

SUBJECT:	DRAFT REVENUE AND CAPITAL BUDGET PROPOSALS 2023/24
MEETING:	CABINET
DATE:	18th January 2023
DIVISION/WARDS AFFECTED:	All

1. PURPOSE:

- 1.1 To set out draft revenue and capital budget proposals for financial year 2023/24.
- 1.2 To commence a period of consultation on draft budget proposals for a four-week period ending 16th February 2023.

2. RECOMMENDATIONS:

- 2.1 That Cabinet approves the release of its draft revenue budget proposals for 2023/24 for consultation to run until 16th February 2023.
- 2.2 That Cabinet notes the positive implications arising out of the provisional budget announcement of Welsh Government and agrees the response outlined at **appendix 4**.
- 2.3 That Cabinet approves the release of its draft capital budget proposals for 2023/24 and indicative capital budgets for 2024/25 to 2026/27 as set out in **appendix 8** for consultation to run until 16th February 2023.
- 2.4 That Cabinet agrees that immediate capital pressures identified for 2023/24 highlighted in **figure 6** and in **appendix 1** are funded from re-purposing existing capital budgets.
- 2.5 That Cabinet recommends the use of £3.0m of capital receipts to fund revenue costs associated with service reform that support the draft revenue budget proposals.

3. Budget context and summary

- 3.1 Councils are facing financial challenges on an unprecedented scale. It is widely acknowledged that local government funding has not kept pace with service demand and inflationary pressures.
- 3.2 Cabinet has been clear that its budget approach is to be policy and priority led. The 'draft' Community and Corporate Plan has guided the draft budget proposals for 2023/24 with a focus on Monmouthshire being:
 - A fair place to live where the effects of inequality and poverty have been reduced;
 - A green place to live and work with reduced carbon emissions, making a positive contribution to addressing the climate and nature emergency;
 - A thriving and ambitious place, full of hope and enterprise;
 - A safe place to live where people have a home and community where they feel secure;
 - A connected place where people feel part of a community, are valued and connected;
 - A learning place where everybody has the opportunity to reach their potential.

- 3.3 The size of the budget challenge for Monmouthshire, prior to any intervention for financial year 2023/24 is £26.642m. This has grown by circa £3.5m since Cabinet received its previous budget update in November 2022. The Council is accustomed to dealing with financial challenges in the order of £5m - £10m in an annual planning cycle. The size and speed of the 2023/24 challenge is out of all proportion to earlier years and is largely driven by factors that residents are experiencing in their domestic and employed lives. Price rises on goods and services, soaring energy costs, and increased borrowing costs predominate. Added to these are significant cost increases attributable to pay awards, and increased demand on service areas such as social care, homelessness, additional learning needs and home to school transport.
- 3.4 Cabinet has looked at every mechanism available to reduce the shortfall including grant support from Wales Government, savings from service efficiencies, additional income through raising fees and charges and additional tax through a council tax increase.
- 3.5 The provisional settlement from Welsh Government received on 14th December 2022 provided a funding increase of 9.3%; better than anticipated. This introduces a year-on-year increase of £10.213m to the Council.
- 3.6 The draft budget proposals bring forward savings proposals amounting to £11.6m alongside staff efficiencies of £0.5m. Further information on these proposals is set out in paragraph 3.13 and detailed individual savings proposals are attached at **appendix 1**. Proposals are being made to generate additional income of £1.4m for 2023/24 through increases in discretionary fees & charges. A Council Tax increase has been modelled as 5.95% for 2023/24, raising an additional £4.1m. There still remains an unfunded budget shortfall at this stage of the process of £230k. A summary is set out in figure 1 below

Figure 1 High level budget summary

BUDGET PROGRESS TO DATE	£'000	£'0002
Gross Expenditure		285,161
Pay pressures - recurrent from 2022/23	1,572	
Pay pressures - 2023/24	5,439	
Treasury, borrowing and levies	3,245	
Energy pressure	4,531	
Specific service Pressures - recurrent from 2022/23	9,119	
Specific service Pressures – New	2,736	
	26,642	26,642
Sub Total Expenditure		311,803
Gross Income		(285,161)
<u>Savings Proposals</u>		
Service saving proposals	(9,984)	
Fees & Charges increases	(1,416)	
Staffing efficiencies	(530)	
Welsh Government settlement funding implications	(10,213)	
Corporate savings	(187)	
Council tax additionality (Base and rate)	(4,082)	
	(26,412)	(26,412)
Sub Total Income		(311,574)
Net Expenditure		230

Pressures

3.7 Service specific spending pressures (£9.119m and £2.736m in the table above) have been subject to rigorous review. This total of £11.855m needs to be considered as part of the draft budget. A summary table of these pressures is provided below with more detail provided in **appendix 1**.

Figure 2 – Budget pressures

Pressures by Directorate	New 2023/24 Pressure (£000's)	Recurrent 2022/23 Pressure £000's	Total Pressures £000's
Children & Young People	467	306	773
Social Care & Health	1,270	5,874	7,144
Communities & Place	550	2,530	3,080
Monlife	0	388	388
Resources	336	21	357
Chief Executives Unit	84	0	84
People & Governance	12	0	12
Corporate Costs & Levies	17	0	17
Total	2,736	9,119	11,855

3.8 The most significant areas of pressure are:

- **Children’s social care** – £4.4m. Children’s services is a volatile area with risks associated with insufficiency of children’s placements, demand levels, the complexity of demand, inflationary pressures, and staff shortages. There are increasing numbers of high-cost placements, including emergency arrangements for children where there is no regulated placement available.
- **Adult social care** – £1.75m that recognises the challenges of an ageing population, combined with delayed presentations to health and social care during the pandemic resulting in increased numbers of individuals who have higher dependency needs. The pressure to avoid delayed discharge from hospital is also driving increased demand.
- **Real living wage implications** - £1m to support the Council in responding to challenges resulting from a fragile and unsustainable social care market. A continued risk exists around the required costs needed to meet need as the sector grapples with issues around recruitment and retention.
- **Homelessness** - £1.86m. National policy in this area has changed significantly. Expectation on provision (rightly so) is higher now than pre-pandemic and we have many more people presenting as homeless. There are unprecedented numbers of people in temporary accommodation.
- **Children with additional learning needs** – £0.6m pressure resulting from increased demand for support for pupils and increases in placement costs. This includes requirements to support pupils with complex needs from an earlier age and pupils that are continuing their education post-16.
- **Recycling and Waste** – £218k. Recycling and waste haulage, treatment and disposal costs have escalated over the last 18 months. Income from trade waste collections has reduced during 2022.

- **Passenger Transport Unit and Fleet** – £612k pressures resulting from increasing operating costs both internally and externally as a result of increasing home to school passenger numbers leading to additional contracts, some resulting in increased in-house provision due to contract hand backs where the external market has been unable to respond. An estimated increase of 15% in fuel prices also presents a further budget pressure for 2023/24.
- **Income shortfalls** – £0.8m of pressures across various services such as Leisure and Outdoor education where demand levels have not returned to pre-pandemic levels (£388k); income losses from the Council’s investment properties (£150k); and under-recovery of fee income from fixed penalty notices (£225k).
- **Community Safety** - £84k. Additional local capacity in the areas of community safety, crime & disorder and violence against women, domestic abuse & sexual violence and for CCTV.
- **Shared services** – £166k of pressures resulting from increased charges for the shared resource service (SRS) and Revenues & Benefits service.

3.9 A pressure resulting from the re-current impact of the 2022/23 pay award impact which was above budgeted levels by £1.572m. The Council has revised its budget assumptions for 2023/24 pay. A £5.439m pressure is provided in the draft budget proposals.

3.10 Energy costs have surged. £4.531m has been provided to recognise this.

3.11 A pressure of £3.2m in treasury and borrowing costs alongside adjustments to precepts and levies from outside bodies. The South Wales Fire and Rescue Service precept increases contributions by 8.63%, representing a pressure of £421k.

Service budget saving proposals for 2023/24

3.12 A summary of saving proposals by service area is shown in figure 3 below with further details outlined in **appendix 1**.

Figure 3 – Saving proposals

Savings proposals by Directorate	2023/24 £000
Children & Young People	(1,918)
Social Care & Health	(4,349)
Communities & Place	(2,482)
Monlife	(648)
Resources	(1,143)
Chief Executives Units	(341)
People & Governance	(86)
Corporate Costs & Levies	(433)
Totals	(11,400)

3.13 The proposals in total bring forward service budget savings of £11.4m. The notable savings proposals are:

- **Schools funding** - £1.45m. This amounts to a reduction in the budget delegated to schools of 2.8% after making full provision for pay and energy increases.

- **Gwent Music reduced contribution** - £100k. withdraw subsidy from the service. A hardship fund will be maintained to support pupils from low-income families.
- **Before School Clubs increased charges** - £70k. To increase the charges of before school clubs to £2 for a morning session of childcare.
- **Children's services** - £1.36m. Re-evaluating current processes and decisions around high cost placements complemented by a review of family time service development, and a review of structures and service operating costs.
- **Adult's services** - £2.0m. Re-sizing direct care for some clients and rebalancing in house/external provision. The introduction of a fall's prevention and early intervention service to reduce the number of people being placed in nursing/residential care from home or hospital.
- **Learning disabilities** - £300k. Remodelling of learning disability and mental health teams that will involve a decrease in team management hours.
- **Public protection** - £103k. Staff restructuring within the Public protection service.
- **Decarbonisation** - £714k. Reducing energy consumption across the Council's estate.
- **Fleet Maintenance** - £160k. Reduction in operating fleet and mileage reduction.
- **Passenger Transport Commissioning** - £70k. New acceptable routes implemented to reduce transport requirements based on current transport policy.
- **Neighbourhood Services** - £210k. Reduction of grounds maintenance operations , cessation of the community improvement teams, increased income from external contracts. Service reconfiguration of sweeping functions across the county.
- **MonLife** - £648k. A range of measures including service redesign and cost savings with the aim of maintaining service delivery within a reduced funding envelop.
- **Community Hubs** - £150k. Reduce staffing levels at community hubs in order to reduce costs and keep all hubs open with reduced service levels. A one-year reduction in the budget for library books by 50% or £45k.
- **Contact Centre** - £112k. To reduce staffing levels in the contact centre by 2.5 FTE.
- **People & Governance** - £80k. Increase income in Communications and Land Charges.
- **Landlord services** - £665k. Reduce the corporate building maintenance revenue budget; review the property estate and explore options for further rationalisation; increase income from Solar farm export tariff.
- **ICT** - £149k. Mobile phone contract savings.
- **Revenues, Systems & Exchequer** - £126k. Remove budget earmarked for a discretionary business rate relief scheme.
- **Fees & Charges** - £1.4m. Increased income generation through a range of increases in discretionary fees & charges across the Council's services.

Council Tax

- 3.14 The Council Tax increase in the budget has been modelled as 5.95% for 2023/24 and a reduced 3.95% for the remaining three years of the MTFP for modelling purposes. For a current Band D property of £1,476.79 (Council only element excluding Community council or Police levy), this would illustratively be an additional £87.87 a year or £1.69 a week for 2023/24.

Illustrative impact of a 5.95% increase in Council tax rate									
Bands	A	B	C	D	E	F	G	H	I
Increase per week	£1.13	£1.31	£1.50	£1.69	£2.07	£2.44	£2.82	£3.38	£3.94

- 3.15 At this stage the council tax collection rates is retained at 99% for 2023/24. Overall, the Council Tax base calculated for 2023/24 has risen by 0.85% compared to 2022/23. This increase takes into account the anticipated changes in dwellings. The estimated total additional income, net of changes to CTRS (Council Tax Reduction Scheme), is £336,000.

4. Figure 4 - The consolidated 2023/24 Draft Budget for consultation

	January 2023 Cabinet proposals						
	Adjusted Base Budget 2022/23	Proposed savings	Identified Explicit Pressures	Budget Assumptions	Corporate Adjustments incl. reserves	Council Tax Income	Proposed Budget 2023/24
Children and Young People	59,014	(1,918)	2,812	2,146	(8)		62,046
Social Care and Health	58,449	(4,349)	7,319	1,157	124		62,700
Communities & Place	24,053	(2,482)	3,710	814	350		26,445
Monlife	4,888	(648)	1,498	261	(12)		5,987
Resources	6,984	(1,143)	872	245	(3)		6,955
Chief Executive's unit	3,180	(341)	146	97	(4)		3,078
People & Governance	4,788	(86)	12	152	(5)		4,861
Corporate Costs & Levies	24,268	(433)	17	390	1,599	856	26,697
Treasury	7,074				2,237		9,311
Total Expenditure	192,698	(11,400)	16,386	5,262	4,278	856	208,080
Aggregate External Financing (AEF)	(112,278)			(10,213)			(122,491)
Council Tax (MCC)	(62,871)					(4,083)	(66,954)
Council Tax (Gwent Police)	(14,392)					(856)	(15,248)
Council Tax (Community Councils)	(3,158)						(3,158)
Council Fund Contribution	0						0
Total Funding	(192,699)	0	0	(10,213)	0	(4,939)	(207,851)
Headroom/(shortfall)	0	(11,400)	16,386	(4,951)	4,278	(4,083)	230

5. Unmitigated Budgetary Risks being carried

- 5.1 **Service budget savings** - The budget process for 2023/24 is challenging. The initial budget gap identified of £23.1m resulted in services being asked to deliver a level of savings which will require significant service reforms. Given the capacity constraints across the Council, this clearly presents a significant budgetary risk in 2023/24. This will be particularly important within Social Care and where savings totalling £4.4m will be expected to be delivered within a service which has a trend of significant over-spends and is still experiencing challenging

levels and complexity of demand, coupled with significant workforce pressures. Similarly, the homelessness area will remain a challenge.

- 5.2 **Pay awards** - Uncertainty will remain around the pay awards for local government staff and teaching staff. Actual pay awards will not be confirmed nationally by independent pay bodies until later in 2023 and therefore further consideration might need to be given in-year to adjust pay budgets at that time. The pay award assumptions factored into the budget are set at a level which is seen as prudent and will provide suitable and sufficient mitigation against any further pay pressures needing to be managed in 2023/24.
- 5.3 **Funding** - The Welsh Government provisional settlement has provided some welcome reprieve and significantly exceeded the Council's earlier MTFP modelling assumption. However, and as is the case at this stage of the budget process, clarification is still being sought on levels of specific grant funding. This will be closely monitored in the coming weeks and any known material impacts will be factored into the final budget proposals.
- 5.4 **Redundancy & Pension costs** – Cabinet was informed at its meeting in November that the scale of the financial challenges faced by the Council would likely lead to staffing consequences and redundancies. As a result of the significant work undertaken to mitigate any job losses, aided by the better than expected provisional settlement, it is not anticipated that there will be significant redundancies albeit the process is ongoing. The savings proposals brought forward by services contain a varying level of voluntary or compulsory redundancy which will attract costs to the Council in the form of severance or pension strain cost. The final impact of this will need further consideration as the process moves through to final budget stage.

6. The medium term outlook

- 6.1 The underling MTFP budget model has been updated to take account of the updated budget assumptions:
- Pay award assumptions considering an array of data and forecasts for wage and pay growth, notably by the Office for Budget Responsibility and independent pay bodies;
 - The Council Tax increase has been modelled as 5.95% for 2023/24 and 3.95% for the remaining three years of the MTFP for modelling purposes;
 - Aggregate External Finance assumptions have been adjusted to align with the indicative increases confirmed by Welsh Government as part of the provisional settlement;
 - The rate of increase in employer's contribution to the pension fund being frozen for 2023/24 with an increase of 1.2% then modelled over 2024/25 and 2025/26;
 - An increase in the staff vacancy assumption from 2% to 3% for 2023/24 only, reflective of the tight labour market being experienced across the UK, and where there are far more vacancies than there are applicants.
- 6.2 When the draft proposals are applied the MTFP budget model the effect is illustrated in **figure 5** overleaf and highlights a budget gap that grows over the medium-term to a shortfall of £23.067m in 2026/27 that will need to be addressed.

Figure 5 – Medium term forecast

Services	Adjusted Base 2022/23 £000's	Indicative Base 2023/24 £000's	Indicative Base 2024/25 £000s	Indicative Base 2025/26 £000's	Indicative Base 2026/27 £000s
Children & Young People	59,014	62,046	63,633	64,994	66,383
Social Care & Health	58,449	62,700	60,824	61,702	62,498
Communities & Place	24,053	26,445	26,624	27,390	28,163
MonLife	4,888	5,987	6,377	6,629	6,876
Resources	6,984	6,955	7,082	7,284	7,482
Chief Executive's Unit	3,180	3,078	3,225	3,308	3,388
People & Governance	4,788	4,862	4,758	4,882	5,003
Corporate Costs & Levies	24,268	26,696	37,397	46,083	55,002
Treasury & reserves	7,074	9,311	10,383	11,026	11,402
Total Expenditure Budget	192,699	208,080	220,303	233,298	246,196
Aggregate External Financing (AEF)	(112,278)	(122,490)	(126,165)	(127,048)	(127,937)
Council Tax (MCC)	(62,871)	(66,955)	(69,599)	(72,349)	(75,206)
Council Tax (Gwent Police)	(14,392)	(15,248)	(15,850)	(16,477)	(17,127)
Council Tax (Community Councils)	(3,158)	(3,158)	(3,158)	(3,158)	(3,158)
Sub Total Financing	(192,699)	(207,851)	(214,773)	(219,031)	(223,429)
(Headroom)/Shortfall	0	230	5,530	14,267	23,067

6.3 Provision of £7.5m is currently made in the MTFP, for modelling purposes, for “unidentified pressures” in each of the remaining years of the MTFP. Clearly 2023/24 is seeing a level of net pressures presenting in excess of this provision. Work will continue to refine this model over the next few months.

7. Reserves and Capital Receipts strategy

7.1 Earmarked reserve balances are projected over the MTFP period to decrease from £16.1 million at the start of 2022/23 to £13.1 million at the end of 2026/27. Taking into account that some of these reserves are specific, this brings the usable balance down to £8.5 million at the end of 2026/27.

7.2 Revenue reserves as a whole (including the Council’s General Council Fund balance) are projected to reduce from £26.6 million at the start of 2022/23 to £21.1 million at the end of 2026/27. £21.1 million represents just over 10% of the projected net revenue budget in 2026/27.

7.3 Cabinet will need to make an assessment in its final budget proposals of any further level of reserve cover needing to be earmarked to cover the budgetary risks noted above.

7.4 As part of its MTFP budget strategy the Council continues to fund one-off revenue costs associated with service reform from useable capital receipts held. As part of the draft budget, Cabinet is proposing to make further use of this mechanism with a total draw from capital receipts for 2023/24 of £3m. This approach will need to be reversed in part or in full for future years as receipt generation reduces.

7.5 Drawing on capital receipts in this way has two consequences. Firstly, that it draws on limited useable capital receipts meaning that any significant capital expenditure needing to be funded from the Council’s resources will have a direct impact on the level of borrowing needing to be

considered. Secondly, this is a short-term strategy and its removal as a funding source in 2024/25 will have an impact on the level of budget shortfalls needing to be managed.

- 7.6 Schools hold reserve balances. Forecasting at month 6 suggests a draw of £4.9m of the total £6.9m balance brought forward into 2022/23, reducing balances to £2m. Given the emerging funding picture for 2023/24, it is anticipated that schools will moderate their investment plans for the remainder of the year and that collective balances may end up higher than the current estimate of £2m.
- 7.7 The previously approved reserves strategy sought to ensure that earmarked reserves are not used to balance the budget for ongoing expenditure and that they are instead used to the best effect and impact on one-off areas of spend to help the Council transform and transition itself within the new resource levels available to it. The final budget report will contain an assessment of the adequacy of reserves and the underlying reserves strategy.

8. Capital budget

- 8.1 The last capital budget strategy was approved by Council in March 2022. Whilst an updated capital strategy for 2023/24 will be considered by Council alongside the treasury strategy at its meeting on 9th March 2023 the underlying principles of the strategy remain fit for purpose and have been used in preparing the draft capital budget proposals. The capital strategy requires the capital programme to be financially sustainable without leading to borrowing levels that are unaffordable, unsustainable and imprudent.
- 8.2 The draft capital budget proposals for 2023/24 continue to support the priorities of the Council and are wholly aligned with the priorities set out in both the proposed Community and Corporate Plan. Notably this includes ensuring that resources are aligned to meet the plans for tackling the longer-term challenges that communities and public sector organisations are facing.
- 8.3 The existing capital programme is very much dominated by the investment in the new Abergavenny 3-19 school which involves total investment of £69.3m in creating the first operationally Net Zero Carbon 3-19 School in Wales, alongside the completion of the new Crick Road care home.
- 8.4 Aside from this investment, the current four-year capital programme very much represents a consistent investment into maintaining the Council's infrastructure base through planned investment in:
- Property and county farms maintenance
 - Highways infrastructure & transports schemes
 - Disabled facilities grants & access for all
 - Match funding to leverage external grant opportunities to invest in infrastructure
 - Investment in the Cardiff capital city region deal
 - Funding of eligible revenue costs associated with service reform, to support the draft revenue budget
 - ICT investment
- 8.5 The draft capital budget for 2023/24 and over the medium term is shown at **appendix 8**. The small amount of further capital funding offered with the provisional settlement of £56k will be considered alongside any further pressures or proposals materialising between now and final budget stage.

8.6 Whilst the current planned investment in the Council's infrastructure goes a long way in meeting the requirement to maintain the existing estate, there still remains a considerable number of backlog pressures that sit outside of the core capital programme as indicated in **appendix 5**, and this has significant risk associated with it and is being closely monitored.

9. Immediate capital pressures

9.1 As part of the capital strategy, Council approved an investment criteria priority matrix (**appendix 7**) which is used to evaluate any proposed capital funding bids and to identify those which present the case for the most urgent investment.

9.2 The current Capital programme is impacted by the same external factors impacting upon the revenue budget and outlined in detail earlier in this report. Inflation, supply chain issues and internal resourcing capacity is meaning that current capital budgets are delayed or deliver less for the same amount of budget.

9.3 The existing capital programme has been reviewed during the budget process to date to establish the suitability of the brought forward indicative capital schemes, and principally:

- Whether the schemes are still relevant to current Council priorities;
- Are current budgets allocated still workable given factors such as inflation, supply chain issues and internal capacity to deliver;
- Are there any more urgent schemes coming forward, either from the backlog list of pressures or otherwise that need to displace existing schemes;
- Whether there are any further external funding opportunities;
- Does the capital programme remain prudent and affordable in light of the wider economic pressures and revenue budget gap;
- Does potential slippage from the 2022/23 capital budget provide opportunities to re-purpose existing budgets to allow one-off investment in immediate capital risks.

9.4 The broad conclusion of the initial assessment was that the indicative capital programme remains suitable, prudent and affordable in current circumstances, and directs funding to those schemes that represent the greatest priority when considering the approved investment criteria, and principally in the areas of urgent health and safety works, legal and regulatory obligations, corporate plan priorities, and those that allow a balanced revenue budget to be set.

9.5 There was however a recognition that a handful of pressures had been highlighted that required urgent consideration for funding as they represented a level of unpalatable risk, or that represented capital investment required to generate revenue budget savings and that would aid in closing the revenue budget gap (and were therefore essentially self-funding over the fullness of time). These proposed additions to the capital programme are as follows:

Figure 6 – Immediate capital pressures proposed for funding

Capital pressures proposed for one-off investment	Priority category	£000's
Capital investment required to meet Decarbonisation programme (Decarb 1)	Allows a balanced revenue budget to be set, Corporate plan priority	490
Refit programme - MCC funded works (Decarb 1)	Allows a balanced revenue budget to be set, Corporate plan priority	270

Monlife - Old Station Tintern site enhancement (ML19)	Allows a balanced revenue budget to be set	45
Safe route to schools - New acceptable routes to reduce transport requirements (PTU1)	Allows a balanced revenue budget to be set	185
CYP - Upgrade of Capita One system (CYP3)	Allows a balanced revenue budget to be set	55
Infrastructure programme – Highways & Structures black risks identified through surveys that are not currently funded (CAP1)	Health & Safety works, Addresses infrastructure investment	980
Infrastructure programme - Structures red risks identified through surveys that are not currently funded (CAP1)	Health & Safety works, Addresses infrastructure investment	270
Total		2,025

9.6 In respect of funding these pressures, £2m of capital budgets within the 2022/23 programme have been identified that are no longer required or appropriate and can therefore be re-purposed to these schemes. There are varying reasons that these budgets have been declared as surplus but result principally from changing priorities in the post-pandemic working environment, and delays encountered progressing works during the pandemic which are now no longer required. Fuller details of the budgets that will be available to be re-purposed will be provided within the 2022/23 capital outturn report, but in summary can be outlined as:

Figure 7 – Capital budgets to be re-purposed

Existing capital budgets that can be re-purposed	£000's
Penyrhiw Sewerage under spend	100
County hall Buildings and Car park	750
Disabled facilities grants	800
Area management	20
Match funding budget	300
Schools refurbishment grant	55
Total	2,025

10. Capital backlog pressures and investment considerations

10.1 In summary the following capital backlog pressures and investment considerations have been identified. These will require careful further and future consideration and update as Council looks to deliver against the goals and ambitions set out in the Community and Corporate plan.

- Long list of back log pressures – infrastructure, property, DDA (Disability Discrimination Act compliance) work, Public rights of way, as outlined in **appendix 5**. None of these pressures are included in the current capital MTFP, but this carries with it varying degrees of risk. These pressures have undergone recent review and the Capital and Asset Management Working Group will continue its work to assess risks and determine whether there needs to be any further capital budget provision afforded to mitigate any significant risks requiring more immediate action over the MTFP period.
- In addition to this there are various schemes and investment considerations (e.g. tranche C Future schools, climate emergency response, affordable housing needs,

any depot and household waste recycling centre enhancements) that could also have a capital consequence, but in advance of quantifying those or having Member consideration of these items, they are also excluded from current capital MTFP. Indicative MonLife investment considerations are separately shown in **appendix 6** and again will require separate member consideration.

- The change in Welsh Government homeless policy during and following the pandemic for all homeless people to be appropriately housed results in potential future capital pressures and considerations. Clarity is awaited on the level of Welsh Government support that may be provided and grant conditions that enable such funding to be used to address the current accommodation needs.
- The requirement to secure adequate and suitable accommodation for registered placements for looked after children and where market supply is not available. It is expected that initial acquisitions will need to be made to satisfy the requirements that the courts have placed on us to secure registered placements.
- Grant funding levels and the potential significant investment requirement to match fund the more significant grants available such as LUF, Active travel and flooding.

11. Capital funding

- 11.1 The provisional settlement outlines that the Council's unhyponthecated capital allocation will be £4.925m, which represents a £818k increase over 2022/23 with an indication that this will be maintained in 2024/25. This is broadly in line with expectation. The Council has limited recourse to internal resources in the form of capital reserves and receipts, and any resultant borrowing required to support the capital programme directly impacts on the revenue budget.
- 11.2 Clarification is also required on specific capital grant funding streams where there are initial indications from Welsh Government that these are being removed or consolidated, or that the criteria are being tightened and that may impact on some of the pressures and bids being considered. This will also need further consideration in the final budget proposals.
- 11.3 This will present future challenges to the Council as it looks to maintain its assets and consider future capital investment that responds to the needs of communities and in allowing the Council to pursue the goals set out in the Community and Corporate plan.
- 11.4 In light of the current pressures on the Council's medium-term revenue budget, and the principles on which any prudential borrowing must be taken of affordability, prudence and sustainability, the use of further prudential borrowing has been carefully assessed and refreshed in **appendix 12**.
- 11.5 The level of capital receipts anticipated over the next 4-year window has again not been increased as the Council awaits the conclusion of the replacement Local Development Plan and the subsequent Strategic (Regional) Development Plan on Council owned land.
- 11.6 The Council continues to use the benefit of Welsh Government guidance that allows the Council to make flexible use of capital receipts to meet revenue expenditure associated with service reform.
- 11.7 The 2023/24 revenue budget proposals see a further proposed use of capital receipts for this purpose of £358k, bringing the level of support to a figure of £3m and in supporting the draft revenue budget proposals. It is accepted that this is not a sustainable long term means by which to support the revenue budget but is seen as necessary given the current financial challenges. The revenue MTFP is however modelled on the level of capital receipt support reducing considerably in 2024/25 onwards.

11.8 The table below illustrates the balance on the useable capital receipts reserve over the period 2022/23 to 2026/27 taking into account current capital receipts forecasts provided by Landlord Services and revised balances drawn to finance the existing programme.

Figure 8 – Useable Capital receipts

Capital receipts balances	2022/23	2023/24	2024/25	2025/26	2026/27
	£000's	£000's	£000's	£000's	£000's
Balance at 1st April	10,414	12,039	13,150	12,205	10,708
Capital receipts used for financing	(3,776)	(1,547)	(1,194)	(1,094)	(1,094)
Capital receipts used to support revenue costs associated with service reform	(3,008)	(507)	(507)	(507)	(507)
Capital receipts received	7,071	-	-	-	-
Capital receipts forecast	1,338	3,165	756	104	104
Forecast Balance at 31st March	12,039	13,150	12,205	10,708	9,211

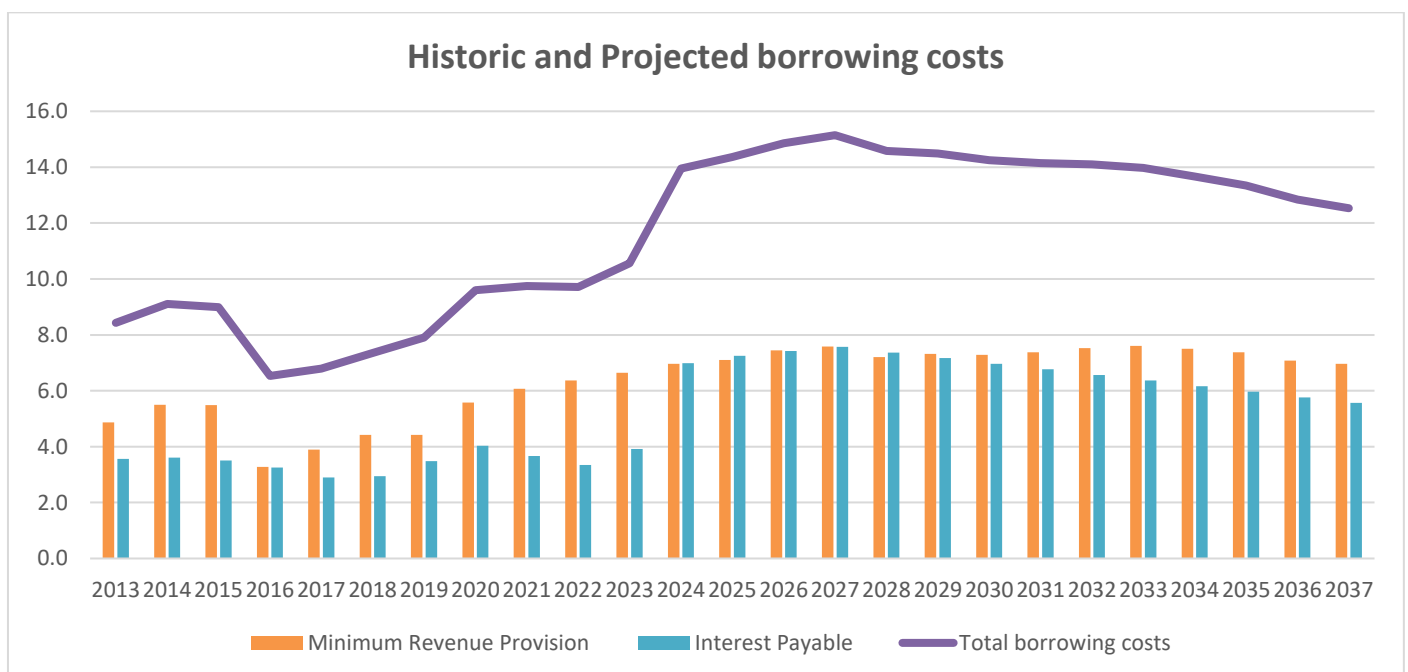
11.9 The core capital programme does not generally include specific grant funded schemes as a consequence of such funding announcements and grant awards not being confirmed in time to feature in the forthcoming capital budget proposals. These are added to the capital programme during the year. Cabinet will receive confirmation of specific grant funded capital schemes in March alongside the final capital budget proposals. The final proposals will also contain an update on any early indications of additional capital funding from Welsh Government or any other funding bodies.

12. Prudential indicators

12.1 The prudential indicators appropriate to 2023/24 and highlighted in **appendix 12** to this report demonstrate:

- That for 2023/24 borrowing and internal Council resources account for 48% of the capital funding with 52% found from external sources. This is heavily skewed by the grant funding available for the Abergavenny 3-19 scheme, and in the last year of the MTFP this returns to a normal trend of 75% of funding coming from borrowing and internal Council resources.
- In terms of the mix of capital receipts usage versus borrowing, longer life assets (such as school building re-provision) are more suitable being funded from borrowing over their respective asset life rather than using capital receipts. Capital receipts are more suitable in affording short life capital assets expenditure, as this avoids proportionately higher Minimum Revenue Provision (MRP) costs affecting the revenue budget. This would introduce a trend of increasing capital receipts available to members to address short term priorities.
- However capital receipts have also increasingly been used in recent years to legitimately supplement the revenue budget, by way of use Welsh Government guidance relating to flexible use of capital receipts associated for costs of service reform.
- Estimated gross debt levels compared against the capital financing requirement indicates around 11% headroom and that is reflective of "internal" borrowing where the Council is utilising its cash balances from reserves and working capital to avoid the need for additional external borrowing on a day to day basis. This is seen as the most cost effective treasury policy as it avoids entering into longer term borrowing at rates which are markedly higher than corresponding investment rates and would therefore mean incurring a significant "cost of carry" of any unspent and uncommitted borrowing sums.

- The operational boundary for external debt acts a management tool for monitoring gross debt levels during the financial year and does not represent an absolute limit for gross borrowing unlike the Authorised limit which does act as the absolute limit for borrowing without further Council approval.
- The affordability of borrowing is considered by Members in setting an affordable and balanced annual budget. The prudential indicator showing the proportion of financing costs compared to the net revenue budget ensures that consideration is given to the impact of borrowing on the overall budget.
- The Council's annual borrowing costs are subsumed within the revenue budget, and members annually assess pressures, savings and priorities through their consideration of budget proposals. The most significant such costs are interest payments and the minimum revenue provision, which is a proxy for principal repayments on borrowing secured. The following graph indicates a slightly rising trend in such costs for the next 4 years which is not unexpected given the commitment to borrowing for the 3-19 school in Abergavenny. Despite this the proportion of financing costs compared to net revenue budget remains broadly static throughout the MTFP window at around 6%.



13. Next Steps

- 13.1 The information contained in this report constitutes the draft budget proposals that are now made available for formal public consultation and member scrutiny, including the requirement to consult businesses. The formal consultation period will run for a period of four weeks ending on 16th February 2022.
- 13.2 Cabinet are interested in consultation views on the draft proposals and the underlying budget strategy adopted. This is the opportunity for Members, the public and community groups to consider the budget proposals and make comments on them. Cabinet will not however, be prepared to recommend anything to Council on 9th March that has not been subject to a Future Generations Assessment and Equality Impact Assessment and therefore a deadline to receive alternative proposals has been set as 16th February 2022.

- 13.3 The Council will look to purposefully engage with residents and businesses on a face to face basis. Virtual budget consultation events will also still be held as it enables the Council to reach out to members of the public who otherwise might not have the opportunity to attend a physical face to face consultation event.
- 13.4 Given the nature and extent of the budget challenge faced for 2023/24 and the range and extent of the budget savings proposals it is important that the Council reaches out, engages and listens to feedback. This will in turn inform the final budget proposals that are to be considered in early March.
- 13.5 The budget consultation approach proposed by the Council is therefore to:
- a) Launch a dedicated page on the Council's website containing the draft budget proposals, a video blog by the Cabinet Member for Resources and an online feedback form;
 - b) Make use of social media linked to press releases, the website and online forms to ensure that there is optimal reach to allow residents to become aware of and respond to the draft budget proposals.
 - c) Run face to face and virtual budget consultation events across Monmouthshire via the various consultative fora outlined below. These events will be publicised via the Council's website, social media channels and established networks to ensure that communities are sighted and allows for their voice to be heard.

Caldicot – 23rd January 2023
Chepstow – 24th January 2023
Usk – 25th January 2023
Monmouth – 26th January 2023
Magor/Undy – 31st January 2023
Abergavenny – 7th February 2023

Virtual consultation events - 2nd February 2023 – am and pm

Unions Joint Advisory Group (JAG) – 16th January 2023
Head Teachers conference – 27th January 2023
Young People engagement session – 30th January 2023
School Budget forum – 30th January 2023
My Mates / People First group – 3rd February 2023
Youth Council – 6th February 2023

- 13.6 The scrutiny of the budget proposals are key areas of this part of the budget process. The following dates have been set for scrutiny committees:

Performance and Overview Committee – 25th January 2023
People Scrutiny Committee – 26th January 2023
Place Scrutiny Committee – 2nd February 2023

- 13.7 Final budget proposals following consultation and receipt of the final settlement will go to the Cabinet meeting on 1st March 2023 and approval of Council Tax and final budget proposals will then take place at Full council on or before 9th March 2023.

14. OPTIONS APPRAISAL:

- 14.1 Directorates are required to consider and outline the options that have been considered for each of the budget savings proposals and pressures identified in this report. The detail is contained in the budget mandates available under **appendix 1**.
- 14.2 The means of assessing whether the final budget proposals for 2023/24 have been successfully implemented is undertaken throughout the year via regular budget monitoring and periodic reports to Cabinet and then to Select committee for scrutiny.
- 14.3 Alongside the proposed Community and Corporate Plan, the Council continues to develop and monitor the performance of the Council against service business plans. Taken together these arrangements enable the Council to evaluate its success and progress against its longer term plans within the resources available.

15. REASONS:

- 15.1 To agree the draft budget proposals for 2023/24 for consultation purposes.

16. RESOURCE IMPLICATIONS:

- 16.1 As identified in the report and appendices.

17. WELLBEING OF FUTURE GENERATIONS IMPLICATIONS (INCORPORATING EQUALITIES, SUSTAINABILITY, SAFEGUARDING and CORPORATE PARENTING):

- 17.1 The future generation and equality impacts of the savings and pressure proposals have been initially assessed in **appendix 2**. An overall future generation and equality impact evaluation of all the proposals has also been undertaken and is contained in **appendix 3**. This overall evaluation is an early one, applying to budget proposals only at this pre-consultation, pre-decision stage. This analysis will continue to evolve and be updated throughout public consultation and scrutiny.
- 17.2 Almost any change to a council service has some socio-economic impact. This is because of the nature of the Council's responsibilities and the extent to which some groups, communities and vulnerable people rely on public services. The aim is to properly understand this impact so that appropriate mitigations can be identified wherever possible and minimise the impact on people in greatest need.
- 17.3 Given the scale of the budget challenge for 2023/24, and the requirement for services to deliver a level of savings proposals that require service reforms, it is inevitable that the assessment shows that some proposals have identified a negative impact and where mitigating actions have been considered, identified or are in place. Consultation requirements have been identified and are ongoing. The assessment also identifies some of the pressures to support services have potentially a mostly positive impact on equalities and Future Generations.
- 17.4 The actual future generations and equality impacts from the final budget report's recommendations will also be reviewed and monitored during and after implementation.

CONSULTEES:

SLT
Cabinet

APPENDICES:

Appendix 1	Directorate savings and pressure proposals
Appendix 2	Future Generations Evaluations
Appendix 3	Future Generations Evaluation for the overall budget
Appendix 4	Proposed letter responding to Welsh Government's Local Government provisional settlement
Appendix 5	Capital MTFP backlog pressures
Appendix 6	MonLife Investment Considerations
Appendix 7	Approved Capital investment criteria
Appendix 8	Capital budget summary programme 2023/24 to 2026/27
Appendix 9	Useable capital receipts 2022/23 to 2026/27
Appendix 10	Capital receipts risk factors
Appendix 11 (exempt)	Individual forecast capital receipts
Appendix 12	Prudential Indicators

BACKGROUND PAPERS

List of planned capital receipts (Appendix 11): Exempt by virtue of s100 (D) of the Local Government Act 1972.

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