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Tuesday, 11 October 2022

Notice of Reports Received following Publication of Agenda.

Cabinet

Wednesday, 19th October, 2022 at 5.00 pm,
Steve Greenslade Room, County Hall, Usk

Attached are reports that the committee will consider as part of the original agenda but were submitted to democratic services following publication of the agenda.

Item No	Item	Pages
4.	**REVENUE & CAPITAL BUDGET MONITORING 2022/23 MONTH 4 FORECAST** Division/Wards Affected: All Purpose: The purpose of this report is to provide Members with information on the Authority's financial forecasts for the 2022/23 financial year in respect of the revenue budget, capital programme, and associated reserves position. Author: Jonathan Davies, Assistant Head of Finance (Deputy S151 officer) Contact Details: jonathandavies2@monmouthshire.gov.uk	1 - 12

Paul Matthews
Chief Executive

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SUBJECT:	**REVENUE & CAPITAL BUDGET MONITORING 2022/23 – MONTH 4 FORECAST**
MEETING:	**CABINET**
DATE:	**19th October 2022**
DIVISION/WARDS AFFECTED: ALL	

1. PURPOSE:

1.1. The purpose of this report is to provide Members with information on the Authority's financial forecasts for the 2022/23 financial year in respect of the revenue budget, capital programme, and associated reserves position.

2. RECOMMENDATIONS:

2.1. That Cabinet recognises the significant over spend forecast at Month 4 against the Authority's revenue budget of £8.8m, which is primarily as a result of:

- ***£3.5m forecast over spend in Children's services*** due to the increasing numbers of high cost placements and continued use of agency staff;
- ***£1.6m forecast over spend in Adults care services*** following a dramatic influx of clients requiring services post-pandemic, with some clients requiring more intense services due to delayed health care during the pandemic;
- ***£0.5m forecast over spend in Additional learning needs*** budgets due to the increasing cost and number of out of County placements;
- ***£1.3m forecast over spend in meeting the needs of the Homeless*** following national policy change initiatives and where inadequate funding has been provided;
- ***£0.5m forecast over spend in MonLife services*** as income levels are failing to meet targets in the areas of Leisure and Outdoor education;
- ***£2m forecast over spend in relation to the expected outcome of workforce pay negotiations*** which is expected to be significantly above the 3.5% budgeted.

Together with a number of other over and under spends summarised in paragraph 3.7 and detailed in ***appendix 1*** to this report.

2.2. That Cabinet request that the Strategic leadership team immediately look to arrest the forecast over spend through a range of appropriate budget recovery measures as outlined in this report.

2.3. That Cabinet recognises the importance of a balanced outturn position being achieved for 2022/23, in that it safeguards the need to draw further upon any planned use of reserves and capital receipts and which will be required to assist in meeting the unprecedented financial challenges presenting over the medium term and where funding levels are expected to fall significantly short in meeting these challenges.

2.4. That Cabinet recognise the ongoing financial risks to the revenue budget of the outcome of ongoing pay negotiations, and the potential impact of the cost of living crisis on communities, and the associated financial impact this will have on the Council.

2.5. That Members note that the overall revenue budget continues to be subsidised by £2.65m of capital receipts which are being used to fund identified eligible expenditure under the flexible use of capital receipts directive.

2.6. That Members note the forecast 100% delivery of the budgeted mandated savings as detailed in ***appendix 2*** and as approved by full Council previously.

2.7. Cabinet notes the extent of forecast movements in Schools reserve usage contained in ***table 4***, and ***appendices 1 & 3*** which highlight the possibility of a further six schools entering into a deficit reserve position by the end of the financial year.

2.8. Cabinet considers the forecast capital outturn spend of £85.6m as outlined in ***appendix 1*** that currently indicates a forecast over spend of £209k, noting the continuing difficulty in delivering capital projects to their allocated budget in the current challenging economic environment.

3. KEY ISSUES:

3.1. In setting the 2022/23 budget there was an expectation that the Council would see a gradual return to a more stable operating environment relative to the last two years, with the direct impacts of the pandemic potentially set to ease.

3.2. There was a known and accepted risk that the Welsh Government Hardship fund would end and consequently any direct or indirect costs resulting from the pandemic would fall upon the Council to fund. It was also highlighted that the challenges experienced in achieving historic income levels would continue, and that the permanent change in national policy initiative around the needs of the homeless would not be adequately funded by Welsh Government.

3.3. The timing and degree to which these risks would manifest was the key uncertainty within the budget setting process, and on that basis, Cabinet agreed a package of measures to combat the known and unknown pressures presenting in terms of a mix of base budget provision of a further £10.1m and the creation of specific earmarked reserves of £4m.

3.4. In respect of the £10.1m of budget pressures that were accommodated, these were notably:

- All pay and pension related spending pressures in our schooling system, up to a threshold of a 3% pay award
- The increasing demand on schools and the Local Education Authority of pupils with additional learning needs

- The increasing complexity of cases being placed on our children's social services in respect of looked after children and for whom the Council acts as corporate parent
- The growing impact of an ageing population on adult social services and the challenges that result from a fragile and unsustainable social care market in Wales
- Significant service pressures within the passenger transport unit and within recycling and waste and that look to ensure that the Council supports and sustains key service delivery
- Responding to the needs of homelessness with housing related support
- Further investment in our Highways and transport infrastructure alongside our IT and network estate

3.5. It is therefore disappointing that despite accommodating the above pressures into the 2022/23 budget, that at Month 4 significant further in year service pressures are forecast, with many of these pressures developing in the same key areas that have been provided additional support in the budget.

3.6. ***Table 1*** below summarises the forecast £8.8m net over spend against the Council's revenue budget for the year.

Table 1: 2022/23 Revenue budget forecast as at Month 4

Month 4 Revenue budget forecast	**Total budget for the year**	**Total forecast expenditure / (income)**	**Total forecast variance to budget**	**Variance as a % of budget**
Directorate	**£000's**	**£000's**	**£000's**	**%**
Social Care, Health & Safeguarding	58,189	63,245	5,056	8.7%
Children & Young People	59,513	60,254	741	1.2%
Communities & Place	23,687	24,303	616	2.6%
MonLife	4,567	5,046	479	10.5%
Chief Executives Unit	3,244	3,244	0	0.0%
People & Governance	4,733	4,733	0	0.0%
Resources	7,664	8,421	757	9.9%
Corporate Costs & Levies**	25,654	27,571	1,917	7.5%
Treasury & Reserves	5,448	5,223	(225)	-4.1%
Financing	(192,699)	(193,240)	(541)	-0.3%
Total	**0**	**8,800**	**8,800**	

***** Includes the estimated impact (£2.1m) of the non-teaching pay award over and above the 3.5% already budgeted for. Once this value is finalised, it will become a cost to individual directorates rather than being held corporately.***

3.7. A full breakdown of the variances forecast by services at Month 4 is contain within ***appendix 1***, however at a summary level the principal pressures and mitigating savings forecast are within the areas of:

Pressure/Saving	£000's	Description
Children's services	3,519	Despite stabilisation in Children looked after numbers, there are increasing numbers of high cost placements, including extremely costly emergency arrangements for children where there is no regulated placement. Alongside this there is continued use of agency staff to fill vacancies.
Adults Services	1,598	Older Adults budgets have seen a dramatic influx of clients requiring services as we move out of the pandemic, with continued pressures from hospitals to discharge patients into the social care sector, and some clients requiring more intense services due to delayed health care during the pandemic.
Additional Learning Needs	533	Due to placement costs outside of our own schools (£401k), a reduction in income from other Councils for out of County pupils attending our schools (£68k), and additional support for pupils attending our own schools (£51k).
Housing	1,327	Primarily due to national policy change impacting upon the service and where our housing costs in relation to the needs of the Homeless are not attracting full funding. £315k in net additional costs, and £989k where by emergency accommodation placements do not allow the Council to claim full housing benefit subsidy.
MonLife	479	Due to the sections inability to generate the expected income targets in relation to Leisure and Outdoor education services.
Passenger Transport Unit (PTU)	424	Increased pay, fuel and repair costs have meant that operators have handed back contracts resulting in re-negotiated external prices or increased in-house provision required.
Non-teaching pay award	2,017	An allowance has been made within the forecast for the estimated result of pay award negotiations over and above the 3.5% already budgeted for. Negotiations continue between local government employer's representatives and trade unions.
Car Parks & Civil Parking Enforcement	255	Parking enforcement fines will not hit budgeted targets and in addition there are over spends in expenditure primarily in transport, premises and software costs.
Markets	129	The number of traders has dropped off considerably since Covid-19 and this has meant the service is struggling to meet income targets alongside increases in waste disposal costs.
Council tax	(542)	Out-performance of budgeted Council tax collection.
Borrowing costs	(225)	A reduction in net budgeted borrowing costs reflective of a lower than budgeted interest rate environment and significant capital slippage at the end of 2021/22.
Staff vacancies	(496)	Significant staff vacancies being carried in the establishment over the first half of the financial year.
Solar Farm & Sustainability	(113)	Improved income from our Solar Farm and PV installations caused by the increased market rates for energy.
Neighbourhood services	(227)	Primarily due to the improvement gained from the installation of LEDs in our street-lighting over and above budgeted levels (£125k), and Waste contract savings resulting from a strong recycling market (£92k).

4. Ongoing budgetary risks

4.1. Whilst immediate mitigating action is underway to arrest the significant forecast in-year deficit we need to be acutely aware of the further financial risks presenting during 2022/23 and in light of the turbulent socio-economic environment currently facing households, businesses and the public sector.

4.2. The Cost of living crisis is having a significant impact on our communities, with a growing need for additional Council services, the impact upon demand for the Council's income generating services, and risks around future debt recovery. Alongside this, the wider economic and inflationary environment continues to impact service delivery, both in respect of cost and supply chain disruption, and in presenting continued recruitment challenges.

4.3. The wider and longer lasting indirect impact of the pandemic on Council services also needs to be considered, particularly in the areas of Homelessness, Children's services, Adult social care and Children's additional learning needs. There remains significant latent and complex demands in these areas as a result and some of these impacts will take a significant period of time to unwind.

4.4. Significant savings from existing staff vacancies have already been factored into forecasts and alongside this there is very little scope for further savings in financing and treasury budgets in light of the current economic environment.

4.5. Importantly the overall outturn position continues to be supported by £2.65m of identified eligible expenditure to be funded from capital receipts under the flexible use of capital receipts directive. Reliance on these mitigations was a short-term measure only and is not sustainable at this level beyond 2022/23 as capital receipts forecast to be generated start to fall away.

4.6. In considering all of the above, this presents a unique and unprecedented operating environment for the Council, and one which severely curtails the immediate ability of the Council to influence its primary expenditure and income drivers, and therefore its ability to be able to bear down on cost, or increase income to any significant degree without resorting to more extreme measures.

4.7. When looking beyond this financial year, it is important to note that the majority of the savings already identified during the year to assist the in-year budget recovery are one-off or temporary in nature and will not bring any further benefit to future year's budgets. Conversely, the majority of those pressures highlighted above are demand driven and recurrent in nature and will need to be considered as part of the wider budget process for 2023/24 and beyond.

4.8. As we look to the remainder of the financial year the key financial focus continues to be in arresting the forecast over spend position. To that end, mobilising a range of budget mitigation measures will be vital to ensuring that the Council ends the year in a financially sustainable position and in limiting the need to substantially deplete reserve balances. This will be particularly important in light of what will be an incredibly challenging budgetary process leading into 2023/24.

5. Potential budget mitigation measures

Mitigation measure	Application	Risks
Reserves	Reserves have been replenished by approximately £10m over past two years, with particular focus at the end of 2021/22	Need to be acutely aware of the emerging challenging 2023/24 budget situation where unprecedented

Mitigation measure	Application	Risks
	in providing protection against some the budget risks now manifesting (In particular Social care, Homelessness, Leisure income, and Pay).	pressures are materialising around demand, inflation, energy, pay, and levels of funding. A degree of reserve cover will be vital in mitigating some of the more temporary pressures presenting.
Capitalisation directive	Identification of further revenue costs, over and above the £2.65m already budgeted, that can be categorised as enabling service transformation, and that can be legitimately funded from capital receipts under the regulations.	The application of capital receipts under this directive is limited to the amount of receipts generated in the same financial year as the expenditure is incurred. Whilst £9.8m in receipts are forecast this year, a minimal amount has actually been banked to date. Capital receipts are a one-off source of funding and further use under this measure will restrict the amount available for future capital investment.
Funding	Further unbudgeted grant funding becoming available during the remainder of the year. Of particular note, there is currently no allowance within the financial forecasts for any further grant funding or cost displacement in respect of Social care. Recent years have seen significant winter pressure grant, or a form of compensatory Health funding.	All parts of the public sector are facing significant budget challenges in the current global economic environment and notably Welsh Government have made significant funding commitments in 2022/23 in relation to Free School meal provision, the Ukrainian crisis, and the Cost of Living crisis. Further funding commitments to Local Government therefore come with a significant level of uncertainty.
Cost moderation	Non-pay cost reduction in supplies and services, third party, premises, and transport budgets. Pay budget cost reduction - significant vacancies are currently being held across services with many being forecast to be filled during the Autumn. Given the current recruitment market challenges it is expected that further savings could materialise.	A significant proportion of expenditure is driven by demand and, alongside this, in the current economic environment the Council has limited ability to influence and negotiate cost levels. With only six months remaining of the financial year immediate action would need to be taken to have a material impact.
Reduced services	The Council could look to reduce the level of service it provides, either through reduced capacity or by the switching off of discretionary services.	Both the legacy impact of the pandemic and the current cost of living crisis is placing huge pressure upon communities, which consequently places additional and more complex demands upon Council services. The Council plays a vital role in mitigating these impacts through both the discretionary and non-discretionary services it provides.

6. Progress against 2022/23 budgeted mandated service savings

6.1. The 2022/23 budget included mandated savings totalling £2.129m and the progress against these is summarised in ***table 3*** below and in more detail in ***appendix 2***.

Table 3: Progress against mandated savings

Directorate	2022/23 Budgeted Savings £000	Savings forecast £000	Delayed Savings £000	Savings Unachie-vable £000	% Achieved
Social Care & Health	(120)	(120)	0	0	100%
Communities & Place	(959)	(959)	0	0	100%
Resources	(300)	(300)	0	0	100%
Chief Executives Unit	(33)	(33)	0	0	100%
Corporate Costs & Levies	(717)	(717)	0	0	100%
Total	**(2,129)**	**(2,129)**	**0**	**0**	100%

6.2. It is pleasing to note the forecast 100% delivery of mandated savings, especially in light of the ongoing challenges faced by services in current operating conditions. Finance officers will continue to work with services to ensure that these mandated savings are fully delivered as well as identifying any further areas of service efficiency which may deliver additional savings.

7. School balances

7.1. From a financial perspective, 2021/22 was another unprecedented year for schools who continued to receive several significant Welsh Government grants to support them and their pupils during, and following a period of significant disruption to learning. This resulted in all but one of our schools bringing forward a surplus balance into the 2022/23 financial year, with the vast majority carrying significant surplus balances above those guided by Welsh Government school funding regulations (£50k for a Primary, £100k for a Secondary or Special school).

7.2. The Authority requires schools carrying balances above those levels guided by Welsh Government to provide investment plans setting out how they intended to spend the excess balances being held. These plans informed the budget process for 2022/23.

7.3. At month 4, the forecast is for an overall contribution from school balances of £5.1m, resulting in a forecast surplus at year-end of £1.8m.

Table 4: Forecast movement in school balances for 2022/23

Draft Council Fund Outturn 2022/23 – School Balances Summary outturn position at Month 4 **Cluster**	(A) Opening Reserves (Surplus) / Deficit Position 2022/23 £000's	(B) Draw / (Contribution) from / (to) School Balances @ Month 4 £'000	(C) Draw / (Contribution) from / (to) School Balances @ Month 6 £'000	(D) Draw / (Contribution) from / (to) School Balances @ Month 9 £'000	(A+B) Forecast Reserve Balances at 2022/23 Outturn £'000
Abergavenny	**(2,145)**	1,181			**(963)**
Caldicot	**(2,165)**	1,570			**(596)**
Chepstow	**(695)**	863			**168**
Monmouth	**(1,869)**	1,425			**(443)**
Special	**(82)**	106			**24**
Total	**(6,956)**	**5,145**			**(1,810)**

7.4. The budget for 2022/23 made allowance for a pay award for schools staff up to a threshold of 3%, with any award agreed above this level to be funded from schools balances. The above forecast is predicated upon a further pressure of 2% over and above the 3% budgeted based upon the most likely outcome of the initial pay discussions. This accounts for £1.2m of the overall £5.1m forecast draw upon school balances this year.

7.5. The investment plans enacted by schools look to deliver the best learning outcomes for pupils in line with the purpose of the grant funding provided over the past two financial years. ***Appendices 1 & 3*** outline the forecast movement in individual school balances for the year, and whilst it is clear that the investment plans enacted will bring many school balances more in line with those levels guided by Welsh Government, it is disappointing to note that a further six schools are now forecast to move into deficit by year-end.

7.6. There remains significant concern from a financial perspective that the inherent structural budget deficits that led to a significant number of schools being in deficit pre-pandemic in some cases still remain. Whilst the current economic climate is severely challenging, schools balances are designed to provide a level of financial resilience to mitigate and smooth such risks and are not expected to fund ongoing day-to-day expenditure. Officers will continue to work closely with those schools of concern and look to aid the return to a more sustainable budget plan over the medium term.

8. Capital outturn forecast

8.1. The capital expenditure forecast detailed in ***appendix 1*** indicates a forecast over spend of £209k, with £114k being attributed to additional refurbishment costs on properties acquired for Children's Services, and £95k on the Crick Road Care Home scheme relating to additional equipment required to ensure resident's privacy.

8.2. Finance officers will continue to work with the project managers concerned to seek budget mitigation measures, either through cost reduction measures or through alternative funding mechanisms.

8.3. The current economic environment continues to have a significant impact on the overall capital programme with cost inflation and supply chain issues continuing to present a challenge to project delivery. Whilst every effort is being made by project managers to work within the budgetary plans set, it is inevitable as the year progresses that further cost pressures will materialise. This will in turn limit the scope of project delivery, especially in the areas of property maintenance and Infrastructure works where less schemes can be delivered within the overall budget allocated.

8.4. Four schemes are indicating delays at this early stage in the year, with £2.3m forecast slippage following revision of project timescales:

- £2m for Housing provision for the homeless due to the complex lead time of acquiring properties;
- £153k delay in the SRS Data Hall migration due to issues encountered with commercial providers;
- £100k for the Penyrhiw Sewage Treatment Works where the scheme has encountered delays in progressing survey and design works due to external factors;
- £25k for the Abergavenny Skate Park S106 Scheme as additional funding is being sought from external partners to deliver on the preferred project within budget.

8.5. Whilst the month 4 forecast highlights only £2.3m of capital slippage, previous year's trends would indicate that this will increase substantially as the year progresses, and as more certainty becomes available both in terms cost and contract delivery timescales.

8.6. The forecast movement in capital receipts balances for the year is shown below. Whilst overall balances on the face of it are healthy, there remains the risk that forecast receipts receivable for 2023/24 onwards are at comparatively low levels, and combined with the fact that receipts are continuing to be used to subsidise the revenue budget through capitalisation direction means that the scope for further capital investment funded via receipts will be limited.

Table 5: Forecast movement in capital receipt balances

	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Balance as at 1st April	10,414	13,289	13,204	12,259	10,763
Capital receipts used for financing	(4,263)	(1,294)	(1,194)	(1,094)	(1,094)
Capital receipts used to support capitalisation direction	(2,650)	(507)	(507)	(507)	(507)
Capital receipts Received or Forecast	9,788	1,715	756	104	104

Forecast Balance as at 31st March	**13,289**	**13,204**	**12,259**	**10,763**	**9,266**

9. RESOURCE IMPLICATIONS:

9.1. The report itself covers the resource implications of the entirety of the revenue and capital budget activity during the year. There are no further resource implications as a result of the recommendation in this report.

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

10.1. This report provides Members with information on the forecast 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.

11. CONSULTEES:

Strategic Leadership Team
Performance & Overview Scrutiny Committee
Cabinet

Feedback from Performance & Overview Scrutiny Committee 11th October 2022:

The Performance and Overview Scrutiny Committee scrutinised the Month 4 forecast budget position and expressed significant concern at the level of over spend forecast at month 4.

The Committee acknowledged the reasons for the deficit position and recognised that other councils will be facing similar challenges, however, the scale of the challenge was felt to be unprecedented and significantly concerning at month 4. Members expressed concern about the use of reserves and highlighted that this approach would be an unsustainable approach to fund service delivery in subsequent years.

Given the severity of the financial forecast, a discussion was held around the timeliness of financial information coming forward and the Chair requested that if possible, the Month 6 report be brought to the next meeting on 21st November 2022, however if that isn't possible, that an interim report be brought before members to detail the headline position.

12. BACKGROUND PAPERS:

Appendix 1 – Detailed outturn statements and directorate commentaries
Appendix 2 – Progress against mandated budget savings
Appendix 3 – Forecast movement in individual school balances

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