

Meeting: Cabinet

Date: 15 February 2022

Cabinet Member: Councillor Ioan Thomas, Cabinet Member for Finance

Subject: 2022/23 Budget

Contact Officer: Dewi Morgan, Head of Finance

2022/23 BUDGET

Decision Sought

Recommend to the Council (at its meeting on 3 March 2022) that:

- 1. A budget of £295,232,820 should be set for 2022/23, to be funded by £213,210,400 of Government Grant and £82,022,420 of Council Tax income, with an increase of 2.95%.**
 - 2. Establish a capital programme of £59,074,980 in 2022/23 to be funded from the sources set out in Appendix 4 of the report.**
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1. INTRODUCTION

- 1.1** The Council must set a balanced budget for 2022/23.
- 1.2** The Council has received a grant increase for 2022/23 which is a significant increase on what we received in previous years. Gwynedd Council has received a grant increase of 8.8%, equivalent to an £18.1m increase in external funding. In addition, an additional £311k has been included to reflect the transfer of responsibilities to the settlement (matters previously funded through specific grants).
- 1.3** Despite this year's reasonable settlement, there are a number of factors that will create additional spending pressures on our services in 2022/23. Therefore, as well as addressing an inflation rate that is currently higher than it has been for several years, there is an opportunity to deal with wider spending pressures including addressing ongoing costs arising from the Covid crisis and removing or postponing savings plans that are not feasible to realise in 2022/23. Taking these decisions would mean a Council Tax increase of 2.95%.

- 1.4 The draft budget has been the subject of consultation with the majority of Council members at a series of workshops in January, and scrutinised by the Governance and Audit Committee on 10 February. The Cabinet's role is to recommend a balanced and appropriate budget to the Council meeting on 3 March for 2022/23.
- 1.5 By 2022/23, our spending would need to be increased by £20.2m in order to "stand still" (details are in part 3 below). This includes £7.1m to meet pressures on service budgets (details of the individual 'bids' are in Appendix 2).
- 1.6 In addition to £6.7m to address the pressures on budgets, it is recommended that £1.4m be included to provide a corporate budget to cope with costs and loss of income from the continuation of the Covid-19 crisis, as the Welsh Government will not continue to fund this in 2022/23 as its Hardship Fund draws to a close on 31 March 2022. Given that the Council will have claimed around £14.4m from the Hardship Fund in 2021/22, we do not anticipate that the £1.4m will be sufficient in itself to address the pressures; a Covid Recovery Fund was established with the closure of the 2019/20 accounts to this end, and use can also be made of the Financial Strategy Fund if necessary.
- 1.7 A Medium Term Financial Strategy (for 2022/23 – 2024/25) was adopted by the Cabinet on 28 September 2021. The report noted that financial planning was extremely challenging in 2021, with a range of possible scenarios suggesting a funding gap for 2022/23 which could be any amount between £0 and £7.5m, with the range of potential outcomes increasing widely by 2023/24 and beyond. On the basis of the information available at the time, the "best case" envisaged was an increase in the Government Grant of 4.5%. As the settlement exceeds even this "best case" it is possible for the Council to be able to deal with the pressures on services while at the same time abolishing or delaying the majority of savings schemes programmed for the year.
- 1.8 Therefore, £595k is expected to be realised in 2022/23 from the savings programme already planned (details are in part 4 below and individual plans listed in Appendix 3), which will go some way to addressing the financial gap due to the additional pressures.
- 1.9 There has been a thorough review of the Asset Strategy in 2019, and it was reviewed in 2020, and this year we propose to establish a capital programme worth £59.1m in 2022/23, as set out in Appendix 4.
- 1.10 The 2022/23 budget seeks to protect the services the Council provides to the people of Gwynedd, and recommends a 2.95% increase in Council Tax to achieve that objective this year.
- 1.11 It is for full Council to consider the budget and set Council Tax by 2022/23 based on the issues identified in the following report. This detailed report sets out the factors influencing the proposed revenue budget for 2022/23, and outlines the main changes since 2021/22.

2. WELSH GOVERNMENT GRANT

2.1 The Welsh Government has announced the indicative local authority funding settlement for 2022/23. Details as announced officially 'like-for-like' by the Welsh Government are set out in the table below, along with the true "cash" figures:

Revenue Support Grant 2021/22 – 2022/23	Total Welsh Authorities £	Gwynedd Council official £	Gwynedd Council "cash" £
2021/22 Government Grant	4,670,079,770	195,904,720	194,793,140
2022/23 Government Grant	5,107,507,200	213,210,340	213,210,340
Increase £	437,427,430	17,305,620	18,417,260
Increase %	+9.4%	+8.8%	-

The Government will not publish its final settlement until 2 March 2022. Further details of the provisional settlement can be found here –

[Local government revenue and capital settlement: provisional 2022 to 2023 | GOV.WALES](#)

- 2.2 Official Welsh Government figures in the table above show notionally that Gwynedd Council is receiving a grant increase of £17.3m by next year (after adjusting the relative 2021/22 figure to reflect the transfers into the settlement), which is an 8.8% increase, while the average across Wales is 9.4%.
- 2.3 A number of factors feed into the local government grant allocation formula, such as the county's population, the number of pupils in our schools, and the number of income support claimants. This year, there has been a significantly greater increase in these numbers in other authorities.
- 2.4 A significant increase in "cash" was received due to a taxbase adjustment which re-distributes grant between Welsh local authorities. This was due to a relative reduction in council tax properties in Gwynedd (making up for the impact of migrating 'holiday homes' to the non-domestic rates list), compared to a usual overall increase in council tax properties across other Welsh local authorities.
- 2.5 The Welsh Government will publish the final grant settlement for local authorities on 2 March, together with the Welsh Government's own final budget, and there will be a relevant debate in the Senedd on the 9 March. Following discussion with Welsh Government officials, no significant change is expected from the 'indicative' grant figures in the draft settlement.

2.6 If the grant figure changes up or down at the time of the publication of the Final Settlement, so late in the 2022/23 budget and tax-setting round, it would be too late to change council tax figures. We will therefore either use the Council's overall balances to reconcile a reduction in grant funding, or contribute to general balances to reconcile an increase in grant funding

3. COUNCIL REVENUE EXPENDITURE - 2022/23

3.1 The increase in expenditure required to "stand still" in 2022/23 is set out in the table below.

Additional Expenditure Requirements

	£	£
Base Budget		275,669,610
Staff Salary Inflation	8,475,440	
Other Inflation (suppliers)	3,979,720	
Levies (Fire, NRW & CJC)	493,200	
Demography	(26,700)	
Bids – Pressures on Services	6,732,590	
Various Budget Adjustmenets	(788,400)	
Borrowing Costs / Interest on Covid-19	<u>1,400,000</u>	
Net total of increases		<u>20,158,210</u>
Total spending 2022/23 requirements before savings		<u>295,827,820</u>

3.2 Base Budget 2021/22

Although the net expenditure for 2021/22 is £276m, it is important to note that the Council's actual expenditure is £470m, because we receive a host of specific grants worth £134m and charge an overall income of £60m for services we provide.

3.3 Salary Inflation £8.5m

At the time of writing this report, the workforce pay agreement (other than for teachers) for April 2021 to March 2022 had not been agreed, but on the basis of the latest information we are assuming an increase of 1.75%. Provision is made here for a 1.75% pay increase for Gwynedd school teachers for the period April – August 2022 (full year impact of September 2021 pay agreement).

The budget then sets aside an estimated increase of 4% in the 2022/23 pay agreement for the whole workforce (teachers from September 2022, the rest of the workforce from April 2022).

It is also noted that a 1.25% increase in National Insurance contributions will become effective in April 2022.

Also included here is the net turnover cost which this year means allocating an additional £171,000 to primary schools, but £9,100 less to secondary schools, giving a net increase of £161,900.

3.4 **Other Inflation £4m**

A 'net' amount which includes provision for the impact of the 'living wage' (minimum wage) on costs and fees payable to our private suppliers (including £636k for independent residential care homes, and £806k for non-residential care companies), together with inflationary increases on fuel and energy budgets (£467k) and price increases following re-tendering (such as £234k for insurance).

3.5 **Levies £493k**

The levies paid to the relevant bodies will increase as follows between 2021/22 and 2022/23:

- North Wales Fire and Rescue Authority £421k
- Snowdonia National Park Authority £0
- Natural Resources Wales (Special Levies) £10k
- North Wales Corporate Joint Committee (CJC) £62k

Members' attention is particularly drawn to the North Wales Corporate Joint Committee which is a new body that has set its first budget for 2022/23.

3.6 **Demography (£27k)**

A net total reflects -£57k due to a net reduction in pupil numbers in schools and +£30k due to an increase in children looked after by the Children and Supporting Families Department.

The net figure of -£57k for schools masks a different situation in different sectors, namely secondary +£372k and primary -£429k.

3.7 **Pressures on Services £6.7m**

Appendix 2 contains details of each individual request for additional expenditure arising from pressures on the services.

It is recommended that bids worth £6.7m for additional permanent resources submitted by Council departments to meet inevitable pressures on their services are approved.

It is also recommended that 'one-off' bids worth £6.2m to be funded from the Transformation Fund are approved.

Each department is asked to identify any expenditure the Council must deliver to ensure continuity of basic service. This procedure is not for desirable new developments, but rather for the continuation of existing basic services.

An element of these applications of course manifests itself as we review the current year's spending patterns. Others are the result of issues arising where spending is necessary to protect outcomes for the public, or to meet statutory requirements. There is also an element of central government creating pressures and expectations, followed by the Council having to cope with the knock-on effects.

The items presented in Appendix 2 have been thoroughly challenged by the Leadership Team before being recommended for Cabinet approval. Furthermore, all these spending requests were presented at the Budget Seminars held on 24, 25 and 26 January 2022, where the majority of Council members agreed that the expenditure was inevitable.

3.8 Various Budget Adjustments (£788k)

A total reflecting a significant number of adjustments to different budgets across the Council.

3.9 Borrowing Costs and Interest on Balances (£108k)

Projected reduction (£38k) in interest payable on loans in 2022/23, as old long-term loans wind down, plus an increase (£70k) in returns on balance investment and Council cash flow.

3.10 Covid-19 £1.4m

Since April 2020 the Welsh Government has compensated local authorities for additional costs and loss of income as a result of the pandemic out of their Hardship Fund. Total Government support was in the region of £20m in 2020/21, and support is estimated to be in the region of £14.4m during 2021/22.

However, the Welsh Government Finance Minister has stated unequivocally that this support will cease on 31 March 2022 and local authorities will be expected to fund any additional costs / loss of income due to Covid-19 thereafter.

Therefore, the financial pressures in the budget include a further £1.4m that has been provided to establish a corporate fund, to cope with the situation. We do not anticipate that the £1.4m will be sufficient in itself to address the pressures but other funds are available to assist. The Covid Recovery Fund was established in the closure of the 2020/21 accounts to this end, and also use can be made of the Financial Strategy Fund if necessary.

4. SAVINGS

4.1 **Gwynedd Council has delivered over £32.8m of savings plans since 2015/16**, but yet again this year, the Covid crisis has had an impact on the departments' ability to deliver a number of their plans.

4.2 On 18 January 2022, in considering a progress report on the delivery of savings plans, the Cabinet determined as follows in respect of the 2022/23 savings plans:

- acknowledge that the situation had now changed so much that savings schemes totalling £489,750 cannot be achieved, by deleting them from the budget, namely
 - End to End Review (Children and Families Department) worth £279,750
 - Transfer of playing fields to others (Highways and Municipal Department) worth £210,000
- move the delivery profile for schemes worth £1,290,250 to 2023/24 and subsequent years.

Savings	Postpone to 2023/24 or later £	Delete £
2022/23 Plans	1,290,250	489,750

4.3 Therefore, £1,780,000 worth of savings originally planned for realisation in 2022/23 will no longer contribute to closing the 2022/23 budget gap. The result is that the value of the remaining savings in the programme to be taken out of the 2022/23 budget is £595,000, rather than £2,375,000. Further details can be found in Appendix 3, and in the Cabinet report of 18 January.

4.4 Following the above adjustments to the savings programme, all individual plans to be implemented by departments in 2022/23 are listed in Appendix 3 for information, and the departmental totals are summarised in the following table.

Savings to cope with the 2022/23 Funding Gap	
	£
Adults, Health and Wellbeing Department	100,000
Corporate Support Department	100,000
Economy and Community Department	70,000
Finance Department (& I.T.)	25,000
Environment Department	12,500
Highways and Municipal Department	287,500
Savings available to reduce budget gap 2022/23	595,000

5. FUNDING GAP 2022/23 AND COUNCIL TAX

- 5.1 Part 3 above shows that the Council's spending needs (before savings are removed) for 2022/23 are £295.8m. Part 2 noted that the grant from the Welsh Government will be £213.2m.
- 5.2 As explained in part 4 above, there are a total of £595,000 of savings to be used to reduce the funding gap.

Establishing the 2022/23 Budget	
	£
2021/22 Base Budget	275,669,610
Additional Expenditure Requirements	<u>20,158,210</u>
2022/23 Expenditure Requirements before Savings	295,827,820
less Welsh Government Revenue Grant Income	(213,210,400)
less Total Savings to close the Gap	(595,000)
Funding Gap from Council Tax	<u>82,022,420</u>

- 5.3 This means that there is a residual gap of £82m, and it is recommended that the gap be addressed through Council Tax. The Tax will need to be raised by 2.95% in order to generate adequate income.
- 5.4 Background information and the context for setting the level of Tax (together with details of the Premium on second homes and long-term empty properties) is presented in Appendix 6.
- 5.5 It is therefore recommended that the tax be raised by 2.95%, which will generate £82m of tax by 2022/23, which is £1.2m of additional income towards the gap when compared to the 2021/22 budget. This would equate to a Council Tax increase of £43.76 for a Band D property, or £0.84 per week. The tax charged by the Police and Crime Commissioner (an increase of 3.68% for 2022/23) and the community councils (% variable) will of course be in addition to this.
- 5.6 In 2021/22 Gwynedd's Band D level was £1,483, while the average tax level for Welsh counties was £1,402. However, that is for historical reasons, as the increase seen in Gwynedd Council Tax since 2015/16 is an average of 4.2%, which is less than the 4.3% increase seen on average across Wales during the same period.

- 5.7 If Council members wanted a less than 2.95% increase in the level of Tax, then fewer permanent resources would have to be committed to deal with the pressures on services.
- 5.8 The choice between maintaining services and taxation is always a difficult one. For 2022/23 it is expected that the proposal to raise the tax by 2.95% to meet the pressures on services while setting a balanced budget will be a similar level to the majority of authorities in north Wales.

6. CONCLUSIONS / BUDGET 2022/23

- 6.1 This report and the appendices set out the factors that should be taken into account in establishing the 2022/23 budget and despite a grant increase above inflation this year, some historic savings – although the majority can be postponed or eliminated – will still have to be harvested and the level of tax raised to set a balanced budget.
- 6.2 It is recommended that revenues of £295.2m be spent, having added £20.2m, which includes the provision of £6.7m to address demand for services.
- 6.3 Having received a grant from Welsh Government of £213.2m and relying on £595k of savings, the level of Council Tax will need to increase by 2.95% to generate £82m of income to close the 2022/23 funding gap.

Balanced budget for 2022/23		£
2022/23 Expenditure Requirements before Savings		295,827,820
2022/23 Savings Total		(595,000)
2022/23 Budget		<u>295,232,820</u>
To be funded from -		
Grant Income		213,210,400
Council Tax (yield after raising 2.95%)		<u>82,022,420</u>
2022/23 Budget		<u>295,232,820</u>

- 6.4 This will involve setting a net budget of £295,232,820. A breakdown of the budget per service is given in Appendix 1.

7. CAPITAL

- 7.1 The 2019/20 – 2028/29 asset strategy was established by full Council on 7 March 2019. The new asset strategy is operational for the period 2019/20 to 2028/29. It will be incorporated as part of the Capital Programme, and we are adding to that by 2022/23. Details of the current capital programme can be found in Appendix 4.
- 7.2 The two tables shown in Appendix 4 reflect the capital requirements, together with the funding, for setting the 2022/23 to 2024/25 capital budget, in order to establish a whole programme worth £59,074,980 in 2022/23, to be funded from the sources analysed in Appendix 4.
- 7.3 The table at Appendix 4 states that £500k is available annually for the funding of capital bids. For 2022/23, this budget has been earmarked for the 7 relevant capital bids detailed in Appendix 2ch.

8. LONGER TERM STRATEGY

- 8.1 The 2022/23 Budget Strategy was adopted by Cabinet on 28 September 2021. Its purpose was to give an outline of the budget setting procedure for the year 2022/23, together with a Medium Term Financial Plan for the Council. The Cabinet's decision was:
- i. The procedure and timetable to draw up the 2022/2023 Budget was approved.
 - ii. If there was a funding gap in balancing the 2022/23 budget, it was noted that the Council would use contingency budgets and reserves to mitigate resource losses in the short-term, and carefully identify any additional savings required during the summer of 2022.
 - iii. The contents of the report were accepted as the Council's Medium Term Financial Plan, whilst noting that, in the current context, financial planning was extremely challenging.
- 8.2 In announcing the draft 2022/23 settlement in December 2021, Welsh Government has confirmed that Welsh Local Authorities will receive +3.5% overall in 2023/24 and then +2.4% in 2024/25. Of course, Gwynedd may receive less than the Welsh average. For example, +8.8% was received this year compared to the Welsh average of +9.4%.
- 8.3 This means that the increase in government funding for the following two years will be significantly less than we will receive in 2022/23. Given inflation rates, in planning for these years setting a balanced budget will mean re-visiting the savings plans that have slipped into those years.

9. OTHER CONSIDERATIONS AND VARIOUS ASSESSMENTS

- 9.1 The current level of the Council's overall balances is £7m, and having addressed the impact of Covid-19 on the 2021/22 end of year accounts, it is considered that keeping this level of balances will be appropriate for practical cash flow and unexpected expenditure. Information on the balances and reserves is presented in Appendix 7.
- 9.2 This budget recommends the use of £6,172,960 from the Transformation Fund to fund the one-off revenue bids that have been noted in Appendix 2.
- 9.3 Appendix 5, 'Addressing the Schools Budget in 2022/23', explains the position of the Gwynedd schools budget.
- 9.4 In determining a budget, Cabinet and Council must consider the impact of their decisions in terms of equality, in line with the statutory duties placed on the Council through the **Equality Act 2010**. This will be lighter this year, as we are not introducing any additional new savings plans. Appendix 8 deals specifically with the duty, including the statutory finance officer's comments on the whole Budget in terms of equality. The assessment confirms that there will be a positive overall impact from the continuity of services considered a priority to protect and fund to the additional level of demand and it is not believed that any negative impacts will be significant, as no new savings plans are recommended.
- 9.5 The Council complies with the requirements of the **Well-being of Future Generations (Wales) Act 2015** and the recommendations in the report are based and developed in accordance with the statutory duty on the Council under Section 3 to undertake sustainable development in all its activities. As usual, more detailed information about the Well-being Act and relevant conclusions is provided at Appendix 9.
- 9.6 The statutory finance officer must express a view on the robustness of the estimates. An appropriate risk assessment and confirmation is presented at Appendix 10.
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Views of the local member

Not a local issue

Views of statutory officers

Monitoring Officer:

Although it is a matter for the full Council to make a final decision on the budget, it is important that the Cabinet gives them a clear recommendation regarding its expenditure plans and the draft budget, and this report achieves that. Once the Council has agreed on the financing sources, then the Cabinet will be responsible for the expenditure and the priorities within that budget.

Head of Finance:

I have worked with the Cabinet Member to prepare this report and confirm the contents. Having considered all the risks outlined in Appendix 10 to the report, and the mitigation, I consider that the Council's Budget for 2022/23 is robust, adequate, and achievable.

APPENDICES

- 1 Proposed Budgets
- 2 Summary of Bids
- 2a Permanent Revenue Bids
- 2b One-off Revenue Bids
- 2c Capital Bids
- 3 Savings
- 4 Capital
- 5 Dealing with the Schools Budget in 2022/23
- 6 Council Tax
- 7 Balances
- 8 Assessing the Impact on Protected Characteristics, the Welsh Language and Socio-Economic Disadvantage
- 9 Well-being of Future Generations (Wales) Act 2015
- 10 Robustness of Estimates