viable (£400k).
- Footway reconstruction (£300k).
- Drainage schemes from priority list to prevent property flooding (£300k).
- Vehicle Restraint System replacement on the A467 near Abercarn (£200k).
- Cattle grid renewals (£100k).
- Speed hump renewals (£100k).
- Telemetry for culverts to provide early warning of possible blockages (£100k).
- Dolyfelin Street highway improvement (£100k).

5.8.5 The biggest impact to benefit the travelling public will be the proposed significant £2.2m cash injection into much needed highway resurfacing. There are clear budget pressures within the other areas identified and this funding will make a significant difference in providing new infrastructure to benefit residents, and also upgrades to some ageing assets helping achieve a much safer highway network.

5.9 Financial Outlook for Future Years

5.9.1 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.

5.9.2 Whilst the 8.5% uplift in the 2022/23 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.

5.9.3 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.

5.9.4 The Council's Medium-Term Financial Plan (MTFP) has been updated based on a range of assumptions, resulting in a potential savings requirement of £9.759m for the two-year period 2023/24 to 2024/25. Details are provided in Appendix 5 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

5.9.5 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.

5.9.6 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.

5.10 Conclusion

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

5.10.2 A balanced budget can be delivered based on a proposed Council Tax increase of 1.9%.

- 5.10.3 Details of the 2022/23 Final Local Government Settlement will not be announced until the 2nd March 2022, however it is anticipated that this will not vary significantly from the position set out in the Provisional Settlement.
- 5.10.4 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.
- 5.10.5 The report also provides details of the updated Medium-Term Financial Plan (MTFP), which currently shows a potential savings requirement of £9.759m 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 was conducted on the draft budget proposals and this has now been updated to reflect responses to the budget consultation process. There are no negative effects identified in any of the 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 1.9% will result in weekly increases ranging from 30p for Band A properties to £1.05 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 £9.6m in service provision, including circa £5.7m 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 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 Details of the 2022/23 Draft Budget Proposals were shared with Trade Unions.

10. CONSULTATIONS

10.1 Before finalising the budget proposals for 2022/23, the Council undertook a consultation between 12th January and 13th February 2022. The key purpose of this consultation was: -

- to identify whether those who live and work in the county borough think we are still on the right track in relation to the services that we should prioritise when planning our services and budgets for 2022/23 and beyond; and
- to gather residents' views on the proposed 2.5% increase in Council Tax.

10.2 A survey was made available on the Council's website, either for online completion or as a printable version. The survey was promoted widely through digital media channels including NewsOnline. During the consultation period Covid-19 restrictions were still in place, which precluded face-to-face engagement so to help ensure as many people as possible were able to have their say, a leaflet was delivered to homes across the county borough detailing how to take part. Banners were displayed at main libraries and other prominent locations, including the vaccination centre at Pontllanfraith. Paper copies of the survey were also made available in libraries. Key stakeholder groups were contacted directly via e-mail wherever possible.

10.3 A total of 449 completed surveys were returned by the closing date. A key question asked related to preference for Council Tax levels for the 2022/23 financial year. The following responses were received: -

- 30% supported an increase in Council Tax of 2.5%.
- 17% supported a lower increase in Council Tax.
- 8% supported an increase in council tax of greater than 2.5%.
- 45% did not support any increase in Council Tax.

10.4 When we consulted with our communities a year ago, they identified the services that were most important to them. The current survey asked whether residents still agree or disagree that these are the areas that the Council should prioritise when planning our services and budgets for 2022/23 and beyond.

10.5 The priority areas previously identified by our communities are still important to them and residents still feel that these are the key areas that the Council should prioritise when planning services and budgets moving forward. Social Care services were considered a priority by 95% of respondents. Over 90% of respondents also felt that parks and green spaces, education and schools, roads and highways, and waste collection and recycling services are a priority.

10.6 The wider results of the consultation are currently being analysed in more detail and will be available on our website in due course.

10.7 The initial proposal to increase Council Tax by 2.5% for the 2022/23 financial year has now been reviewed, and the revised proposed increase as detailed in this report is 1.9%.

10.8 On the 24th January 2022 a Joint Scrutiny Committee meeting was held to consider the 2022/23 Draft Budget Proposals that were presented to Cabinet on the 19th January 2022. Details of the key points raised during the meeting are provided below: -

- A number of Members voiced their support for the proposals and welcomed the proposed budget. They were particularly pleased to note the lack of cuts to Council services for 2022/23 and investment in key services, particularly after many years of austerity measures. They were also pleased to see the protection of the Education budget, investment in the Apprenticeship Scheme and Business and Enterprise Renewal Team, and proposals to invest in the Community Safety Team to create additional resources.
- A Member queried the purpose of the balances held in reserves and the rationale for the proposed Covid-19 reserve top-up. The Head of Financial Services and S151 Officer explained that an Update on Reserves Report is prepared annually and presented to the Policy and Resources Scrutiny Committee. The next report is scheduled for the Scrutiny meeting on the 22nd February 2022 and will provide details of all the balances that are currently earmarked and the reasons why these are held in reserve. He also explained that the proposed top-up of the Covid-19 reserve will utilise balances which have been identified as uncommitted in other areas, and that this is prudent in the current uncertain financial climate.
- The Scrutiny Committee discussed the proposed 2.5% increase in Council Tax and queries were received around the number of households benefiting from the Council Tax Reduction Scheme. It was confirmed that 16,300 households currently receive a reduction in their Council Tax payments and of these 9,034 households receive a 100% reduction. Officers provided clarification on the Band D rate compared with neighbouring Local Authorities and it was also confirmed that Caerphilly CBC currently has the second lowest Council Tax in Wales. A Member asked if the Cabinet had considered alternative levels of Council Tax increase when preparing the draft budget, ranging from zero to an increase greater than 2.5%. The Cabinet Member for Performance, Economy and Enterprise confirmed that both lower and higher increases had been considered but the proposed increase of 2.5% will facilitate the £10m investment in essential services
- One Member stated that the proposed 2.5% increase in Council Tax within the draft proposals was causing confusion from some residents who believe this increase to be set in stone. The Cabinet Member gave assurances that nothing has been pre-determined and that all consultation responses from the public on the Draft Budget Proposals, including the proposed Council Tax increase, will be taken on board in the preparation of the Final Budget Proposals to be presented to Cabinet and Council. However, she emphasised that if the Council were to significantly deviate from the proposed level of increase, savings would be needed elsewhere in order to deliver a balanced budget for 2022/23.
- Members discussed the proposed level of investment in staffing and the costs attached to particular posts relating to a new Senior Relationship Manager and additional capacity in the FOI Team. Officers explained that these costs include salary on-costs and that further details of the Senior Relationship Manager role will be reported back to Members once the job description and salary are confirmed. Clarification was provided on the rationale for the Senior Relationship Manager post and it was also noted that the two new Freedom of Information Officer posts will help to improve and exceed targets around FOI requests
- During the course of the meeting, Mrs. Lianne Dallimore (UNISON) was invited to deliver the Trade Union position on the Draft Budget Proposals. Mrs. Dallimore stated that overall the proposals were very positive and better than anticipated, particularly after 12 years of budget cuts and austerity. However, she emphasised the increasing financial pressures already faced by residents as a result of inflation and increasing costs and asked the Committee to bear these in mind. Mrs. Dallimore also referred to those Council employees working from home and highlighted the costs around working from home in terms of increased lighting, heating, and a general increase in energy costs. She therefore asked the Council, as part of its budget proposals, to consider offering a home

working allowance to these staff and expressed the need for the Council to address this cost in order to sustain an agile workforce.

- A Member sought clarification on the reason for the proposed growth of £6.166m for Social Services being held corporately in the first instance, rather than being released directly into the Social Services budget. Officers explained that the Council needs to carry out detailed work around the Real Living Wage before the funding can be passed on to independent sector providers. Once the work is completed the funding will be released into the Social Services budget. In addition, there are underlying increases in demand across both Adult Services and Children's Services, and it will be necessary to monitor the budgetary impact of this as we move into the 2022/23 financial year. Once this is evidenced funding will be released into the Social Services budget.
- A Member sought clarification regarding the £235k investment in flood prevention. Officers confirmed that this will consist of general investment in staff resources in order to increase capacity across the department, with it noted that the Drainage Team is currently under-resourced.
- Clarification was sought on the reasons for the APT&C pay award for 2021/22 not yet being finalised. Officers explained that this is a national issue and trade unions are currently out to ballot on the pay award. It was confirmed that any pay award to staff would be backdated.
- Queries were received on a number of individual items in the report, including National Insurance contributions, the 4% uplift in non-pay inflation, free school meals costs, and costs listed across Miscellaneous Finance. Officers provided clarification on each of these items in turn.
- A Member sought further detail on the investment for the establishment of the new apprenticeship opportunities across the Council. Officers highlighted the value of apprenticeships to the organisation and it was noted that under previous schemes many apprentices have gone on to be successfully employed into full-time posts in the Council.
- The Chief Executive addressed the Joint Scrutiny Committee, and in referring to comments made by Members on the investment in posts, sought to provide context around the rationale and background to these particular budget proposals. It was emphasised to Members that since 2019/20 the Council has seen a reduction of 237 members of staff, which means that the Authority has been delivering more work with less resources over a significant period of time. This position is unsustainable in the long-term and having considered the concerns of Members and Trade Unions, along with the need to take the organisation from a good to excellent level, the proposed investments will provide much needed additional staffing capacity.
- The Leader of Council reminded all Members that the budget proposals were currently at the draft stage and emphasised the importance of consultation and gathering views in preparing final budget proposals. She also gave assurances that all comments around the draft proposals will be taken on board. The Leader also highlighted the importance of the investments being proposed at this time, together with the need to ensure financial resilience in future years, in order to develop the Council and deliver the best possible services for residents of the county borough.
- The Chair thanked Members and Officers for their contributions and confirmed that the comments of the Joint Scrutiny Committee would be reported to Cabinet and Council as part of the consultation process, and be included in the Final Budget Proposals report being presented to Cabinet and Council in February 2022.

10.9 On the 27th January 2022 the 2022/23 Draft Budget Proposals were presented to the Voluntary Sector Liaison Committee. A summary of the key points raised during the meeting is provided below: -

- Clarification was sought on the Real Living Wage and how it will be enforced for services commissioned by Social Services from the independent sector. The Head of Financial Services & S151 Officer informed the Committee that the current Real Living Wage hourly rate is £9.90. Further detailed work will now be required with providers on an open book basis to establish fee rates moving forward that will ensure all care staff in commissioned services can be paid the Real Living Wage. Members of the Committee were also assured that this will be monitored by the Commissioning Team in Social Services.
- A query was raised regarding additional staffing in a number of areas, including Town Centre Management, Community Safety and Environmental Health. The Committee was advised that there is a commitment to increasing staffing capacity in key teams and to maintain these posts moving forward.
- A request was made for the Third Sector to be involved in the budget setting process at an earlier stage and this was acknowledged by Officers.
- In response to a Member's query it was confirmed that official notification of the Police precept has not yet been received.
- A concern was raised in relation to raising awareness of climate change as it was felt that members of the public should be made more aware and be involved. The Head of Financial Services & S151 Officer advised the Committee that the Council has approved a Decarbonisation Strategy and also set aside £500k in reserves to drive the Strategy forward. The Committee was also advised that it is proposed to appoint a Lead Officer to support the delivery of the Council's Decarbonisation Strategy. It was noted the Decarbonisation Strategy and Action Plan are available on the Caerphilly County Borough Council website.
- The Senior Policy Officer advised that the comments from the meeting will be captured as part of the consultation response and asked Members of the Committee to promote the consultation to the wider community.

11. STATUTORY POWER

11.1 The Local Government Acts 1998 and 2003.

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Appendices: -

Appendix 1 – Net Revenue Budget 2022/23.

Appendix 2 – General Fund Inescapable Service Pressures and Proposed New Investments.

Appendix 3 – Movement on General Fund.

Appendix 4 - Capital Programme 2022/23 to 2024/25.

Appendix 5 – Updated Medium-Term Financial Plan.

Background Papers: -

Cabinet (12/06/19)

Future Caerphilly Transformation Strategy - #TeamCaerphilly – Better Together.

Council (13/07/21)

Provisional Revenue Budget Outturn for 2020/21.

Cabinet (19/01/22)

Draft Budget Proposals for 2022/23.

Policy & Resources Scrutiny Committee (22/02/22)

Whole-Authority Revenue Budget Monitoring Report.