

**SUBJECT: REVENUE & CAPITAL MONITORING 2020/21
FORECAST OUTTURN STATEMENT – MONTH 7**

MEETING: CABINET

DATE: 6th January 2021

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.
- 1.2 To provide an update on the financial impact of COVID-19 on the Council.

2. RECOMMENDATIONS:

- 2.1 That Cabinet acknowledges a net revenue forecast deficit at month 7 of £6.43m, an improvement of £995k from month 5 and which comprises:
 - a) A forecast non-COVID-19 related deficit of £518k to be managed in year and that represents a reduction of £713k since month 5, of which £675k is as a direct result of the decision to capitalise eligible expenditure and fund from capital receipts under the flexible use of capital receipts directive.
 - b) A forecast deficit of £5.91m that is directly associated with the extraordinary financial pressures attached to COVID-19 and where it is assumed that Welsh Government will continue to fund all associated and eligible income losses and cost pressures. This is a marginal improvement of £282k from the position forecast at month 5.
- 2.2 That Cabinet recognises that since the budget forecasts have been produced for month 7 that Welsh Government has notified the Authority that a further sum of £1.78m will be made available to the Authority to cover income losses for quarter 2 of the financial year, and that will in turn reduce the £5.91m COVID related forecast deficit to £4.13m.
- 2.3 That Cabinet continue to make strong representations to Welsh Government to confirm full reimbursement of the £4.13m COVID related income losses and cost pressures as soon as possible and to eliminate financial risk going into the financial year-end.
- 2.4 That Cabinet notes that the £518k non-COVID related deficit will 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.

- 2.5 In taking the approach set out above, Cabinet recognises the extraordinary nature of the current year and accepts that significant services pressures will need to be incorporated into the ongoing budget setting process for financial year 2021/22 unless otherwise mitigated.
- 2.6 Cabinet notes the extent of forecast movements in Schools reserve usage contained in **appendix 1**.
- 2.7 Cabinet considers the forecast capital outturn spend of £25.3m alongside significant slippage of £37.4m, and the presumptions made around the financing consequences, as outlined in **appendix 1**.
- 2.8 Cabinet recognises that the forecast will have to be reconsidered in the event that Welsh Government falls short of expectation in fully compensating the Council for COVID related costs and income losses.

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 **Table 2** demonstrating an overspend forecast at year end of £6.43m.
- 3.3 This forecast comprises forecast COVID-19 income losses of £4.41m and additional costs of £1.49m alongside non-COVID-19 pressures of £518k. 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 £6.43m 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 further reimbursement of income losses that have equally resulted.
- 3.5 Since the budget forecasts have been produced for month 7 Welsh Government has notified the Authority that a further sum of £1.78m will be made available to the Authority to cover income losses for quarter 2 of the financial year, and that will in turn reduce the £5.9m forecast deficit to £4.13m.
- 3.6 The Council is calling for Welsh Government to reimburse all further COVID-19 related costs and income losses. As the financial year has progressed the Council is more optimistic than was the case at the first monitoring period 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.

- 3.7 The Council tactically generated headroom of £1.8m in its Council Fund balance as part of the outturn strategy for 2019/20. Whilst this remains to assist with any under recovery in funding from Welsh Government, the increased comfort around Welsh Government funding means that this provides the Council with the flexibility to reserve this sum to respond to the financial pressures over the medium term.
- 3.8 The immediate focus for the Council whilst it awaits confirmation of full compensating funding from Welsh Government is to manage the non-COVID-19 pressures of £518k. Following the Cabinet decision at month 5, the month 7 forecast now includes the capitalisation of an additional £675k of identified eligible expenditure to be funded from capital receipts under the flexible use of capital receipts directive.
- 3.9 The remaining forecast deficit of £518k 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.

3.10 Overall Revenue Position

Table 1: Council Fund 2020/21 Outturn Forecast Summary Statement at Month 7

Service Area	Original Budget 2020/21	Budget Adjustm ents Months 1-7	Revised Annual Budget	Forecast Outturn	Forecast (Under) / Over Spend @ M7	Forecast (Under) / Over Spend @ M5	Variance from M5 to M7
	'000's	'000's	'000's	'000's	'000's	'000's	'000's
Social Care, Health & Safeguarding	50,685	(170)	50,515	52,222	1,707	1,448	259
Children & Young People	55,539	514	56,053	56,178	125	19	106
Enterprise	24,132	(1,511)	22,621	27,238	4,617	5,113	(496)
Chief Executives Unit	4,745	4	4,749	4,811	62	144	(82)
Resources	7,746	30	7,776	7,969	193	694	(501)
Corporate Costs & Levies	22,743	229	22,972	23,014	42	66	(24)
Net Cost of Services	165,590	(904)	164,686	171,432	6,746	7,484	(738)
Appropriations	4,857	1,163	6,020	5,857	(163)	(83)	(80)
Expenditure to be Financed	170,447	259	170,706	177,289	6,583	7,401	(818)
Financing	(170,447)	(259)	(170,706)	(170,863)	(157)	20	(177)
Net General Fund (Surplus) / Deficit	0	0	0	6,426	6,426	7,421	(995)

Table 2: Council Fund 2020/21 Outturn Forecast Detailed Statement at Month 7

Service Area	Original Budget 2020/21	Budget Adjustments Months 1-7	Revised Annual Budget	Forecast Outturn	Forecast (Under) / Over Spend @ M7	Forecast (Under) / Over Spend @ M5	Variance from M5 to M7
	'000's	'000's	'000's	'000's	'000's	'000's	'000's
Adult Services	7,877	(55)	7,822	8,002	180	156	24
Children Services	14,428	(63)	14,365	15,825	1,460	1,459	1
Community Care	24,434	30	24,464	24,460	(4)	(209)	205
Commissioning	1,483	(65)	1,418	1,315	(103)	(63)	(40)
Partnerships	436	0	436	436	0	0	(0)
Public Protection	1,481	(14)	1,467	1,645	178	109	69
Resources & Performance	546	(3)	543	539	(4)	(5)	1
Social Care, Health & Safeguarding	50,685	(170)	50,515	52,222	1,707	1,448	259
Individual Schools Budget	47,420	(356)	47,064	46,748	(316)	(264)	(52)
Resources	1,234	(9)	1,225	1,239	14	22	(8)
Standards	6,885	879	7,764	8,191	427	261	166
Children & Young People	55,539	514	56,053	56,178	125	19	106
Business Growth and Enterprise	2,468	(168)	2,300	2,250	(50)	29	(79)
Facilities & Fleet Management	5,665	(1,266)	4,399	5,621	1,222	1,097	125
Neighbourhood Services	10,483	(26)	10,457	11,240	783	1,153	(370)
Planning, Housing, Highways Development & Flooding	1,951	(133)	1,818	2,811	993	1,067	(74)
Countryside & Culture (MonLife)	1,348	(8)	1,340	1,422	82	40	42
Finance & Business Development (MonLife)	1,507	116	1,623	1,516	(107)	(150)	43
Leisure, Youth & Outdoor Adventure (MonLife)	710	(26)	684	2,378	1,694	1,877	(183)
Enterprise	24,132	(1,511)	22,621	27,238	4,617	5,113	(496)
Legal & Land Charges	839	(6)	833	873	40	92	(52)

Service Area	Original Budget 2020/21	Budget Adjustments Months 1-7	Revised Annual Budget	Forecast Outturn	Forecast (Under) / Over Spend @ M7	Forecast (Under) / Over Spend @ M5	Variance from M5 to M7
Governance, Democracy & Support	3,906	10	3,916	3,938	22	52	(30)
Chief Executives Unit	4,745	4	4,749	4,811	62	144	(82)
Finance	2,597	(63)	2,534	2,707	173	189	(16)
Information, Communication Technology	2,803	135	2,938	2,507	(431)	(128)	(303)
People	1,725	50	1,775	1,707	(68)	6	(74)
Future Monmouthshire	(46)	(25)	(71)	11	82	112	(30)
Commercial & Corporate Landlord	667	(67)	600	1,037	437	515	(78)
Resources	7,746	30	7,776	7,969	193	694	(501)
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	101	(192)	(114)	(78)
Non Distributed Costs (NDC)	492	0	492	707	215	108	107
Strategic Initiatives	(167)	228	61	0	(61)	0	(61)
Insurance	1,447	0	1,447	1,502	55	46	9
Corporate Costs & Levies	22,743	229	22,972	23,014	42	66	(24)
Net Cost of Services	165,590	(904)	164,686	171,432	6,746	7,484	(738)
Fixed Asset Disposal Costs	20	45	65	71	6	25	(19)
Interest & Investment Income	(252)	0	(252)	(90)	162	181	(19)
Interest Payable & Similar Charges	4,020	27	4,047	3,817	(230)	(164)	(66)
Charges Required under Regulation	6,251	(108)	6,143	6,061	(82)	(113)	31
Other Investment Income	(1,153)	1,153	0	(14)	(14)	(12)	(2)
Borrowing Cost Recoupment	(3,425)	50	(3,375)	(3,380)	(5)	(0)	(5)

Service Area	Original Budget 2020/21	Budget Adjustments Months 1-7	Revised Annual Budget	Forecast Outturn	Forecast (Under) / Over Spend @ M7	Forecast (Under) / Over Spend @ M5	Variance from M5 to M7
Contributions to Reserves	143	0	143	143	0	0	0
Contributions from reserves	(747)	(4)	(751)	(751)	0	0	0
Appropriations	4,857	1,163	6,020	5,857	(163)	(83)	(80)
Expenditure to be Financed	170,447	259	170,706	177,289	6,583	7,401	(818)
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)	(80,216)	(385)	(305)	(80)
Council Tax Benefit Support	6,885	0	6,885	7,113	228	324	(96)
Financing	(170,447)	(259)	(170,706)	(170,863)	(157)	20	(177)
Net General Fund (Surplus) / Deficit	0	0	0	6,426	6,426	7,421	(995)

3.11 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.

3.12 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 £5.5m at the end of 2020/21).

3.13 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.

3.14 This report provides a 'point in time' assessment and forecast for 2020/21. The revenue and capital annual forecast at month 7 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.

3.15 The table below provides a high level analysis of how the £6.43m 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.

	Overall M7 Forecast	Variance to M5	M7 Due to Covid 19 Expenditure Increase	Variance to M5	M7 Due to Covid 19 Income Loss	Variance to M5	M7 Due to Non Covid 19	Variance to M5
Social Care, Health & Safeguarding	1,706	259	0	0	177	9	1,529	250
Children & Young People	125	106	(50)	(53)	70	0	100	159
Enterprise	4,617	(499)	964	(70)	3,602	11	51	(440)
Chief Executives Unit	61	(84)	29	(2)	50	(13)	(18)	(69)
Resources	192	(499)	320	34	512	(103)	(640)	(430)
Corporate Costs & Levies	44	(23)	0	0	0	0	44	(23)
Appropriations	(163)	(80)	0	0	0	0	(163)	(80)
Financing	(156)	(175)	229	229	0	(324)	(385)	(80)
Total	6,426	(995)	1,492	138	4,411	(420)	518	(713)

3.16 The principal in-year non Covid-19 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 from 2019/20 and after the budget was approved.

- The 2.75% pay award 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, the remaining efficiency savings that were left to be identified during the financial year.

- 3.17 As the financial year has progressed significant forecast budget savings have been identified and added to the budget forecast to mitigate some of those pressures outlined above. **Appendix 2** provides an analysis of both the significant forecast pressures and savings, the assumptions upon which they are based as well as the risks and sensitivities that apply.
- 3.18 It is important to note that the majority of the savings identified during year to assist the in-year budget recovery are one-off savings and will not bring any further benefit to future year's budgets. Conversely, the majority of those pressures highlighted above are recurrent pressures and will need to be considered as part of the wider budget process for 2021/22 and beyond.
- 3.19 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.
- 3.20 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.
- 3.21 However, we urge Welsh Government to confirm full reimbursement of the £4.13m COVID related income losses and cost pressures as soon as possible and to eliminate financial risk going into the financial year-end.

- 3.22 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.

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. However, this risk has diminished as a result of funding received to date and the significant amount of further funding still available to local authorities in Wales via Welsh Government's COVID Hardship Fund.
- 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 seven months of data. More so than ever the combination of the impact of the COVID-19 pandemic and the fact that it is only part way through 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 an increasing level of comfort that Welsh Government funding will meet additional costs and losses of income brought about by the response to and the impact of the pandemic. However, this continues to represent a risk that will only be mitigated by monthly and quarterly submissions to Welsh Government being agreed. 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. Welsh Government has now confirmed that local authorities provisional funding settlement will be announced on the 22nd December 2020 with the final settlement being announced on 2nd March 2021. As a result of the late notification of funding draft budget proposals for 2021/22 will now not be released for consultation purposes until Cabinet has considered them at its meeting on the 20th January 2021.
- 5.6 There is also further uncertainty given that the UK Government has only undertaken a one-year Comprehensive Spending Review which consequently does not enable Welsh Government to provide any additional 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 £6.43m. However, Welsh Government funding will mitigate part of this though it remains unclear as to how far that will extend though levels of confidence have increased.
- 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 £518k of non COVID-19 pressures to be managed. Options to mitigate these risks are limited with recourse to draw on the Council Fund, specific earmarked reserves and useable capital receipts. 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 as 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 7

Appendix 2 – Pressure analysis – assumptions, sensitivities and risks

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

12. CONTACT DETAILS:

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