

SUBJECT:	REVENUE & CAPITAL MONITORING 2020/21 FORECAST OUTTURN STATEMENT – MONTH 2
MEETING:	CABINET
DATE:	29TH JULY
DIVISION/WARDS AFFECTED:	ALL

1. PURPOSE:

- 1.1 To provide Members with an 'early year' forecast of the revenue and capital outturn position for the current financial year. The forecast is heavily caveated given current lack of clarity from Welsh Government on compensating payments to recognise the financial impact of COVID-19 on the Council.
- 1.2 To provide an update on the financial impact of COVID-19 on the Council and to outline the timetable for a budget recovery plan to be developed.

2. RECOMMENDATIONS:

- 2.1 Cabinet recognise a net revenue forecast deficit of £10.37m with some £6.83 million of this directly associated with the extraordinary financial pressures attached to COVID-19.
- 2.2 Cabinet continue to make strong representations to Welsh Government for full reimbursement of £6.83 million leaving Council with a sum of £3.54 million to address as a true in-year pressure.
- 2.3 An in-year budget recovery plan to address the forecast overspend of £3.54 million is drawn up for Cabinet consideration in September.
- 2.4 Cabinet notes the extent of movements in reserve usage contained in appendix 1.
- 2.5 Cabinet agrees that the 2019/20 year-end one-off surplus of £1.8 million be set against this year's forecast pressure of £3.54 million leaving a residual sum of £1.74 million as a minimum to address by way of an in-year recovery plan.
- 2.6 In taking the approach set out in 2.5 above, Cabinet recognises the extraordinary nature of the current year and accepts that a further sum of £1.8 million will need to be found as part of the budget setting process for financial year 2021/22.
- 2.7 Cabinet considers the forecast capital outturn spend of £52.118m, introducing a £134k underspend, and the presumptions made around net financing consequences, as outlined in appendix 1.

- 2.8 Cabinet recognises that these numbers will have to be reconsidered in the event that Welsh Government falls short of expectation in compensating the Council or pressures such as pay award settlements are agreed at levels beyond our planning assumptions.

3. KEY ISSUES:

- 3.1 Since entering 2020 the Council has faced significant and unprecedented challenges notably the flood response and recovery resulting from Storms Ciara and Dennis in February 2020 and the subsequent COVID-19 pandemic and the impact of the lockdown restrictions that were put into effect on 23rd March 2020.
- 3.2 Each of these draws significantly on the Council's resources, both in terms capacity and finances and places an unprecedented strain on the Council. This is exhibited below in table 1 and 2 demonstrating an overspend forecast at year end of £10.37m.
- 3.3 This forecast comprises COVID-19 income losses of £5.71m and additional costs of £1.12m and non-COVID pressures of £3.54m. Non-COVID pressures have in part resulted from the implementation of budget savings proposals for 20/21 being delayed and a circa £300k pressure arising from the floods.
- 3.4 It is important to note that this presents a worst case scenario in that it does not take into account any of the Welsh Government funding anticipated to meet the additional costs of the COVID-19 emergency response or reimbursement of income losses that have equally resulted. The Council is calling for Welsh Government to reimburse all such COVID related costs and income losses.
- 3.5 The immediate focus for the Council whilst it awaits clarification on the level of compensating funding from Welsh Government is to manage the non-COVID pressures of £3.54m. The Council tactically generated headroom of £1.8m in its Council Fund balance as part of the outturn strategy for 2019/20.
- 3.6 If Welsh Government do in fact fully reimburse all COVID related costs and income losses the Council will have to find £1.74m in the current year through a combination of additional savings and any further utilisation of reserves deemed necessary. However, this would still leave the Council with a very challenging outlook for 2021/22 and over the medium term.

3.7 Overall Revenue Position

Table 1: Council Fund 2020/21 Outturn Forecast Summary Statement at Month 2

Service Area	Original Budget 2020/21	Budget Adjustments Months 1-2	Revised Annual Budget	Forecast Outturn	Forecast (Under) / Over Spend @ M2
	'000's	'000's	'000's	'000's	'000's
Social Care, Health & Safeguarding	50,685	(182)	50,503	52,133	1,630

Children & Young People	55,539	(658)	54,881	54,965	84
Enterprise	24,132	47	24,179	30,128	5,949
Chief Executives Unit	4,745	4	4,749	4,936	187
Resources	7,746	41	7,787	8,569	782
Corporate Costs & Levies	22,743	229	22,972	24,452	1,480
Net Cost of Services	165,590	(519)	165,071	175,183	10,112
Appropriations	4,857	778	5,635	5,557	(78)
Expenditure to be Financed	170,447	259	170,706	180,740	10,034
Financing	(170,447)	(259)	(170,706)	(170,370)	336
Net General Fund (Surplus) / Deficit	0	0	0	10,370	10,370

Table 2: Council Fund 2020/21 Outturn Forecast Detailed Statement at Month 2

Service Area	Original Budget 2020/21	Budget Adjustments Months 1-2	Revised Annual Budget	Forecast Outturn	Forecast (Under) / Over Spend @ M2
	'000's	'000's	'000's	'000's	'000's
Adult Services	7,877	(50)	7,827	7,851	24
Children Services	14,428	(80)	14,348	15,923	1,575
Community Care	24,434	35	24,469	24,406	(63)
Commissioning	1,483	(64)	1,419	1,301	(118)
Partnerships	436	(8)	428	428	0
Public Protection	1,481	(12)	1,469	1,680	211
Resources & Performance	546	(3)	543	544	1
Social Care, Health & Safeguarding	50,685	(182)	50,503	52,133	1,630
Individual Schools Budget	47,420	(648)	46,772	46,772	0
Resources	1,234	(3)	1,231	1,268	37
Standards	6,885	(7)	6,878	6,925	47
Children & Young People	55,539	(658)	54,881	54,965	84
Business Growth & Enterprise	1,918	(167)	1,751	1,781	30

Service Area	Original Budget 2020/21	Budget Adjustments Months 1-2	Revised Annual Budget	Forecast Outturn	Forecast (Under) / Over Spend @ M2
	'000's	'000's	'000's	'000's	'000's
Neighbourhood Services, Facilities & Fleet	16,698	(140)	16,558	19,369	2,811
Planning & Housing	1,951	272	2,223	3,234	1,011
Countryside & Culture (MonLife)	1,348	(8)	1,340	1,382	42
Finance & Business Development (MonLife)	1,507	116	1,623	1,505	(118)
Leisure, Youth & Outdoor Adventure (MonLife)	710	(26)	684	2,857	2,173
Enterprise	24,132	47	24,179	30,128	5,949
Legal & Land Charges	839	(6)	833	911	78
Governance, Democracy & Support	3,906	10	3,916	4,025	109
Chief Executives Unit	4,745	4	4,749	4,936	187
Finance	2,597	(52)	2,545	2,682	137
Information, Communication Technology	2,803	135	2,938	2,978	40
People	1,725	50	1,775	1,773	(2)
Future Monmouthshire	(46)	(25)	(71)	41	112
Commercial & Corporate Landlord	667	(67)	600	1,095	495
Resources	7,746	41	7,787	8,569	782
Precepts & Levies	20,379	1	20,380	20,382	2
Coroner's	117	0	117	140	23
Archives	182	0	182	182	0
Corporate Management	293	0	293	293	0
Non Distributed Costs (NDC)	492	0	492	600	108
Strategic Initiatives	(167)	228	61	1,361	1,300
Borrowing Cost Recoupment	0	0	0	0	0

Service Area	Original Budget 2020/21	Budget Adjustments Months 1-2	Revised Annual Budget	Forecast Outturn	Forecast (Under) / Over Spend @ M2
	'000's	'000's	'000's	'000's	'000's
Insurance	1,447	0	1,447	1,494	47
Corporate Costs & Levies	22,743	229	22,972	24,452	1,480
Net Cost of Services	165,590	(519)	165,071	175,183	10,112
Fixed Asset Disposal Costs	19	46	65	65	0
Interest & Investment Income	(252)	0	(252)	(89)	163
Interest Payable & Similar Charges	4,020	26	4,046	3,920	(126)
Charges Required under Regulation	6,251	(76)	6,175	6,062	(113)
Other Investment Income	(1,152)	1,153	1	0	(1)
Borrowing Cost Recoupment	(3,426)	50	(3,376)	(3,376)	0
Contributions to Reserves	143	0	143	143	0
Contributions from reserves	(746)	(421)	(1,167)	(1,168)	(1)
Appropriations	4,857	778	5,635	5,557	(78)
Expenditure to be Financed	170,447	259	170,706	180,740	10,034
General Government Grants	(64,823)	0	(64,823)	(64,823)	0
Non Domestic Rates	(32,937)	0	(32,937)	(32,937)	0
Council tax	(79,572)	(259)	(79,831)	(79,831)	0
Council Tax Benefit Support	6,885	0	6,885	7,221	336
Financing	(170,447)	(259)	(170,706)	(170,370)	336
Net General Fund (Surplus) / Deficit	0	0	0	10,370	10,370

3.8 As the Council transitions from the response phase of the pandemic it is important that Cabinet is kept informed as impacts are being assessed.

3.9 Putting the Council's finances into context, pre COVID-19 pandemic, the Council had:

- Brought forward budget savings proposals for 2020/21 of £8.5m to manage budget pressures of £9.5m and alongside a disappointing Welsh Government settlement where the extent of pressures on services were not recognised;
- Benefitted from a significant one-off VAT receipt and flexible use of capital receipts to arrest a £3.76m net over spend against services in 2019/20; and
- Finalised its draft accounts for 19/20 with useable capital receipts of only £3.2m, a Council Fund balance of £8.5m and useable earmarked reserves of £6.4m (of which there is planned use that will reduce earmarked reserves to £5.4m at the end of 2020/21).

3.10 The Council was already facing financial challenges pre-COVID. The pandemic has accentuated the challenge:

- Services and existing capacity has been redirected and redeployed to ensure that the Council met its core purpose of protecting life. This has seen additional unbudgeted costs being incurred.
- Many income generating services have had to stop in order to comply with UK and Welsh Government guidance. The income loss and shortfall is significant and ongoing.
- There is delay in the implementation of some budget savings proposals for 2020/21 as a result of people directed elsewhere to respond to the pandemic.

3.11 This report provides a 'point in time' assessment and forecast for 2020/21. The revenue and capital annual forecast at month 2 is shown in appendix 1. The forecasts have been prepared on assumptions that are uncertain. The forecasts have been supplemented by sensitivity analysis and risk assessments and that are contained alongside an analysis of pressures in appendix 2.

3.12 The table below provides a high level analysis of how the £10.37m reasonable worst case forecast outturn. This shows that whilst there are significant in-year pressures resulting from the COVID-19 pandemic there is also a set of significant in-year pressures that are unrelated or that result from a delay in budget savings proposals being implemented. The principal pressures are:

	Month 2 Forecast	Covid 19 Expenditure Increase	Covid 19 Income loss	Non-Covid 19
Social Care, Health & Safeguarding	1,630		497	1,133
Children & Young People	84	8	46	30
Enterprise	5,949	749	4,519	681
Chief Executives Unit	187	57	90	40
Resources	782	307	223	252
Corporate Costs & Levies	1,480			1,480
Appropriations	-78			-78
Financing	336		336	0
Total Pressure	10,370	1,121	5,711	3,538

- A significant pressure within Children's Services relating to a continued increase in the number of looked after children (LAC) cases carrying over 2019/20 and after the budget was approved.
- The anticipated 2.75% pay award now being much higher than the original 1% budget assumption built into the budget and where it had been expected that Welsh Government funding would be forthcoming.
- Pressures remaining within the Passenger Transport Unit (PTU) and that continue to be worked on as part of the PTU review and where implementation has been impacted by the pandemic.
- Pressures in waste & recycling as a result of delays in the rollout of waste reconfiguration and changes.
- A shortfall against additional commercial income targets as a consequence of the impact of COVID-19 and the current level of market and economic uncertainty.
- As result of the late receipt of the final settlement from Welsh Government and the disappointment of there being no funding floor introduced remaining efficiency savings that were left to be identified during the financial year and that are not forecast as delayed.

3.13 The key risk and uncertainty continues to be the amount of compensatory Welsh Government funding that the Council will receive. Announcements by both Welsh Government and UK Government have been made and have confirmed levels of commitment to support local authorities.

3.14 We are grateful to Welsh Government for the funding that has been provided to Welsh Councils to cover costs to date and that we anticipate will meet the income shortfalls up until the end of June. However, we are less certain on the levels of funding to be received for the remainder of the year. There is also lack of clarity as to when Welsh local authorities will have certainty around the level of funding to be received.

- 3.15 Council is unlikely to have all of its costs and pressure met by Welsh Government. The question therefore become one of how significant is the shortfall that needs to be managed in year and will Welsh local authorities obtain any flexibilities to spread the burden over more than one financial year.
- 3.16 Beyond Welsh Government funding an assessment is also being undertaken of reserve balances and available capital receipts. Clearly this will require a review of the Council's existing reserve strategy and regard will not only need to be given to the current year situation but also to the medium and long term. Reserve balances are finite and act as only a limited buffer to fund one-off costs.
- 3.17 Cabinet has asked officers to bring forward a budget recovery plan together with a proposed set of budget savings proposals. Draft proposals will be taken through select committees for scrutiny in September before being considered by Council in October.
- 3.18 It should finally be noted that local authorities have a statutory duty to balance their budgets and, under the framework set out in the Local Government Finance Act 1988, the S151 officer, needs to issue a S114 notice if she / he thinks spending is likely to exceed resource levels.
- 3.19 COVID-19 strategic aims approved by Cabinet at its meeting on 1st July commits Council to remaining financially sustainable. Officers have every intent to develop a budget recovery plan and subsequent budget savings proposals to deliver against that strategic aim. However, Welsh Government plays a pivotal role in this in ensuring that the financial challenge faced by the Council is surmountable rather than insurmountable. Recourse to application of a S114 notice should be and will be seen very much as a last resort and is not considered necessary at this time.

4. OPTIONS APPRAISAL

- 4.1 This report provides an update on the current financial situation and the challenges facing the Council now and over the medium term. It has been prepared at a time of great uncertainty as the Council transitions from the emergency response phase of the COVID-19 pandemic towards a period of recovery.
- 4.2 The outturn forecast that has been prepared for consideration is predicated on assumptions that have been independently assessed by budget holders and subsequently reviewed as part of the budget monitoring process. These assumptions don't look to represent a policy position that Cabinet is looking to take on when services are re-opening. Rather they represent a reasoned assessment of the impact on services in year based on known information, anticipated future changes and estimates.
- 4.3 Appendix 2 provides an analysis of the significant forecast pressures and summarises the assumptions upon which they are based as well as the risks and sensitivities that apply. This has been produced to aid understanding of the forecast and assumptions upon which it has been based.

- 4.4 By far the greatest uncertainty that exists is the level of Welsh Government funding to be received to offset additional costs incurred in responding to the COVID-19 emergency response and the significant income losses that have resulted where services have ceased as a result of the lockdown restrictions in place.
- 4.5 Options will be considered when determining the appropriate response to addressing the budget shortfalls contained in the report. These will be subsequently considered by Council and upon receipt of the budget recovery plan and revised budget savings proposals for 2020/21.

5. EVALUATION CRITERIA

- 5.1 This forecast outturn report represents an early an initial assessment of the forecast for the 2020/21 financial year. More so than ever the combination of the impact of the COVID-19 pandemic and the fact that it is early in the financial year, and combined with the uncertainties on the level of Welsh Government funding support, means that this is an early assessment of an evolving situation.
- 5.2 There is no reasonable expectation that Welsh Government funding will meet all additional costs and losses of income brought about by the response to and the impact of the pandemic. And furthermore and beyond those impacts resulting from COVID-19 there exists a number of significant cost pressures that would need to be managed regardless.
- 5.3 The Council has recently maintained formal reporting to Cabinet at month 2 (period 1), month 5 (period 2) and outturn, with more frequent budget monitoring information being undertaken at a departmental level and reported to management and the Strategic Leadership Team. Only where circumstances necessitate it is more frequent formal reporting to Cabinet required.
- 5.4 As a result of the significant financial challenges facing the Council there will be a more frequent reporting of the in-year revenue and capital outturn forecast. Formal reporting will take place at months 2, 5, 7, 9 and outturn. There will be no formal reporting of the month 11 outturn forecast as the financial year-end will have already taken place by the time the report has been prepared.
- 5.5 A budget recovery plan is being developed and will be presented to Council for consideration at a future meeting in a couple of months and against which progress will be monitored throughout the remainder of the financial year.
- 5.6 The work on the budget recovery plan will run alongside the update of the Medium Term Financial Plan (MTFP) and the development of the budget proposals for 2021/22 and the medium term. This will again be challenging as it is anticipated that local authorities will receive late clarification of the funding settlement, the provisional settlement again being anticipated in December 2020 ahead of the final settlement in March 2021.
- 5.7 There is further uncertainty as to whether UK Government will, as part of the autumn budget announcement and the Comprehensive Spending Review, provide sufficient clarification to enable Welsh Government to provide greater certainty around indicative budget settlements for Welsh local authorities in future years.

6. REASONS:

- 6.1 To ensure that the gravity of the financial challenges facing the Council are understood and that provide further detailed budget monitoring information to supplement the *Section 151 Officer COVID-19 report* considered by Council at its meeting on 16th July 2020.
- 6.2 To provide a timely update on the current financial circumstances and challenges resulting from the COVID-19 pandemic and that will in turn lead Council in needing to plan and plot a revised course to ensure it remains financially sustainable into the future.

7. RESOURCE IMPLICATIONS:

- 7.1 The resource implications of the current in-year forecast outturn are contained in this report and the attached appendices. At its worst the forecast outturn exhibits an over spend of £10.37m. However, Welsh Government funding will mitigate part of this though it remains unclear as to how far that will extend.
- 7.2 The financial challenges facing the Council and resulting from the COVID-19 pandemic are significant in the current year and over the next 4 years of the MTFP. Not just for this Council but all councils across Wales and the UK. The Council is having to incur significant costs in its response effort and this will continue as it transitions towards recovery. Furthermore and resulting from the restrictions that UK Government and Welsh Government have had to put in place to contain the spread of the virus we are suffering significant shortfalls in our income levels. Some of these will return more quickly than others as services are able to be safely turned back on.
- 7.3 In terms of how the Council will respond to the challenges faced in the current year and over the medium term this will very much depend on the level of compensating funding received from Welsh Government and the flexibilities afforded to Welsh local authorities to spread the impact over more than one financial year. We are grateful to Welsh Government for the funding that has been provided to Welsh Councils to cover costs to date and that we anticipate will meet the income shortfalls up until the end of June. However, we are less certain on the levels of funding to be received for the remainder of the year.
- 7.4 The Council is working on the basis that it will be fully funded by Welsh Government. However, there is clearly a risk that this will not happen and beyond this there are £3.54m of non-COVID pressures to be managed. To that end a budget recovery plan is being developed. This will naturally look at the ability, beyond Welsh Government funding and flexibilities, to look at the use of useable reserves as well as further steps the Council can reduce costs. It is recognised that useable reserves are in the form of the Council Fund (the Council's general reserve), specific earmarked reserves and useable capital receipts. Each of which are at historically low levels and only just above prudent minimum levels. The Council will be looking to review its reserves strategy as part of the development of the budget recovery plan.
- 7.5 The more immediate steps have been to curtail non-essential expenditure. Going forward more targeted and planned cost reductions will be challenging and the Council will always look to minimise impact on service delivery. Though this cannot be guaranteed and is expected if Welsh Government funding falls short of expectations.

- 7.6 There are resultant consequences for the MTFP and the budget process for 2021/22 and these will be developed in parallel in the coming months and to feed into the normal budget cycle and process.

8. EQUALITY AND FUTURE GENERATIONS EVALUATION (INCLUDES SOCIAL JUSTICE, SAFEGUARDING AND CORPORATE PARENTING):

- 8.1 This report provides Members with information on the revenue and capital outturn position of the Authority and carries no decisions. There are therefore no equality of future generations' implications directly arising from this report.
- 8.2 Any such impacts will be fully considered subsequently when Council receives the budget recovery plan and revised budget proposals.

9. CONSULTEES:

Senior Leadership Team
Cabinet

10. BACKGROUND PAPERS:

Appendix 1 – Revenue and capital forecast Outturn report – month 2
Appendix 2 – Pressure analysis – assumptions, sensitivities and risks

- 11. AUTHOR:** Peter Davies, Chief Officer for Resources

12. CONTACT DETAILS:

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