

SUBJECT:	DRAFT REVENUE BUDGET PROPOSALS 2022/23
MEETING:	CABINET
DATE:	19th January 2022
DIVISION/WARDS AFFECTED:	All

1. PURPOSE:

- 1.1 To set out draft revenue budget proposals for financial year 2022/23.
- 1.2 To commence a period of consultation on the draft budget proposals for a four-week period to 16th February 2022.
- 1.3 To consider the 2022/23 draft budget proposals within the context of the 4 year Medium Term Financial Plan (MTFP) and the Corporate Plan.

2. RECOMMENDATIONS:

- 2.1 That Cabinet approves the release of its draft budget proposals for 2022/23 for consultation purposes.
- 2.2 That Cabinet approves that the consultation period, including the opportunity to present alternative proposals that have been assessed for Future Generations and equality implications, commences for a four-week period ending on 16th February 2022.
- 2.3 That Cabinet confirms that the draft budget proposals and the revenue budget for 2022/23 are wholly aligned with the priorities set out in both the Corporate Plan and latest iteration of its strategic aims and that looks to maintain focus on the longer term challenges facing communities, and calls on the Council's partners and partnerships to maintain such similar focus.
- 2.4 To update Cabinet on the implications arising out of the provisional settlement announcement of Welsh Government and to agree its proposed response as outlined in the letter shown in appendix 5.
- 2.5 That Cabinet recognises unavoidable service pressures of some £10.41 million and further pay pressures of £4.96 million that need to be provided for within the 2022/23 budget.
- 2.6 That Cabinet confirms its intention fund pay related pressures insofar as they impact schools and up to a threshold of a 3% pay award, and to accommodate significant demand pressures caused in particular by increasing numbers of looked after children and pupils with additional learning needs.
- 2.7 That Cabinet proposes a Council Tax rise of 3.95% for modelling purposes for financial year 2022/23 and over the medium term.

- 2.8 That Cabinet acknowledges the financial risks and uncertainties that remain and that unless mitigated through other means will result in further budget pressures needing to be managed.
- 2.9 That Cabinet recognises that whilst the draft budget proposals are presenting a balanced budget this includes a one-off contribution of £863k from the Council's limited general reserve (Council Fund). Efforts are to continue to mitigate as much as possible the level of reserve contribution supporting the budget proposals for 2022/23.

3. KEY ISSUES:

Overview

- 3.1 The last two years have been truly unprecedented, on the county and its residents, and also on the Council and where its finances have been and continue to be put under significant strain. The severe flooding that impacted the county in early 2020 was soon followed by the pandemic. The virus is still with us, and we are increasingly viewing it as something we have to live with, at least for the foreseeable future. And its impacts will continue through the current financial year and 2022/23 and beyond.
- 3.2 It is well trailed nationally that increases in local government funding have not kept pace with the demand and inflationary pressures and that it continues to face. Monmouthshire, in keeping with all other Councils in Wales has had to accommodate significant service pressures into its cost base to ensure that the service offer has remained relevant and appropriate for the citizens of the county.
- 3.3 For some years now the Council has successfully accommodated the ongoing and significant financial, demographic and demand-led pressures. This alongside its commitments to deliver the goals and objectives set out in its Corporate Plan and the Council's latest iteration of its strategic aims.
- 3.4 These budget proposals and the revenue budget as a whole for 2022/23 continue to support the priorities of the Administration and are wholly aligned with the priorities set out in both the Corporate Plan and latest iteration of its strategic aims. Notably this includes ensuring that resources are aligned to meet the plans for tackling the longer term challenges that communities and public sector organisations are facing of:
- a) Transition towards net zero – where the Council will draw on existing resources and specific grant funding where available to continue to increase the pace at which it decarbonises its operations while developing guidance and support to help individuals and businesses reduce their emissions.
 - b) Health inequalities – we will continue the work that we have started, working with partners and through partnerships to and that look to narrow the differences in life expectancy in, and between communities. And to ensure that resources are suitably aligned to where need is greatest to reduce such inequality.
 - c) Social care reform – Services for children and adults are experiencing acute pressures from a combination of factors. We need to work closely with colleagues in Welsh Government and the NHS to ensure we have the right resources in the right places for the health and social care systems to work in equilibrium with vulnerable people supported in the most appropriate setting.

- d) Wellbeing of Children and Young People – That schools are sufficiently resourced to ensure children whose learning has been disrupted by the pandemic are able to make up for lost time, are not at a disadvantage in the long-term and ensuring that support is available to support their well-being.
- e) Mental Health – With one in four adults and one in ten children experiencing mental health problems in any given year this is a significant challenge and the Council will look to work with other public service partners to ensure the availability of information and resources so that people can protect and manage their own mental health and well-being.

3.5 In supporting these longer term strategic aims of the Council the draft budget proposals for 2022/23 will also specifically seek to recognise:

- a) All pay and pension related spending pressures in our schooling system, up to a threshold of a 3% pay award
- b) The increasing demand on schools and the Local Education Authority of pupils with additional learning needs
- c) 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
- d) 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.
- e) Responding to the needs of the homelessness with housing related support
- f) Sustaining locally accessible services in the most effective and efficient way possible

3.6 Despite the impact and consequences of the pandemic the budget proposals see a continuation of our preparedness to challenge all services to sustain themselves rather than to see the closure of services that matter to citizens. There is an acknowledgement that when things close they never return and it is better to scale back rather than absolutely withdraw. This remains a key feature of the proposals as a whole and where significant pressures have had to be recognised to allow services to be sustained and maintained.

3.7 Despite the above average provisional settlement from Welsh Government this does not allow the full extent of the pressures accommodated into the budget proposals to be offset.

3.8 The budget proposals also highlight a number of potentially significant financial risks and uncertainties not factored into the budget pressures and that if they materialise and unless mitigated through further budget savings will result in the need for further one-off reserve funding to be considered. These risks are highlighted later in the report and relate to uncertainties around specific Welsh Government grant funding being received to meet ongoing pressures in homelessness, income shortfalls that might arise if footfall and membership in leisure centres not returning to pre-pandemic levels, and further cost pressures that might result from the fragility in the social care market.

3.9 The Council is grateful to Welsh Government for the significant level of funding it has provided through its COVID Hardship Fund to meet additional costs and income losses and that have resulted from the pandemic. However, with the COVID Hardship Funding

ceasing on 31st March 2022 and significant impacts continuing to be felt into 2022/23 the Council calls for Welsh Government to continue its financial support in meeting such one-off costs and impacts through 2022/23.

- 3.10 The pandemic aside the challenges facing the authority now and into the future should not be under estimated. The latest 2021/22 in-year forecast exhibits significant pressures within and across services. A recovery plan is in place and is looking to arrest the current non-COVID over spend on services such that it does not result in any unnecessary call on limited one-off reserves.
- 3.11 For 2022/23 and in overall terms there are some £10.41 million of new unavoidable service pressures that need to be accommodated as part of the 2022/23 budget and these are summarised in appendix 1 and detailed in appendix 2. The pressures significantly present themselves in:
- a) Commitment to paying the real living wage (RLW) in social care (£1.9m)
 - b) Children's social care (£1.3m)
 - c) Children with additional learning needs (£1.0m)
 - d) Adult social care (£1.0m)
 - e) Waste and street services (£1.5m)
 - f) Passenger transport unit (£0.6m)
 - g) Commercial property income (£0.8m)
 - h) Energy price increases (£0.5m)
- 3.12 We have thoughtfully reviewed our income budgets. It is never popular to increase charges for services but the reality is that we need to do so and where inflation is causing the cost of services to rise. However, we have limited any increases in charges as much as possible. Likewise increasing Council Tax is never popular but with national funding not keeping pace with demands on local authorities, local taxation is by default having to shoulder a greater proportion of our overall funding.
- 3.13 These budget proposals assume a council tax rise of 3.95% for 2022/23 for modelling purposes. For a current Band D property of £1,434 (Council only element excluding community council or Police levy), this would illustratively be an additional £56.66 a year or £1.09 a week for 2022/23.
- 3.14 The budget proposals are supported by a one-off contribution of £863k from the Council's limited general reserve (Council Fund balance). This reserve headroom and cover being put in place in the last two financial years through late Welsh Government grant received in 2020/21 and a significant one-off recovery of VAT in 2019/20. Efforts are to continue to mitigate as much as possible the level of reserve contribution supporting the budget proposals for 2022/23 as the reserve headroom is needed to also support the Council finances being put back on a sustainable footing over the medium term. The Council Fund balance provides limited cover for unforeseen future eventualities and where mitigating budgetary recovery action is unable to manage such pressures on the Council's budget.
- 3.15 The Council is also having to make a continued use of Welsh Government guidance and that allows local authorities in Wales to fund one-off revenue costs associated with service reform from useable capital receipts held. This in turn will impact on useable capital receipts available to fund future capital programmes. However, and similar to the need to draw on one-off reserve balances, it is a necessary measure to allow the 2022/23 budget proposals to be funded and without recourse to reductions needing to be made to frontline

services. The planning assumption is to work towards significantly reducing or removing reliance on this mechanism to support the revenue budget from 2023/24 onwards.

Purpose and Priorities

- 3.16 Monmouthshire County Council's Corporate Plan 2017-22 sets out the things we will be working on in the medium term. Our organisational purpose set in our Corporate Plan remains at this time one of *building sustainable and resilient communities that can support the wellbeing of current and future generations*. We share this core purpose with our Public Service Board and it is our guiding force in working towards the seven national Well-being Goals.
- 3.17 The five organisational goals described in the Corporate Plan incorporate the council's well-being objectives but go further in reflecting the need for a deeper organisational and council business focus. Setting our goals in this plan and the actions necessary to deliver on them enables us to identify the future we want.
- 3.18 The Plan is underpinned by a clear policy framework that sets out in more detail our work to enable the delivery of the plan. The plan is supported by the 22 commitments to action we will make and the ways in which they will be measured. A mid-term refresh of the Corporate plan was approved by Council in March 2020. The plan continues to be delivered during the course of the current Council, which runs until the local elections in May 2022. And thereafter a new Corporate Plan will be adopted by the new political administration in Summer 2022.
- 3.19 The aspiration and objectives set for Monmouthshire by the PSB and Council are:

<i>Public Service Board Well-being Objectives</i>	<i>Monmouthshire County Council Goals & Well-being Objectives</i>
Provide children and young people with the best possible start in life	Giving people the best possible start in life
Respond to the challenges associated with demographic change	Lifelong well-being
Protect and enhance the resilience of our natural environment whilst mitigating and adapting to the impact of climate change	Maximising the potential of the natural and built environment
Develop opportunities for communities and businesses to be part of an economically thriving and well-connected county	Enable a thriving and well-connected county
	A future focussed Council

- 3.20 The council's strong record of delivery within a robust budget framework has enabled us to keep frontline services operating. We are clear that money should follow our core purpose of building sustainable and resilient communities and delivering the well-being objectives in the Corporate Plan.

- 3.21 At the outset of the Coronavirus pandemic Cabinet introduced a revised purpose and new strategic aims for the Council to provide clarity and ensure accountability through this period. The latest and fifth iteration of the revised strategic aims was agreed by Cabinet in December 2021 - 'Looking Ahead, Delivering Now: Our Strategy to Summer 2022'. Delivery of the strategic aims will continue to have significant resource implications, including increased costs to maintain current service delivery and demands in setting up new or amended services. Close financial and budget monitoring continues.
- 3.22 We continue to develop our Medium Term Financial Plan to support us as far as possible to continue to deliver the aims and aspirations set out in this Corporate Plan and our purpose. While the Council's medium term financial planning has been severely disrupted by the pandemic, we continue to aim to ensure our focus is not only on short-term response, but medium-term recovery and long term sustainability.
- 3.23 We recognise this is not without challenges and uncertainty. However, it will enable us to focus our finite resources on the areas that matter most to people and enable us to build a sustainable service offer for current residents and businesses as well as future generations.
- 3.24 Our Corporate Plan and strategic aims give us the framework to focus on the big challenges but we can never lose sight of the need to spend every pound wisely, nor the reality that the cumulative impact of many small changes can add up to a significant impact on some people within our communities and the need to ensure that there is some degree of mitigation against this for the most vulnerable.
- 3.25 Chief Officers in considering the proposals and strategy above have also been mindful of the whole authority strategic risk assessment.
- 3.26 The following table demonstrates the links at a summary level that have been made with the 5 priorities, Corporate Plan and the strategic risks:

Proposal	Link to Goals and Well Being Objectives in the Corporate Plan	Link to Whole Authority Risk assessment
<p>Schools budgets will see a cash increase and pay pressures will be funded as they impact schools and up to a threshold of a 3% pay award.</p> <p>Education and school budgets will see additional resources going into the budget for children with additional learning needs.</p>	<p>Best possible start in life; Thriving and well connected County</p>	<p>Failing to meet the needs of learners, including vulnerable learners, and failing to promote pupil well-being within Monmouthshire's schools, which may result in children and young people not achieving their full potential.</p>
<p>Budget proposals that recognise the increasing complexity and demand being placed on our</p>	<p>Giving people the best possible start in life; Lifelong well-being</p>	<p>The robust delivery of the Council's corporate parenting responsibility and services related to vulnerable children</p>

children's social services in respect of looked after children and for whom the Council acts as corporate parent		as a result of an increase in demand and complexity in cases
Budget proposals that recognise 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.	Lifelong well being	The well-being of some of our most vulnerable residents will be affected due to an increase in demand, complexity in cases, and recruitment and retention issues affecting the robust delivery of the council's Adult Services
Budget proposals that recognise and responds to the increased needs of the homeless	Lifelong well-being	Changes in socio-economic conditions could impact on individuals and families, resulting in increased poverty and inequality in the county

Budget Process so far

3.27 Cabinet received a report on the budget process and timetable at their meeting of 1st December 2021.

3.28 The assumptions used in the construction of the budget proposals for 2022/23 and over the current modelling of the MTFP over the medium term were:

- 4.0% pay award for non-teaching staff (2.5% for 2023/24 and 2.3% for 2024/25 and 2025/26) in line with Office for Budget Responsibility forecasts, with the exception of schools where the increase in pay award for school based staff will be limited to 3.0%.
- 3.0% pay award for teaching staff with effect from September 2022 resulting in a blended rate for the 2021/22 year of 2.67%. And in applying the OBR rates across the medium term for academic years blended rates of 2.71% for 2023/24, 2.38% for 2024/25 and 2.3% for 2025/26
- 0% non-pay expenditure inflation
- 0% income inflation – price increases to be considered by service managers through the through the budget process
- 2% staff vacancy factor for services and a 0% staff vacancy factor for schools
- An employer's superannuation contribution rate of 24.1% for 2022/23 followed by 1% increases for the remainder of the MTFP period
- Beyond the now confirmed Welsh Government settlement for 2022/23 that AEF (WG core funding) tracks the indicative increases notified by WG of 3.5% for 2023-24 and 2.4% in 2024/25. Followed by a proposed increase of 2% in 2025/26.
- A 3.95% increase in Council tax for 2022/23 followed by reduced 3.95% increases in council tax for the remainder of the MTFP period – for modelling purposes only

3.29 The above assumptions and modelling have been recently revised upon and alongside the receipt of the local government provisional settlement. The consequence of the positive

provisional settlement has led to the budget gap being significantly reduced and which is welcomed. Modelling over the medium term still shows however a budget gap of £13.57 million needing to be managed over the medium term. Further work continues to be undertaken to assess service based pressures both in the current year budget and any new pressures arising. The limited scope for savings and income generation proposals have also being updated and reviewed in order to close the gap between available resources and demand for resources.

- 3.30 The Welsh Government published its draft budget on 20th December 2021. The overall increase in the Welsh Government draft revenue budget was £2.6bn (14%). Revenue spending will increase by £2.5m (15%) and spending on capital will increase by £122m (5%). The Welsh Government's Budget provides indicative figures for future years, which means we return to a regime of multiyear settlements. Indicative grants allocations for 2023-24 and 2024-25 will help future financial planning across the MTFP. Unlike in recent years where such indicative figures for future years have not been available.
- 3.31 On 21st December 2021 the Minister for Housing and Local Government published the provisional local government finance settlement. There is an average increase in the revenue settlement (Aggregate External Finance) of 9.4% for 2022/23 on a like-for-like basis and including transfers that for Monmouthshire only related to a proportion of the Social Care Workforce Development grant transferring into the AEF. The Welsh Government has increased AEF for local authorities in Wales by £437m.
- 3.32 The Council in fact saw an increase in its AEF of 11.2%, above the all-Wales average of 9.4% and the highest percentage increase of any Welsh local authority. On the one hand this was welcome news as it enables some of the pressures needing to be accommodated in the budget proposals to be offset. And was significantly ahead of the original and prudent modelling assumption factored into the MTFP. However, the Council still remains rooted to the bottom of the table for funding per capita (£1,176 per capita).
- 3.33 The Minister's letter sets indicative, Wales-level, core revenue funding allocations in subsequent years which equates to an uplift in 2023/24 of 3.5% and 2024/25 of 2.4%. As the Minister points out, these figures are indicative and dependent on estimates of NDR income over the multi-year settlement period, and UK Government decisions. This is, however, a welcome step forward as noted above.
- 3.34 Whilst a significant proportion of pressures have been funded by this settlement there is a question mark over the actual pressures that will arise for pay. Welsh Government has been clear that authorities' budget planning must accommodate the cost of pay awards and in light of the settlement.
- 3.35 Welsh Government also confirmed that the settlement includes funding to enable authorities to meet the additional costs of starting to pay the Real Living Wage (RLW) of £9.90 an hour to social care workers from April 2022. The Council already commits to paying its paid workforce at the RLW. For commissioned care it is anticipated that market providers are already having to pay staff above RLW and in light of the well publicised challenges with recruitment and retention and at a time when Welsh Government is removing the funding support through its COVID hardship fund. The funding included in the settlement remains unhypothecated within the settlement and therefore assists the Council in making further budget provision and contingency that allow the Council to suitably respond to challenges brought about by the fragility of the care sector and the current levels of unmet need.

- 3.36 Welsh Government have confirmed that the COVID hardship fund, that has met significant COVID pressures over the last two years, in the form of increased costs and income losses, will come to an end at the end of the 2021/22 financial year. The consequence of this is that the ongoing impacts of the pandemic, either directly or indirectly, will need to be met by the Council unless specific grant funding from Welsh Government subsequently allows for such impacts to be met. The budget proposals make reference to continued risks around further potential unfunded pressures with homelessness, social care and leisure centre income. And to the extent that these risks materialise then further budget recovery action will need to be taken in 2022/23. The Council will continue to engage both WLGA and Welsh Government directly to ensure that Monmouthshire's circumstances are both known and understood.
- 3.37 On a like-for-like basis specific revenue grants will increase from £1.142bn to £1.146bn across Wales which is a slight increase of about 0.4%. Many of the grants remain unchanged from 2021-22 figures, and some are yet to be finalised. As such specific grant funding still remains an evolving picture with many grant notifications still to be received. Further engagement with Welsh Government will continue such as to ensure that the final budget proposals are suitably refined to take effect of any further changes in specific grant funding that impact further on the draft budget proposals presented for consultation purposes.
- 3.38 A response to Welsh Government regarding the Provisional Settlement is attached at Appendix 5.
- 3.39 A high level summary of the draft proposals and the resultant budget shortfall to be funded by a one-off contribution from the Council's general reserves (Council Fund balance) of £863k is shown below. Service pressures of £10.41m and savings of £1.55m are summarised in appendix 1 and each is supported by a detailed mandate in appendix 2.

BUDGET PROGRESS TO DATE	£'000	£'000
Gross Expenditure		254,948
Specific service Pressures	10,413	
Pay pressures	4,623	
Full cost Pressures	1,299	
	16,335	16,335
Sub Total Expenditure		271,283
Gross Income		(254,948)
<u>Savings Proposals</u>		
Service efficiencies	(1,421)	
Welsh Government settlement funding implications	(10,792)	
Income generation increase	(133)	
Council tax additionality	(3,126)	
	(15,472)	(15,472)
Sub Total Income		(270,420)
Net Expenditure		863
Council Fund contribution	-	863
Net Expenditure		-

Pressures

3.40 The work on pressures has highlighted that a number of significant service pressures (£10.413m) need to be taken into account in next year's budget. A summary table of pressures is provided below and further information on the individual pressures is provided in summary in Appendix 1 and in detail in appendix 2. The main service pressures principally relate to areas outside of the control of the Authority, and most notably:

- Children with additional learning needs – £0.96m pressure resulting from increase demand for support for pupils and increases in placements costs. And that includes requirements to support pupils from an earlier age and pupils that are continuing their education into post-16. A proposal to delegate schools action plus funding will allow schools to have more flexibility around the support and funding for pupils and this will allow schools to better support the needs of the pupils.
- Funding Children's Services looked after children pressures (LAC) – £1.31m that includes residential placement costs, legal costs relating to court proceedings, staffing pressures and an increase in the kinship carers rate increase (in line with legislation).
- Sustaining the model of delivery within adult social care – £1.0m and that includes increased staffing costs in response to the demand for community-based care provision and the lack of externally commissioned care providers; and increased additional cost of commissioned care due to an increasing demand and demographic.
- Resulting from further funding introduced into the settlement by Welsh Government further budget provision and contingency has been made of £1.9m to support the Council in responding to the further challenges resulting from a fragile and unsustainable social care market and across adult and children's social services. A continued risk still exists around the required costs needed to meet need and as the sector grapples with issues around recruitment and retention and at a time when Welsh Government is removing the funding support through its COVID hardship fund. The Council will need to determine whether it steps in further as provider of last resort or works with the care sector more directly to set conditions for a path towards sustainability. Work will continue to refine budget estimates ahead of them being included in the final budget proposals and close monitored will continue to be undertaken throughout the financial year.
- Recycling and Waste – £1.22m of pressures from increased service delivery costs resulting from increased numbers of residents using recycling services, offset by savings from the retendering of waste management contracts.
- Passenger Transport Unit and Fleet – £644k pressures resulting from increasing operating costs both internally and externally as a result of increasing passenger numbers leading to additional contracts, some of which result in increased in-house provision due to contract hand backs where the external market has been unable to respond. A consequential increase in fleet maintenance and staffing has also been required.
- Grounds Maintenance – Increases in service demands have resulted in £273k of inflation, maintenance and manpower pressures
- Public Protection – When Test, Trace and Protect (TTP) was introduced by the Welsh Government, the management of this new service fell to Public Protection and we now recognise that once the pandemic is "under control", life will not return to that of the pre-pandemic state. Public Protection will need to be at the forefront of Public Health delivery and investment of £223k is proposed to ensure that future resilience of the service is in place.
- Income shortfalls – £781k of pressures that result from projected income losses from the Council's investment properties and that are either forecast as an indirect

consequence of the pandemic or that are deemed not achievable in 2022/23. Work is ongoing to mitigate the pressure both during and beyond 2022/23.

- Energy costs – despite continued progress in responding to the climate challenge by way of introduction of energy efficiency measures and renewable energy solutions current modelling suggests the Council will be exposed to energy price increases of £446k in 2022/23.
- Corporate costs – £272k of pressures resulting from increases in precepts and levies and that are subject to change as contributions are confirmed.

Pressures by Directorate	2022/23 £000
Children & Young People	1,038
Social Care & Health	4,599
Enterprise	2,536
Monlife	156
Resources	1,066
Chief Executives Unit	205
Corporate Costs & Levies	814
Core Funding	10,413

- 3.41 Previously agreed savings that have been identified as not achievable have also been recognised as pressures in the model together with significant current year budget overspends that look set to continue into 2022/23 and to the extent that they can't be mitigated. As a result of the pandemic and given the in-year challenges with savings being delivered by some service areas these significant demand-led pressures have again been prudently recognised in the budget for 2022/23 to mitigate this risk.
- 3.42 Beyond the service pressures summarised above a further significant budgetary pressure results from a revision to the pay award assumptions for 2022-23. The Council has revised its budget assumption for pay in light of forecasts for wage and pay growth by the Office for Budget Responsibility for 2022/23 and across the MTFP. However it is understood that actual pay awards will not be confirmed nationally by independent pay bodies until later in 2022/23 and therefore further consideration might need to be given in-year to adjust pay budgets at that time. A £4.62m pressure has therefore needed to be incorporated into the draft budget proposals based on the stated budget assumptions.
- 3.43 The element of the pay pressure relating to schools will not be delegated until such time as pay awards have been confirmed and have been capped at a threshold of 3% pay award. The rationale for this being that schools have benefitted significantly from Welsh Government specific grants during 2020/21 and 2021/22 and that has seen healthy school balances exist and regardless of investment plans put in place.
- 3.44 Further full-cost budget pressures of £1.3m notably result from the incremental impact of treasury and borrowing costs compared to those previously modelled, alongside corporate funding adjustments in relation to the treatment of reserve funding which necessitated the reinstatement of some service budgets following a requirement to repay reserve funding. The approach taken in updating and determining treasury budgets is outlined later in the report.

Saving Proposals for 2021/22

- 3.45 After several years of taking significant resource out of the budget the means of achieving further savings becomes increasingly more challenging. This has been exacerbated by the pandemic and where officer time has had to be diverted to the emergency response and ensuring vital services are delivered, and more recently to respond to the result increased demand on services. The in-year over spend, whilst being managed via a recovery plan, again sees significant service pressures carried through into 22/23 and with this already challenging backdrop has made the budget challenge even more acute.
- 3.46 The draft proposals in total bring forward savings of £1.55m. The notable savings proposals include:
- £856k savings in Waste and Recycling from the successful retendering of waste management contracts.
 - The opportunity to continue to make use of guidance from Welsh Government that allows the Authority to make flexible use of capital receipts to capitalise revenue costs relating to service reform (£442k).
 - Income generation resulting from anticipated increased income, new charges and increases in existing fees and charges (£133k) – any increases in charges have been limited as much as possible and in part are driven by increases in statutory charges as well as in responding to inflationary cost pressures.
 - Energy savings of £90k from Street Lighting following the completion of the LED replacement programme.
- 3.47 Work continues in parallel to develop ideas and proposals such that they can be brought into the budget once they are sufficiently progressed.
- 3.48 All proposals have been considered and tested through an initial process of independent challenge by officers and Cabinet Members. A summary of all the proposals are shown in the table below. The savings proposals are contained in summary in appendix 1 and in detail in appendix 2.

Disinvestment by Directorate	2022/23 £000
Children & Young People	0
Social Care & Health	(120)
Enterprise	(959)
Monlife	0
Resources	0
Chief Executives Units	(33)
Corporate Costs & Levies	(442)
Totals	(1,554)

Treasury Impact

- 3.49 The draft capital budget proposals and MTFP are being considered as a separate report on this agenda and for the purposes of establishing the revenue impact of the capital MTFP, the current summary position in the capital report has been taken.
- 3.50 The Treasury budgets continue to be closely monitored throughout the year, and any changes in the following will be considered at final budget stage:

- A review of the current year underspend;
- The profile of capital expenditure and potential slippage;
- A review of maturing debt over the medium term; and
- The balance between the level of fixed and variable rate debt in the Council's portfolio.

3.51 The balance of risk is an important consideration in this review as are the principles of security, liquidity and yield when considering any investment strategies.

Council Tax

3.52 The Council Tax increase in the budget has been modelled as 3.95% for 2022/23 and a reduced 3.95% for the remaining three years of the MTFP as a planning assumption and for modelling purposes. Council tax will be set by way of approval of the final budget proposals at Council on 3rd March 2022.

3.53 The Council tax base report was approved via Individual Cabinet Member decision on 8th December 2021 and concluded an assessment of collection rates and growth in properties. Despite the impact of the pandemic the collection rate has been retained at 99.0%. Overall, the Council Tax base calculated for 2022/23 has risen by 1.41% compared to 2021/22. This increase takes into account the anticipated changes in dwellings and more recent forecasts have determined a further increase. The estimated total additional income, net of changes to CTRS (Council Tax Reduction Scheme), is £753,000 and these latest projections have been incorporated within the MTFP as part of the budget process.

Budgetary Risks

3.54 The last two years have been truly unprecedented, on the the county and its residents, and also on the Council and where its finances have been put under significant strain. The severe flooding that impacted the county in early 2020 was soon followed by the pandemic and that has remained with us since. And its impacts will continue through the current financial year and 2022/23 and beyond. As communities, businesses and the wider economy and society looks to move from the current emergency response, through mass vaccination of the population and towards recovery.

3.55 Welsh Government have confirmed that the COVID hardship fund, that has met significant COVID pressures over the last two years, in the form of increased costs and income losses, will come to an end at the end of the 2021/22 financial year. The consequence of this is that the ongoing impacts of the pandemic, either directly or indirectly, will need to be met by the Council unless specific grant funding from Welsh Government subsequently allows for such impacts to be met.

3.56 Where reasonable and reliable estimates of the budgetary impact of the pandemic on service demands has been able to be quantified then these have been incorporated into budget pressure mandates to the extent that they are not confirmed as being met by specific grant funding from Welsh Government.

3.57 However there are continued and identified risks around further potential unfunded pressures with homelessness, adult social care and leisure centre income:

- Homelessness – the Council quickly responded at the start of the pandemic and aligned to Welsh Government's policy position to ensure homelessness needs were being met. The consequence of the COVID hardship fund ceasing is that there

remains a level of uncertainty and risk around significant cost pressures currently being managed. These pressures result from the lack of suitable housing accommodation available and where the Council is having to reactively respond through increased levels of B&B provision, and which in itself introduces security costs and a result housing benefit subsidy shortfall. Officers are continuing to work with Welsh Government such as to be able to mitigate the pressures in 2022/23 through the use of specific grant funding that might become available. And whilst the Council continues to work in parallel to secure a greater supply of suitable accommodation to meet the increased demand.

- Adult and Children's social care – the Council has included a significant uplift in social care budgets for 2022/23 of £4.3m. In part these are caused by known and anticipated pressures of increased demand or complexity in adult and children's social care. And the consequences of both the pandemic and an ageing population. Notwithstanding these demand pressures further challenges result from a fragile and unsustainable social care market in Wales and to which Monmouthshire is certainly not immune. Welsh Government will be bringing to an end the significant funding throughout the pandemic through the COVID hardship fund to support social services and the care sector. Budget provision and contingency has been made as part of the draft budget proposals to assist in mitigating the continued risk that still exists around the required costs needed to meet need and as the sector grapples with issues around recruitment and retention.
- Leisure centre income – throughout the pandemic the Council has been able to recover monies from Welsh Government's COVID hardship fund for the net income loss brought about by leisure centres and other venues across MonLife where they have either been closed or where restrictions have naturally impacted on footfall and memberships. It is hoped that the current restrictions will soon be lifted and to allow leisure centres to return to normal operations and where footfall and membership can be reinstated at pre-pandemic levels. However, without the protection afforded by the COVID hardship fund in 2022/23, in-year budget monitoring will need to determine whether further budgetary support will be needed in-year.

3.58 To the extent that these risks materialise then further budget recovery action will need to be taken in 2022/23. The Council will continue to engage both WLGA and Welsh Government directly to ensure that Monmouthshire's circumstances are both known and understood. And to find suitable solutions to either mitigate or fund the resultant pressures.

3.59 Beyond the pandemic the Council is still facing significant demand led service pressures as is demonstrated by the £10.41m of pressures being accommodated in the draft budget proposals. Clearly these pressures are based on the latest estimates and forecasts and further increases in demand can cause rise to further financial pressure on the Council.

3.60 The Welsh Government provisional settlement has provided some welcome reprieve and significantly exceeded the Council's earlier MTFP modelling assumption. However, and as is the case at this stage of the budget process, clarification is still being sought on levels of specific grant funding. This will be closely monitored in the coming weeks and any known material impacts will be factored into the final budget proposals.

3.61 As noted earlier in the report uncertainty will remain around the pay awards for local government staff and teaching staff. As a result of the funding that Welsh Government has included in the settlement the Council has been able to revise its pay award assumptions in line with most recent forecasts from the Office for Budget Responsibility. It is hoped that

this will provide suitable and sufficient mitigation against any further pay pressures needing to be managed in 2022/23.

Reserves and Capital Receipts strategy

- 3.62 It can be seen that despite the positive provisional settlement from Welsh Government the continued extent of pay and demand pressures from services place a significant financial burden on the Council and where it does not have significant recourse to rely on reserves unlike other Councils across Wales.
- 3.63 Earmarked reserve usage, established for specific use and purpose, is projected over the MTFP period to decrease the balance on earmarked reserves from £10.11 million in 2022/23 to £9.73 million at the end of 2025/26. Taking into account that some of these reserves are specific, for example relating to joint arrangements, this brings the usable balance down to £6.41 million at the end of 2025/26.
- 3.64 Earmarked reserves were however bolstered at the end of the 2021/22 financial year as a result of significant additional grant funding provided late in the year by Welsh Government. In light of the unprecedented strain placed on the Council's finances and the pressures being faced in the current and future years this funding has been retained and earmarked to assist the Council in putting itself back on a sustainable financial footing over the medium term.
- 3.65 Furthermore the Council's general reserve (Council Fund balance) was increased by £1.8m as a consequence of an opportunity at the end of the 2019/20 financial year to fund costs associated with service reform from capital receipts and aided by a one-off VAT recovery that offset in-year service pressures. This created £1.8m headroom in the Council Fund balance above advised de minimus levels.
- 3.66 The Council is proposing to utilise £863k of this headroom to make a one-off contribution to support the draft budget proposals. The remaining balance is being reserved and if required to cover the following and where mitigating budgetary recovery action is unable to manage such pressures on the Council's budget:
- Any deficit at revenue outturn for the 2021/22 financial year – The M6 forecast reported to Cabinet in January highlighted a £1.94 million non-COVID forecast deficit
 - Any budget pressure in 2021/22 resulting from pay award announcements in excess of modelling assumptions applied
 - As a result of the budgetary risks noted above materialising and to the extent that they cannot be mitigated through corrective budget recovery action or otherwise
 - Any deficit at revenue outturn for the 2022/23 financial year
 - To allow for future reserve cover across MTFP and beyond
- 3.67 As part of its MTFP budget strategy the Council is continuing to make use of Welsh Government guidance and that allows local authorities in Wales to fund one-off revenue costs associated with service reform from useable capital receipts held. The Council is proposing to make further use of this mechanism for 2022/23 with a draw £2.65m from capital receipts as part of the budget proposals being proposed. Whilst the Council will have sufficient capital receipts to maintain this approach for 2022/23 and the near short-term it should be noted that it has two consequences. Firstly that it draws on limited useable capital receipts meaning that any significant capital expenditure needing to be funded from the Council's resources will have a direct impact on the level of borrowing

needing to be considered. And secondly that this is a short term strategy and its removal as a funding source in future will have an impact on the level of budget shortfalls needing to be managed. As such the Council will need to move towards a more sustainable budget strategy over the medium term and therefore a significant reduction and subsequent removal over the medium term is planned.

- 3.68 2020/21 was clearly also 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 of £3.42m.
- 3.69 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, with schools forecasting at M6 to draw on £1.56m of balances during the year, reducing balances to £1.86m. Welsh Government has however provided further additional specific grant funding support since the M6 position was reported and this will be reflected in the M9 forecasts.
- 3.70 Irrespective of the significant one-off funding given to schools, 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.
- 3.71 The previously approved Reserves strategy sought to ensure that earmarked reserves are not used to balance the budget for ongoing expenditure and that they are instead used to the best effect and impact on one off areas of spend to help the authority transform itself within the new resource levels available to it. The final budget report will contain an assessment of the adequacy of reserves.

Budget Summary and MTFP Considerations

- 3.72 The underling MTFP budget model has been updated to take account of the updated budget assumptions in 3.28 of this report, and that includes revision of:
- Pay award assumptions in line with Office for Budget Responsibility forecasts over the medium term;
 - Council tax increases have been reduced to 3.95% for modelling purposes over the medium term to fall in line with the modelled increase for 2022/23
 - AEF assumptions have now been adjusted to align with the indicative increases confirmed by Welsh Government as part of the provisional settlement, but that are noted as being subject to change
- 3.73 The 2022/23 budget proposals are balanced but rely on a one-off contribution from the Council's general reserves (Council Fund balance) of £863k, if all the pressure and savings proposals summarised in appendix 1 and detailed in Appendix 2 are approved. Efforts are to continue to mitigate as much as possible the level of reserve contribution supporting the budget proposals for 2022/23.

3.74 When the draft proposals and the revised assumptions are applied the MTFP budget model the effect is illustrated in the table below and highlights a budget gap that grows over the medium-term to a shortfall of £13.57m in 2025/26 and that if assumptions hold true will need to be addressed through additional income and funding or through savings achieved by way of efficiencies or cost reduction measures.

Services	Adjusted Base 2021/22 £000	Indicative Base 2022/23 £000	Indicative Base 2023/24 £000	Indicative Base 2024/25 £000	Indicative Base 2025/26 £000
Children & Young People	56,550	58,975	60,334	61,465	62,596
Social Care & Health	52,643	58,696	59,508	60,188	60,996
Enterprise	21,241	23,874	24,461	25,181	25,952
MonLife	3,968	4,464	4,708	4,943	5,185
Resources	6,066	7,435	7,695	7,903	8,116
Chief Executive's Unit	6,819	7,423	7,478	7,688	7,904
Corporate Costs & Levies	24,237	24,685	31,563	36,410	41,414
Sub Total	171,525	185,552	195,748	203,780	212,163
Transfers to reserves	195	188	63	63	63
Transfers from reserves	(172)	(294)	(88)	(88)	(88)
Treasury	6,417	7,300	8,123	8,586	9,168
Appropriations Total	6,441	7,194	8,098	8,561	9,143
Total Expenditure Budget	177,966	192,747	203,846	212,340	221,306
Aggregate External Financing (AEF)	(101,483)	(112,275)	(116,205)	(118,993)	(121,373)
Council Tax (MCC)	(60,078)	(63,204)	(65,701)	(68,296)	(70,993)
Council Tax (Gwent Police)	(13,451)	(13,451)	(12,980)	(12,669)	(12,415)
Council Tax (Community Councils)	(2,954)	(2,954)	(2,954)	(2,954)	(2,954)
Contribution to/(from) Council Fund	0	(863)	0	0	0
Sub Total Financing	(177,966)	(192,747)	(197,840)	(202,912)	(207,737)
(Headroom)/Shortfall	0	0	6,006	9,428	13,570

3.75 There are currently a limited number of service pressures and savings identified for years 2 to 4 of the MTFP against service directorates. Whilst it is common for them to be recognised closer to the year in question and through the budget process further work will need to be undertaken in developing the MTFP strategy and plan. This needs to be borne in mind when considering the remaining gap in the MTFP. Provision of £5m is currently made in the MTFP, for modelling purposes, for “unidentified pressures” in each of the remaining years of the MTFP based on the level of pressures that have historically presented themselves and been accommodated as part of the budget process. However, most recent years have seen a level of net pressures needing to be accommodated in excess of £5m.

3.76 As a result of the Local Government elections in May and a new political administration outlining its priorities for the forthcoming term a MTFP strategy and plan will be presented alongside or subsequent to the new administration’s Corporate Plan and strategic aims being confirmed. Work will continue alongside the 2022/23 budget process and to ensure that the Council puts plans in place to allow it to be put its finances on a sustainable financial over the medium term.

Next Steps

- 3.77 The information contained in this report constitutes the draft budget proposals that are now made available for formal public consultation and member scrutiny, and that includes the formal requirement to consult businesses. The formal consultation period will run for a period of four weeks ending on 16th February 2022.
- 3.78 Cabinet are interested in consultation views on the draft proposals and the underlying budget strategy adopted. This is the opportunity for Members, the public and community groups to consider the budget proposals and make comments on them. Cabinet will not however, be prepared to recommend anything to Council on 3rd March that has not been subject to a Future Generations Assessment and Equality Impact Assessment and therefore a deadline to receive alternative proposals has also been set as 16th February 2022.
- 3.79 In the past extensive community engagement had been undertaken around the budget. However, such a large scale public engagement will not be undertaken as budget proposals that see substantive or material service developments will have already undergone their own consultation process.
- 3.80 Furthermore, the pandemic and the current lockdown restrictions places an additional challenge on being able to adequately consult with residents. As a result the Council will be looking to:
- a) Launch a dedicated page on the Council's website containing the draft budget proposals, a video blog by the Cabinet Member for Resources and an online feedback form;
 - b) Making use of social media linked to press releases, the website and online forms to ensure that there is optimal reach to allow residents to become aware of and respond to the draft budget proposals.
- 3.81 There will however be an opportunity for the community to provide consultation responses via virtual online meetings with various consultative fora outlined below and via the website and social media where details of the proposals and consultation events will be published.
- School Budget forum – 20th January 2022
 - My Mates group – 27th January 2022
 - Unions Joint Advisory Group (JAG) – 24th January 2022
 - County wide budget engagement livestream – 27th January 2022
 - Head Teachers conference – 28th January 2022
 - Engage to Change (young people) – 27th January 2022
- 3.82 The scrutiny of the budget proposals are key areas of this part of the budget process. The following dates have been set for Select committees:
- Adults – 24th January 2022
 - Strong Communities – 25th January 2022
 - Children and Young People – 31st January 2022
 - Economy and Development – 3rd February 2022

3.83 Final budget proposals following consultation and receipt of the final settlement will go to the Cabinet meeting on 2nd March 2022 and approval of Council Tax and final budget proposals will then take place at Full council on 3rd March 2022.

4 OPTIONS APPRAISAL:

4.1 Directorates are required to consider and outline the options that have been considered for each of the budget savings proposals and pressures identified in this report. The detail is contained in the budget mandates available under appendix 2.

5 EVALUATION CRITERIA:

5.1 The means of assessing whether the final budget proposals for 2022/23 have been successfully implemented is undertaken throughout the year via regular budget monitoring and periodic reports to Cabinet and then to Select committees for scrutiny.

5.2 Since the start of the pandemic and throughout financial years 2020/21 and 2021/22 the Council has been reporting on both COVID and non-COVID budget deficits, with the former being funded by Welsh Government to date through the COVID Hardship Fund. Given the Hardship Fund will cease on 31st March 2022 the Council's budget monitoring will revert back to a more standardised form of budget monitoring in 2022/23.

5.3 Alongside the Corporate plan the Council continues to iterate and develop its Coronavirus strategy, its fifth iteration (Looking Ahead and Delivering Now) approved by Cabinet in December 2021. Regular monitoring of the performance of the Council against service business plans, the Corporate Plan and the Coronavirus strategy takes place. Taken together these arrangements enable the Council to evaluate its success and progress against its longer term plans within the resources available.

6 REASONS:

6.1 To agree the draft revenue budget proposals for 2022/23 for consultation purposes.

7 RESOURCE IMPLICATIONS:

7.1 As identified in the report and appendices.

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

8.1 The future generation and equality impacts of the savings proposals have been initially assessed per budget saving and pressure mandate in appendix 3. An overall future generation and equality impact evaluation of the all the proposals has also been undertaken and is contained in appendix 4. This overall evaluation is an early one, applying to budget proposals only at this pre-consultation, pre-decision stage. This analysis will continue to evolve and be updated throughout public consultation and scrutiny.

8.2 The impact on services has been kept to a minimum. The assessment shows some proposals have identified a negative impact and mitigating actions have been considered, identified or are in place. Consultation requirements have been identified and are ongoing. The assessment also identifies some of the pressures to support services have potentially a mostly positive impact on equalities and Future Generations.

8.3 The actual future generations and equality impacts from the final budget report's recommendations will also be reviewed and monitored during and after implementation.

9. CONSULTEES:

SLT
Cabinet

10. BACKGROUND PAPERS:

Appendix 1: Summary of budget savings and pressures
Appendix 2: Directorate savings and pressure proposals
Appendix 3: Future Generations Evaluations
Appendix 4: Future Generations Evaluation for the overall budget
Appendix 5: Proposed letter responding to Welsh Government's Local Government provisional settlement

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