

**SUBJECT: REVENUE & CAPITAL MONITORING 2021/22
FORECAST OUTTURN STATEMENT – MONTH 2**

MEETING: CABINET

DATE: 28th July 2021

DIVISION/WARDS AFFECTED: ALL

1. PURPOSE:

- 1.1 To provide Members with an updated forecast of the revenue and capital outturn position for the current financial year.
- 1.2 This report will also be considered by Select Committees as part of their responsibility to,
- assess whether effective budget monitoring is taking place,
 - monitor the extent to which budgets are spent in accordance with agreed budget and policy framework,
 - challenge the reasonableness of projected over or underspends, and
 - monitor the achievement of predicted efficiency gains or progress in relation to savings proposals.
- 1.3 To provide an update on the financial impact of Covid-19 on the Council.

2. RECOMMENDATIONS:

- 2.1 That Cabinet recognises an overall net revenue forecast deficit at month 2 of £9.02m, which can be attributed to forecast deficit of £6.48m that is directly associated with the extraordinary financial pressures attached to Covid-19, with a further £2.53m relating to the pressures on the Council's core service delivery.
- 2.2 That the forecast deficit on core service delivery of £2.53m is managed through an immediate budget recovery plan 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.
- 2.3 That Cabinet can be reasonably assured based on continued dialogue with Welsh Government and the funding received since the outbreak of the pandemic, that all Covid-19 associated cost pressures and income losses eligible to be met by the Welsh Government Covid-19 Hardship fund will be funded to the end of September 2021.
- 2.4 That Cabinet note that there remains significant Covid-19 related cost pressures and income losses forecast after the end of September 2021 of approximately £2.5m which presently have no funding commitment from Welsh Government. The Council prudently set aside reserve funding at the end of 2019/20 and 2020/21 totalling £2.6m for specific Covid-19 related pressures which were yet to materialise and in the event that funding

commitments from Welsh Government fall short of meeting the additional expenditure and income losses incurred. Given the Councils comparatively low level of reserve cover, and the financial challenges over the medium term and beyond, recourse to this funding should be seen as an absolute last resort after exhausting all other alternative possibilities.

- 2.5 Whilst the Council is grateful for the funding commitments made to date by Welsh Government through the Covid-19 Hardship fund to the end of September 2021, Cabinet will look to make strong representations to Welsh Government for further clarity on funding for the ongoing pressures post September both in the form of continuing to respond to the direct impact of the pandemic but just as importantly, the wider and longer lasting indirect impact of the pandemic on Council services, particularly where this is now becoming evident in the areas of Homelessness, Children's services, Adult social care and Children's additional learning needs.
- 2.6 That Cabinet recognise the ongoing risk of the awaited outcome of pay negotiations for both teaching and non-teaching staff and that this will present a further pressure if pay awards are over and above the 1% budgeted for. Current indications are that we will see at the very least a 1.75% increase in pay for teachers with effect from September 2021, and a full year effect of at least a 1.5% increase in non-teaching staff. Welsh Government have been clear that no compensating funding is anticipated and given that the Minister confirmed via the final settlement that this already took into account any subsequent pay award.
- 2.7 Cabinet recognises the extraordinary nature of the current Council operating environment as a result of the pandemic and accepts that it will be some time until the wider and lasting impact on service delivery fully establishes itself.
- 2.8 That Members note the forecast 95% delivery of the budgeted mandated savings as detailed in **appendix 3** and as agreed by full Council previously and the implicit remedial action/savings included in the financial outturn to compensate for circa 5% savings (£229k) reported as delayed or unachievable by service managers.
- 2.9 Cabinet notes the extent of forecast movements in Schools reserve usage contained in **appendix 1** which is informed and driven by the school investment plans that were supported by the significant and unprecedented late grant support provided by Welsh Government to schools at the end of 2020/21.
- 2.10 Cabinet considers the forecast capital outturn spend of £79.2m as outlined in **appendix 1**, noting the difficulties in forecasting capital expenditure plans so early in the financial year and the probability that slippage will materialise as the year progresses due to the ongoing restrictions and impact in relation to Covid-19.
- 2.11 That Cabinet approve the Capital budget revisions as listed in **appendix 4** to this report resulting from the notification of external capital grant awards to the value of £3.58m.

3. KEY ISSUES:

3.1 Assessing the financial impact of the pandemic on the Council

- 3.2 The 2021/22 budget was set against the backdrop of an unprecedented period of uncertainty, both in Local Government and in the wider context. The Covid-19 pandemic continues to have a major impact on all local authorities and wider public services across Wales. From a financial perspective, the response to the pandemic has required the Council to incur significant additional expenditure, for example, costs relating to infection control measures, safeguarding the public and employees and support for elderly and vulnerable residents. In addition, income losses have also been substantial, during the period where services either have been closed or have experienced significant reductions in demand or footfall due to restrictions in place.
- 3.3 The Council has been given clear commitments of the proposed Welsh Government support to meet the Covid-19 pressures and significantly the announcement of further funding for local authorities via the Local Government Covid-19 hardship fund to the end of September 2021. Cabinet can be reasonably assured that all such Covid-19 related pressures will be funded during this period.
- 3.4 **Table 1** below indicates a total forecast net over spend for the Council at year end of £9.02m and how this variance is broken down into that due to core service delivery and that relating directly to the response to the pandemic.

Table 1: Council Fund 2021/22 Outturn Forecast as at Month 2

Directorate	Total forecast variance at Month 2	Of which due to core service delivery:	Of which due to Covid-19 Expenditure Increase:	Of which due to Covid-19 Income Loss:
Children & Young People	832	832	0	0
Social Care, Health & Safeguarding	1,665	1,665	0	0
Enterprise	2,469	267	1,248	954
Monlife	3,010	0	0	3,010
Chief Executives Unit	52	52	0	0
People & Governance	(7)	(7)	0	0
Resources	1,108	208	628	272
Corporate Costs & Levies	21	21	0	0
Appropriations	0	0	0	0
Financing	(130)	(500)	370	0
Total forecast	9,020	2,538	2,246	4,236
WG funding expected to end of Sep-21 but not included above	(3,916)		(1,057)	(2,859)
Pressure to be managed for the year based on current WG C-19 funding commitments	5,104	2,538	1,189	1,377

- 3.5 The forecast comprises expected additional costs of £2.246m and income losses of £4.236m directly related to the impact of Covid-19 on the Council, alongside a forecast 2.538m forecast over spend on core Council service delivery.
- 3.6 It is important to note that the combined forecast overspend of £6.482m relating specifically to the Covid-19 impact is presented on a prudent basis in so much that it displays a worst case scenario that does not take into account any of the further Welsh Government Hardship funding anticipated to partially meet the additional costs or reimbursement of income losses that have equally resulted.
- 3.7 The Council can be reasonably assured based on continued dialogue with Welsh Government and their current funding commitments, that all Covid-19 associated cost pressures and income losses eligible to be met by the Welsh Government Covid-19 Hardship fund will be funded to the end of September 2021. This would represent further funding of circa £3.916m, meaning a risk that a forecast sum of £2.566m would potentially need to be met by core Council funding if, as expected, Covid-19 related costs and income losses continue during the second half of the financial year.

Table 2: Projected shortfall in income to fund Covid-19 pressures

	£000
Forecast expenditure directly attributable to Covid- 19 for 2021/22	2,246
Forecast shortfall in income due to Covid-19 impact for 2021/22	4,236
Total forecast pressure due to Covid-19 impact for 2021/22	6,482
Expected funding from WG Hardship fund to end of September 2021	(3,916)
Projected shortfall in funding to meet Covid-19 pressures	2,566

- 3.8 Whilst the Council is grateful for the funding commitments made to date by Welsh Government through the Covid-19 Hardship fund, it is imperative that the Council will look to make strong representations for further clarity on funding for the ongoing Covid-19 pressures post September 2021. As Covid-19 restrictions continue to ease some of these pressures are expected to fall away quickly, others will take some time to unwind and stabilise, whilst others will be of a more permanent nature brought about by strategic policy change enacted by Welsh Government.
- 3.9 The Council prudently set aside reserve funding at the end of 2019/20 and 2020/21 totalling £2.6m for specific Covid-19 related pressures which were yet to materialise, and in the event that funding commitments from Welsh Government fall short of meeting the additional expenditure and income losses incurred post September, this reserve funding will be available to mitigate the impact. Given the Councils comparatively low level of reserve cover, and the financial challenges over the medium term and beyond, recourse to this funding should be seen as an absolute last resort after exhausting all other alternative possibilities. Therefore, it remains of critical importance that services manage budgets and expenditure tightly and take all opportunities to maximise income generation and bear

down on cost. It is important that services do not become reliant upon WG support and develop strategies that allow them to emerge from the pandemic on a firm financial footing.

3.10 Just as importantly as managing the direct impacts of the pandemic on the Council, the wider and longer lasting indirect impact on Council services need 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 demand in these areas as a result of the ongoing societal impacts of the Covid-19 response and restrictions, and some of these impacts will take a significant period of time to unwind and the Council therefore needs to engage in careful discussions with Welsh Government around the management of this in the medium term. Alongside this Council services need to prepare to be adaptable and innovative in their response to these pressures materialising and not simply rely on traditional methods of mitigation or solely place reliance on further funding coming forward.

3.11 **Financial assessment of core service delivery**

3.12 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. The Council had already faced significant financial challenges in setting a balanced budget for 2021/22 and the pandemic has only accentuated the challenge. The budget round saw £10.3m of budget pressures accommodated, notably:

- In full, all pay and pension-related spending pressures in our schooling system;
- The increasing demand placed on children's social care services, adult social care and our children with additional learning needs budgets;
- 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;
- Investment that ensures that homeless people are provided adequate support, advice and accommodation in their time of need;
- An ongoing commitment to recognise and value the contribution made by the workforce and ensuring that local government staff are paid no less than the minimum wage set by the Living Wage Foundation. And that as a result of the Cabinet decision in January 2021 is also extended to apprenticeship roles within the Council.

3.13 Despite accommodating the above pressures into the 2021/22 budget, at month 2 there are already significant in year core service pressures forecast of £2.54m, with many of these pressures developing in the same key areas that have been provided additional support in the budget. The principal pressures are within the areas of:

- **Children's services £1,127k** – Despite stabilisation in Children looked after numbers, new children have required high cost residential placements, as opposed to those leaving which have been more in the lower cost fostering/kinship/family

placements. A recent legal case has also led to the need to pay kinship carers in line with foster carer rates, along with the increase in payment to foster carers due to increasing skills training.

- **Adults Services £536k** – largely as a result of additional carer recruitment to our in house care at home service, and increased care packages in the South of the County.
- **Transport & Passenger Transport Unit (PTU) £470k** - The cost of maintaining the authority's fleet has exceeded available budget and within PTU pressures remain that continue to be worked on as part of the PTU review and where implementation has been impacted by the pandemic.
- **Additional Learning Needs £830k** – primarily due to a reduction in income from other LAs (£197k), additional support for pupils attending our own schools (£223k), and placement costs outside of our own schools (£373k).
- **Landlord services £158k** - a shortfall against additional commercial income targets as an indirect consequence of the impact of Covid-19 and the current level of market and economic uncertainty.

These pressures are in part mitigated by out-performance of budgeted Council tax collection of £500k and importantly the overall outturn position continues to be supported by £2.2m of identified eligible expenditure to be funded from capital receipts under the flexible use of capital receipts directive. Reliance on these mitigations is a short term measure only and is clearly not sustainable over the medium term.

- 3.14 As the financial year progresses there will inevitably be further forecast budget savings identified and added to the budget forecast to mitigate those pressures outlined above. **Appendix 2** provides an analysis of both the significant forecast pressures and savings already identified at month 2.
- 3.15 It is important to note that the majority of the savings identified during the 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 2022/23 and beyond.
- 3.16 As we look to the remainder of the financial year, the key financial risk and uncertainty continues to be the amount of compensatory Welsh Government funding that the Council will receive for Covid-19 pressures. However, alongside this the outcome of pay negotiations for both teaching and non-teaching staff are awaited and will present a further pressure if pay awards are over and above the 1% budgeted for. Current indications are that we will see at the very least a 1.75% increase in pay for teachers with effect from September 2021 and a full year effect of at least a 1.5% increase in non-teaching staff. Welsh Government have been clear that no compensating funding is anticipated and given that the Minister confirmed via the final settlement that this already took into account any subsequent pay award.
- 3.17 To that end the Senior Leadership Team will immediately look to implement a budget recovery plan 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. As such, the early implementation of the recovery plan will be critical in enabling the Council to reduce the overall forecast deficit especially in light of the challenging budgetary position it finds itself in leading into 2022/23.

3.18 Progress against mandated savings

3.19 The 2021/22 budget included mandated savings totalling £4.734m and the progress against these is summarised in **table 3** below and in more detail in **appendix 3**.

Table 3: Progress against mandated savings

Directorate	2021/22 Budgeted Savings	Saving achieved	Delayed Savings	Savings Unachievable	% Achieved
	£0	£0	£0	£0	
Children & Young People	(1,510)	(1,313)	(197)	0	87%
Social Care & Health	(874)	(874)	0	0	100%
Enterprise	(821)	(821)	0	0	100%
Monlife	(100)	(80)	0	(20)	80%
Resources	(165)	(165)	0	0	100%
Chief Executives Unit	(32)	(20)	(12)	0	63%
Corporate Costs & Levies	(1,508)	(1,508)	0	0	100%
Appropriations	275	275	0	0	100%
Total	(4,734)	(4,506)	(209)	(20)	95%

3.20 It is pleasing to note the forecast 95% delivery of mandated savings, especially in light of the ongoing challenges faced by services in the current operating conditions. Finance officers will continue to work with services to ensure that these savings are fully delivered as the year progresses and to look at options for delivering on savings indicated as delayed.

3.21 School balances

3.22 From a financial perspective, 2020/21 was an unprecedented year for schools who received several significant Welsh Government grants to support them and their pupils during a period of significant disruption to learning, and alongside this sustained periods of enforced closure during the financial year resulted in spending on core budgets being significantly curtailed. This resulted in the majority of schools bringing forward significant surplus balances into the 2021/22 financial year.

3.23 The Authority required schools carrying significant surplus balances that were above levels guided by Welsh Government (£50k for a Primary, £100k for a Secondary) to provide investment plans setting out how they intended to spend the significant balances being held. These plans have subsequently been completed and assessed and has informed

the budget monitoring process for month 2, with schools forecasting to draw on £1.782m of balances during the year, as shown in **table 4** below.

Table 4: Forecast movement school balances for 2021/22

Draft Council Fund Outturn 2021/22 – School Balances Summary outturn position at Month 2	Opening Reserves (Surplus) / Deficit Position 2021/22	Draw / (Contribution) from / (to) School Balances @ Month 2	Forecast Reserve Balances at 2021/22 Outturn
	£000's	£'000	£'000
Cluster			
Abergavenny	(1,158)	309	(849)
Caldicot	(1,091)	539	(552)
Chepstow	(349)	516	167
Monmouth	(794)	457	(338)
Special	(26)	(39)	(65)
Total	(3,418)	1,782	(1,636)

3.24 Irrespective of the significant one-off funding given to schools at the end of 2020/21, it is clear that the inherent structural budget deficits that have led to a significant number of schools being in deficit over the past few years remain and these will require resolution regardless. It is expected that the additional funding made available to those schools will allow a period of transition and as to allow those underlying budgetary issues to be rectified without impacting on educational standards.

3.25 Capital outturn forecast

3.26 The capital expenditure outturn detailed in **appendix 1** shows a balanced budget with currently no under or over spends being forecast mainly due to expenditure plans still needing to be refined given the early stage in the financial year. Given the significant budget of £79.2m there is clearly a risk of slippage in the programme as the year progresses. This risk is enhanced by a change in Senior Management positions within the Property Management structure and continuing delays in contracting work due to Covid-19 restrictions which are expected to have an impact on investment plans during the year, however this will take some time to become apparent.

3.27 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 for 2022/23 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 will be limited.

Table 5: Forecast movement in capital receipt balances

	2021/22	2022/23	2023/24	2024/25	2025/26
	£000	£000	£000	£000	£000
Balance as at 1st April	9,581	15,550	15,162	14,076	12,989
Capital receipts used for financing	(2,059)	(684)	(684)	(684)	(684)
Capital receipts used to support capitalisation direction	(2,208)	(2,208)	(507)	(507)	(507)
Capital receipts Received or Forecast	10,236	2,504	104	104	104
Forecast Balance as at 31st March	15,550	15,162	14,076	12,989	11,902

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.
- 4.1 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, either fully or in a more limited capacity, or how services are looking to respond to the changing demands. Rather they represent a reasoned assessment of the impact on services in year based on known information, anticipated future changes and estimates.
- 4.2 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. Current funding commitments from Welsh Government are due end in September 2021 and the council will continue to will look to make strong representations for further clarity on funding for the ongoing Covid-19 pressures for the remainder of the financial year.

5 EVALUATION CRITERIA

- 5.1 This forecast outturn report represents an assessment of the forecast for the 2021/22 financial year based on only two 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 increased 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 to the end of September 2021. 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 need to be managed regardless.

- 5.3 The Council has traditionally maintained formal reporting to Cabinet at month 2, month 5 and outturn, with more frequent budget monitoring information being undertaken at a departmental level and reported to management and the Strategic Leadership Team. More regular formal reporting to Cabinet is considered necessary only where circumstances necessitate it. Therefore, and as a result of the continuing significant financial challenges facing the Council as a result of the pandemic, there will be 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.
- 5.4 The update of the Medium Term Financial Plan (MTFP) and the development of the budget proposals for 2022/23 and the medium term are expected to be significantly challenging. There remains funding 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.
- 5.5 The Council will also need to consider the wider and longer lasting indirect impact on Council services, particularly in the areas of Homelessness, Children's services, Adult social care and Children's additional learning needs. There remains significant latent demand in these areas as a result of the ongoing societal impacts of the Covid-19 response and restrictions, and some of these impacts will take a significant period of time to unwind and the Council therefore needs to engage in careful discussions with Welsh Government around the management of this in the medium term.

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 £9.02m. However Welsh Government Covid-19 support funding is expected to cover a significant amount of this although 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 will undoubtedly be a feature of 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.
- 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 significant non Covid-19 pressures being managed.
- 7.5 The more immediate step will be to engage a budget recovery plan 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. As such, the early implementation of the recovery plan will be critical in enabling the Council to reduce the overall forecast deficit especially in light of the challenging budgetary position it finds itself in leading into 2022/23.
- 7.6 There are resultant consequences for the MTFP and the budget process for 2022/23 and these will be developed in parallel and 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 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.
- 8.2 Any such impacts will be fully considered subsequently when Council receives details the budget recovery plan and revised budget proposals.

9 CONSULTEES:

Senior Leadership Team
Cabinet

10 BACKGROUND PAPERS:

Appendix 1 – Detailed revenue and capital forecast outturn statement – month 2

Appendix 2 – Service variance analysis

Appendix 3 – Progress against budgeted savings

Appendix 4 – Capital external financing budget revisions

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