

**SUBJECT: REVENUE & CAPITAL MONITORING 2020/21
FORECAST OUTTURN STATEMENT – MONTH 5**

MEETING: CABINET

DATE: 21st OCTOBER 2020

DIVISION/WARDS AFFECTED: ALL

1. PURPOSE:

- 1.1 To provide Members with a forecast of the revenue and capital outturn position for the current financial year. The forecast remains heavily caveated given current uncertainty 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.

2. RECOMMENDATIONS:

- 2.1 Cabinet recognise a net revenue forecast deficit at month 5 of £7.42m, an improvement of £2.95m from month 2, with some £6.19m of the deficit 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 £6.19m leaving Council with a reduced sum of £1.23m to address as a true in-year pressure and resulting from in-year savings secured to date.
- 2.3 That an additional £675k of identified expenditure currently within the month 5 revenue forecast is recognised as eligible expenditure to be funded from capital receipts under the flexible use of capital receipts directive, reducing the £1.23m in year pressure to £555k.
- 2.4 That the remaining forecast deficit of £555k is managed through cost reduction and in taking immediate steps to curtail non-essential expenditure, recognising the risk that targeted and planned cost reductions will be challenging in the current operating environment and given that the Council will as always look to minimise impact on service delivery.
- 2.5 Cabinet agrees that the 2019/20 year-end one-off headroom added to the Council Fund of £1.8m is used to mitigate any under recovery of the £6.19m COVID-19 pressures from Welsh Government alongside responding to the potential significant financial pressures brought about by the pandemic or otherwise in the current year or over the medium term.
- 2.6 In taking the approach set out above, Cabinet recognises the extraordinary nature of the current year and accepts that significant pressures will need to be incorporated into the budget setting process for financial year 2021/22 unless otherwise mitigated.

- 2.7 Cabinet notes the extent of movements in reserve usage contained in **appendix 1**.
- 2.8 That the intended budget recovery plan signalled following the early month 2 forecast deficit against budget of £3.54m relating to non-COVID-19 items is suspended given the £2.31m improvement in the non-COVID-19 pressures identified in the interim period and outlined in this report.
- 2.9 Cabinet considers the forecast capital outturn spend of £34.95m alongside significant slippage of £26.3m, and the presumptions made around the financing consequences, as outlined in **appendix 1**.
- 2.10 Cabinet recognises that these numbers will have to be reconsidered in the event that Welsh Government falls short of expectation in compensating the Council.

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 continues to place an unprecedented strain on the Council. This is exhibited below in table 1 and 2 demonstrating an overspend forecast at year end of £7.42m.
- 3.3 This forecast comprises COVID-19 income losses of £4.83m and additional costs of £1.36m alongside non-COVID-19 pressures of £1.23m. Non-COVID-19 pressures have in part resulted from the implementation of budget savings proposals for 20/21 being delayed.
- 3.4 It is important to note that forecast overspend of £7.42m presents a worst case scenario in that it does not take into account any of the further 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-19 related costs and income losses. The Council is more optimistic than was the case at month 2 and since Welsh Government announced significant further funding for local authorities in August to supplement funding that had already been provided to assist with meeting income losses and additional costs brought about by the pandemic.
- 3.5 The Council tactically generated headroom of £1.8m in its Council Fund balance as part of the outturn strategy for 2019/20. This will enable the Authority to mitigate the risk of under recovery in funding from Welsh Government as well as allowing the Authority the flexibility to respond to the potential significant financial pressures brought about by the pandemic whether in the current year or over the medium term.

- 3.6 The immediate focus for the Council whilst it awaits absolute clarification on the level of compensating funding from Welsh Government is to manage the non-COVID-19 pressures of £1.23m. An additional £675k of identified expenditure currently within £1.23m pressure is eligible to be funded from capital receipts under the flexible use of capital receipts directive, which would reduce the in-year pressure to £555k.
- 3.7 The remaining forecast deficit of £555k is required to be managed through cost reduction and in taking immediate steps to curtail non-essential expenditure, recognising the risk that targeted and planned cost reductions will be challenging in the current operating environment and given that the Council will as always look to minimise impact on service delivery.

3.8 Overall Revenue Position

Table 1: Council Fund 2020/21 Outturn Forecast Summary Statement at Month 5

Service Area	Original Budget 2020/21	Budget Adjustments Months 1-5	Revised Annual Budget	Forecast Outturn	Forecast (Under) / Over Spend @ M5	Forecast (Under) / Over Spend @ M2	Variance from M2 to M5
	'000's	'000's	'000's	'000's	'000's	'000's	'000's
Social Care, Health & Safeguarding	50,685	(182)	50,503	51,951	1,448	1,630	(182)
Children & Young People	55,539	526	56,065	56,085	19	84	(65)
Enterprise	24,133	(1,243)	22,890	28,003	5,113	5,950	(837)
Chief Executives Unit	4,745	4	4,749	4,893	144	187	(43)
Resources	7,746	30	7,776	8,469	694	782	(88)
Corporate Costs & Levies	22,743	229	22,972	23,038	66	1,480	(1,414)
Net Cost of Services	165,591	(636)	164,955	172,439	7,484	10,113	(2,628)
Appropriations	4,856	895	5,751	5,668	(83)	(78)	(5)
Expenditure to be Financed	170,447	259	170,706	178,107	7,401	10,035	(2,634)
Financing	(170,447)	(259)	(170,706)	(170,686)	20	336	(316)
Net General Fund (Surplus) / Deficit	(0)	0	(0)	7,421	7,421	10,371	(2,950)

Table 2: Council Fund 2020/21 Outturn Forecast Detailed Statement at Month 5

Service Area	Original Budget 2020/21	Budget Adjustments Months 1-5	Revised Annual Budget	Forecast Outturn	Forecast (Under) / Over Spend @ M5	Forecast (Under) / Over Spend @ M2	Variance from M2 to M5
	'000's	'000's	'000's	'000's	'000's	'000's	'000's
Adult Services	7,877	(55)	7,822	7,979	156	24	132
Children Services	14,428	(75)	14,353	15,812	1,459	1,575	(116)
Community Care	24,434	30	24,464	24,255	(209)	(63)	(146)
Commissioning	1,483	(65)	1,418	1,355	(63)	(118)	55
Partnerships	436	0	436	436	0	0	0
Public Protection	1,481	(14)	1,467	1,576	109	211	(102)
Resources & Performance	546	(3)	543	538	(5)	1	(6)
Social Care, Health & Safeguarding	50,685	(182)	50,503	51,951	1,448	1,630	(182)
Individual Schools Budget	47,420	(350)	47,070	46,806	(264)	0	(264)
Resources	1,234	(3)	1,231	1,252	22	37	(15)
Standards	6,885	880	7,765	8,026	261	47	214
Children & Young People	55,539	526	56,065	56,085	19	84	(65)
Business Growth and Enterprise	2,468	(168)	2,300	2,328	29	46	(17)
Facilities & Fleet Management	5,665	(1,266)	4,399	5,496	1,097	1,339	(242)
Neighbourhood Services	10,483	(57)	10,426	11,579	1,153	1,456	(303)
Planning & Housing	1,951	167	2,118	3,186	1,067	1,011	56
Countryside & Culture (MonLife)	1,348	(8)	1,341	1,380	40	42	(2)
Finance & Business Development (MonLife)	1,507	116	1,623	1,473	(150)	(118)	(32)
Leisure, Youth & Outdoor Adventure (MonLife)	710	(26)	684	2,561	1,877	2,173	(296)
Enterprise	24,133	(1,243)	22,890	28,003	5,113	5,950	(837)
Legal & Land Charges	839	(6)	833	925	92	78	14

Service Area	Original Budget 2020/21	Budget Adjustments Months 1-5	Revised Annual Budget	Forecast Outturn	Forecast (Under) / Over Spend @ M5	Forecast (Under) / Over Spend @ M2	Variance from M2 to M5
Governance, Democracy & Support	3,906	10	3,916	3,968	52	109	(57)
Chief Executives Unit	4,745	4	4,749	4,893	144	187	(43)
Finance	2,597	(63)	2,534	2,723	189	137	52
Information, Communication Technology	2,803	135	2,938	2,810	(128)	40	(168)
People	1,725	50	1,775	1,781	6	(2)	8
Future Monmouthshire	(46)	(25)	(71)	41	112	112	(0)
Commercial & Corporate Landlord	667	(67)	600	1,115	515	495	20
Resources	7,746	30	7,776	8,469	694	782	(88)
Precepts & Levies	20,379	1	20,380	20,382	2	2	0
Coroner's	117	0	117	140	23	23	0
Archives	182	0	182	182	0	0	0
Corporate Management	293	0	293	179	(114)	0	(114)
Non Distributed Costs (NDC)	492	0	492	600	108	108	0
Strategic Initiatives	(167)	228	61	61	0	1,300	(1,300)
Insurance	1,447	0	1,447	1,493	46	47	(1)
Corporate Costs & Levies	22,743	229	22,972	23,038	66	1,480	(1,414)
Net Cost of Services	165,591	(636)	164,955	172,439	7,484	10,113	(2,628)
Fixed Asset Disposal Costs	20	46	65	90	25	0	25
Interest & Investment Income	(252)	0	(252)	(71)	181	163	18
Interest Payable & Similar Charges	4,020	27	4,046	3,882	(164)	(126)	(38)
Charges Required under Regulation	6,251	(76)	6,175	6,062	(113)	(113)	(0)
Other Investment Income	(1,153)	1,153	0	(12)	(12)	(1)	(11)

Service Area	Original Budget 2020/21	Budget Adjustments Months 1-5	Revised Annual Budget	Forecast Outturn	Forecast (Under) / Over Spend @ M5	Forecast (Under) / Over Spend @ M2	Variance from M2 to M5
Borrowing Cost Recoupment	(3,425)	50	(3,376)	(3,376)	(0)	0	(0)
Contributions to Reserves	143	0	143	143	0	0	0
Contributions from reserves	(747)	(304)	(1,051)	(1,051)	0	(1)	1
Appropriations	4,856	895	5,751	5,668	(83)	(78)	(5)
Expenditure to be Financed	170,447	259	170,706	178,107	7,401	10,035	(2,634)
General Government Grants	(64,823)	0	(64,823)	(64,823)	0	0	0
Non Domestic Rates	(32,937)	0	(32,937)	(32,937)	0	0	0
Council tax	(79,572)	(259)	(79,831)	(80,136)	(305)	0	(305)
Council Tax Benefit Support	6,885	0	6,885	7,209	324	336	(12)
Financing	(170,447)	(259)	(170,706)	(170,686)	20	336	(316)
Net General Fund (Surplus) / Deficit	(0)	0	(0)	7,421	7,421	10,371	(2,950)

3.9 As the Council continues to transition from the response phase of the pandemic it is important that Cabinet is kept informed as impacts are being assessed.

3.10 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).

3.11 The Council was already facing financial challenges pre-COVID-19. 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 staff resources being diverted to respond to the pandemic.

3.12 This report provides a 'point in time' assessment and forecast for 2020/21. The revenue and capital annual forecast at month 5 is shown in **appendix 1**. The forecasts have been prepared on assumptions that remain uncertain. The forecasts have been supplemented by an analysis of pressures including those that are thought without suitable mitigation to impact on 2021/22. This is shown in **appendix 2** and will inform the budget setting process for 2021/22.

3.13 The table below provides a high level analysis of how the £7.42m reasonable worst case forecast outturn is broken down. 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.

	Month 5 Forecast	Variance to Month 2	Due to Covid 19 Expenditure Increase	Variance to Month 2	Due to Covid 19 Income Loss	Variance to Month 2	Due to Non-Covid 19	Variance to Month 2
Social Care, Health & Safeguarding	1,447	(183)	0	0	168	(329)	1,279	146
Children & Young People	19	(65)	8	0	70	24	(59)	(89)
Enterprise	5,116	(1,061)	1,034	57	3,591	(928)	491	(190)
Chief Executives Unit	145	(42)	31	(26)	63	(27)	51	11
Resources	691	(91)	286	(21)	615	392	(210)	(462)
Corporate Costs & Levies	67	(1,414)	0	0	0	0	67	(1,414)
Appropriations	(83)	(5)	0	0	0	0	(83)	(5)
Financing	19	(317)	0	0	324	(12)	(305)	(305)
Total	7,421	(3,178)	1,359	10	4,831	(880)	1,231	(2,308)

3.14 The principal pressures are:

- 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.
- Income pressures relating to Civil parking enforcement where savings targets cannot be met.
- 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 which may not be funded by Welsh Government.
- 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.

- 3.15 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.
- 3.16 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 could potentially meet the income shortfalls forecast for the remainder of the year.
- 3.17 However it would be imprudent to assume that the Council will have all costs and income pressures met by Welsh Government. There is a constrained Welsh Government fund set aside to meet such pressures and the question therefore becomes 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.
- 3.18 Beyond Welsh Government funding of in year pressures, assessment will also need to be 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.
- 3.19 At month 2, given the significant early year forecast deficit against budget of £3.54m in relation to non-COVID-19 items, Cabinet had asked officers to bring forward a budget recovery plan together with a proposed set of budget savings proposals to October Cabinet.

3.20 In the interim period significant savings and reductions in forecast pressures not previously forecast at month 2 have been identified and added to the month 5 forecast and are principally made up of:

Mounton House balance repatriated to CYP budget	395	Saving
Not progressing the Turning the World Upside Down initiative and costs being diverted to Social Care Workforce and Sustainability grant	440	Saving
Capita Gwent dissolution	109	Saving
Additional Council tax receipts	305	Saving
Staff vacancies in Resources	129	Saving
One off return of SRS reserve	168	Saving
One off loan repayment windfall relating to Commercial property	113	Saving
Utilities & maintenance savings	74	Saving
Waste & Grounds - improvement in disposal costs due to reduction in tonnages	169	Reduction in pressure
Pressures now eligible to be claimed against WG Covid-19 hardship fund	341	Reduction in pressure
Other net movements	65	Saving
Total	2,308	

3.21 Given the forecast £2.31m improvement in the net non-COVID-19 pressures since month 2 and the further benefit of £675k that the one-off funding of eligible expenditure from capital receipts would generate, it recommended that a budget recovery plan together with a proposed set of further budget savings proposals is not required at this time.

3.22 It is important to note that the majority of the savings highlighted above are one off savings and will not bring any further benefit to future years budgets. Conversely, the majority of those pressures highlighted in 3.14 above are recurrent pressures and will need to be considered as part of the wider budget process for 2021/22 and beyond.

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 still 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 as we move throughout the year.

5. EVALUATION CRITERIA

- 5.1 This forecast outturn report represents an assessment of the forecast for the 2020/21 financial year based on five months of data. More so than ever the combination of the impact of the COVID-19 pandemic and the fact that it is still early in the financial year, and combined with the uncertainties on the level of Welsh Government funding support, means that a level of risk uncertainty should be attributed to the forecast.
- 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 The update of the Medium Term Financial Plan (MTFP) and the development of the budget proposals for 2021/22 and the medium term 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.
- 5.6 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 reasonable actions are being taken to safeguard the ongoing financial sustainability of the Council.
- 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 to the Council 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 £7.42m. 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 could potentially meet the income shortfalls forecast 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 £1.23m of non-COVID pressures to be managed. Options to mitigate these risks are limited but use of the £1.8m headroom specifically set aside within the Council fund at the end of 2019/20 will be the first recourse. Beyond this useable reserves, both in terms of the remainder of the Council Fund, specific earmarked reserves and useable capital receipts will be considered, however each of these are at historically low levels and only just above prudent minimum levels.
- 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 5
Appendix 2 – Pressure analysis – assumptions, sensitivities and risks

11. AUTHOR: Peter Davies, Chief Officer for Resources

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