

REPORT

SUBJECT:	Revenue and Capital Budget 2022/23 – Final proposals following scrutiny and public consultation
MEETING:	Cabinet
DATE:	2nd March 2022
DIVISION/WARDS AFFECTED:	ALL

1. PURPOSE:

- 1.1 To update Cabinet with the consultation responses to the draft budget proposals issued by them on the 19th January in respect of the Capital and Revenue budgets for 2022/23.
- 1.2 To update members with implications arising from the Provisional Local Government Settlement announcement of the Welsh Government as well as providing update with regards to the awaited Final Settlement announcement.
- 1.3 To make recommendations to Council on the Capital and Revenue budgets and level of Council Tax for 2022/23.
- 1.4 To receive the Responsible Financial Officer's Prudential Indicator calculations for capital financing.
- 1.5 To receive the statutory report of the Responsible Financial Officer on the budget process and the adequacy of reserves.

2. RECOMMENDATIONS:

- 2.1 That Cabinet considers the responses to consultation and recommends to Council:
 - a) The 2022/23 revenue budget as attached in **Appendix H2**.
 - b) The 2022/23 to 2025/26 capital programme as attached in **Appendix I1**.
- 2.2 That Cabinet acknowledges that the final budget proposals proposed look to support the priorities of the council and 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) 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
 - f) Responding to the needs of homelessness with housing related support
 - g) Further investment in our Highways and transport infrastructure alongside our IT and network estate
- 2.3 That a 2.95% increase in the Band “D” equivalent Council Tax is used as the planning assumption in the budget model and to apply for County purposes in 2022/23, reduced from the previous proposed increase of 3.95% and as a result of public consultation.
- 2.4 That Cabinet approves the revised saving and pressure proposals, updated following public consultation, scrutiny and more up to date information being made available since the draft proposals were released on consultation on 19th January 2022.
- 2.5 That Cabinet recommends the additional capital investment of £4.84m for 2022/23 and a further £4.38m over indicative capital budgets from 2023/24 to 2025/26 and as identified in **Appendix I2**.
- 2.6 That Cabinet recommends Council to dispose of assets identified in the exempt background paper at best value.
- 2.7 That Cabinet considers the Responsible Financial Officer’s report on the robustness of the budget process and the adequacy of reserves issued under the provisions of the Local Government Act, 2003, together with an assessment of the current and future financial risks facing the Council.
- 2.8 That Cabinet adopts the Responsible Financial Officer’s report on Prudential Indicators.
- 2.9 That Cabinet approves that:
- a) Further work is undertaken to develop a balanced Medium Term Financial Plan.
 - b) Regular review is undertaken of the MTFP to ensure it remains up to date, and that it includes an assessment of evidence based pressures and risks, underlying modelling assumptions and the ongoing affordability implications of the Corporate Plan.

3. KEY ISSUES:

BUDGET CONSULTATION

- 3.1 Cabinet issued its budget consultation proposals on 19th January 2022 thereby allowing a period for public consultation and scrutiny.
- 3.2 The pandemic and the current restrictions continued to place an additional challenge on being able to adequately consult with residents. As a result the Council:
- a) Maintained 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) Made 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.
 - c) All subscribers (c.15k people) of the MyMonmouthshire digital newsletter were sent information and links to all the consultation material, including the survey, and a reminder to register for the Budget Livestream.
- 3.3 There was an opportunity for the community to provide consultation responses via virtual online meetings with various consultative fora undertaken and via the website and social media where details of the proposals and consultation events were published.
- 3.4 The proposals were scrutinised by the Children's and Young People Select Committee, Strong Communities Select Committee, Adult Select Committee, and Economy and Development Select Committee, the Schools Budget Forum and the Joint Advisory Group (JAG).
- 3.5 Furthermore, budget consultation was undertaken through a Countywide virtual budget livestream event, and virtual meetings with MyMates, Engage to change (young people) and Head Teachers.
- 3.6 Extracts of the draft minutes from the Committees are included as **Appendices A1 to A6** respectively and a summary or notes of the engagement events together with feedback received are included in **Appendices A7 to A8**.
- 3.7 In terms of public engagement the use of the website and social media as a mechanism for sharing information and getting feedback has continued with active engagement and responses received. An overview of the Council's budget engagement is included in **Appendix A8**.
- 3.8 As might be expected, responses to consultation varied. However, there was a broad acceptance and understanding of the overall shape of the budget proposals and set against the backdrop of significant financial and demand driven challenges faced. Residents understood that the Council continued to look to protect frontline services and in particular those most vulnerable in our communities. And they also recognized the strain on the Council at this time of responding to the pandemic and how this also influenced the nature of the budget proposals.
- 3.9 There were a number of questions clarified via the Select Committee meetings and other consultation meetings. Clarification was provided at meetings and via responses to pre-submitted questions made available on the Council's website. The budget presentation delivered at the consultation events was made widely available via the Council's website. And the Cabinet Member for Resources delivered a video message to explain the challenges being facing in 2022/23 and how the Council was looking to respond to them.
- 3.10 The process in general has worked well, with thorough debate having taken place through scrutiny and public consultation events. Although attendance was down from the previous year's consultation events, a number of residents commented that they benefitted from the ability to access the meetings virtually. Constructive feedback was again also provided on how the budget consultation could be improved and this will be taken on board as part of ongoing improvement in the process.
- 3.11 In respect of the capital budget proposals, general support was expressed about the need to continue to invest in schools whilst recognising that there are future pressures to be managed. Concerns were also raised with regards to overstretched infrastructure, the impact of ash tree dieback disease and level of reserves held.

- 3.12 Clarification around the future commitment to climate emergency and environmental issues was sought and how far future capital investment plans go towards meeting the challenges faced.
- 3.13 In terms of the key issues and concerns raised as part of the consultation, engagement and scrutiny process and which concern the revenue budget proposals specifically, these principally revolved around:
- A significant number of residents raising concern about the level of council tax increase proposed, especially in light of cost of living and inflationary pressures being experienced in households. However, there was a recognition that the choices available to the Council were limited in the face of significant pressures and inadequate funding being received from Welsh Government, especially on a per capita basis.
 - Reassurances around the risks and uncertainties that the Council was facing at this time and into the future. With particular concern around Homelessness, MonLife income losses and the impact on the Council's commercial investment portfolio.
 - Concerns raised around continued pressure on services such as in social care, operational frontline services and with children with additional learning needs.
 - Overriding support for the investment in the Adult social care budget and concerns around 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.
 - Feedback via select committees, consultation events and online forms from residents questioning the level of funding that Monmouthshire receives from the Welsh Government and the fairness in the formula distribution.
 - Clarification was sought around future changes in the Waste & recycling service and the benefits that these would provide to service users.
 - Interest in the planned increases around fees and charges in Enterprise and Social care and to ensure those without sufficient means were not being adversely impacted by the increases.
 - Acceptance from the School Budget Forum and Head Teachers that 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.
- 3.14 As stated above there was a general consensus reached by respondents that the funding formula used by Welsh Government to allocate funding to Welsh authorities disproportionately disadvantaged Monmouthshire and failed to recognise both the areas of deprivation within the County and its rurality. There was overriding support that the Council should continue to challenge Welsh Government on the need for a fairer funding formula that looks to take account of these issues.
- 3.15 As a result of the consultation and upon subsequent reflection of concerns raised, alongside further changes brought about by targeted work undertaken, it is recommended that the following revisions are made to the pressure and savings proposals:
- a) That the proposed council tax increase of 3.95% is reduced to 2.95%.
 - b) Further investment is made in the capital programme, and that will result in additional investment in our Infrastructure and in meeting the longer term housing needs of the Homeless.

- c) That the Commercial investment income budget pressure is reduced by £708k, reflective of revised expectations around tenancy levels for 2022/23, and that results in overall net pressure in respect of the commercial investment portfolio for 2022/23 being reduced to £42k, maintaining significant levels of net income to support frontline services.

PROVISIONAL AND FINAL SETTLEMENT

- 3.16 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 £2.5bn (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.
- 3.17 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.
- 3.18 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).
- 3.19 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.
- 3.20 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.
- 3.21 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.
- 3.22 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.

- 3.23 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. There are still a number of grant announcements to be made and this position is extremely disappointing as it makes planning for next year's budget even more difficult. It is hoped that the final settlement on 1st March will provide further clarification. The current position on Welsh Government specific grants (all Wales) is included in **Appendix C**. There are a number of significant grants where the Authority remains unclear as to the amount to be received and resultant terms and conditions attached.
- 3.24 A table showing each authorities position resulting from the provisional settlement is included at **Appendix B1** to this report. Monmouthshire again remains at the bottom of the table in terms of AEF per head of population. A response to Welsh Government regarding the Provisional Settlement is attached at **Appendix B2**.
- 3.25 Whilst no further changes to funding levels are anticipated as a result of the final settlement announcement by Welsh Government on 1st March any further changes to the budget will need be considered as part of the Council Tax resolution when it is considered by Full Council on 3rd March 2022.
- 3.26 There is still however a need to think differently about the even greater challenges over the medium term and this work and engagement will continue in the coming months, and notably with other local authorities, Welsh Government and the Welsh Local Government Association (WLGA) and where funding distribution and projections are concerned. Specifically, the Leader continues to garner support with the WLGA rural forum for an evidence based review of the funding formula to be undertaken to demonstrate how rural authorities are disadvantaged in the formula distribution.
- 3.27 Alongside this the ongoing financial challenges remain as always a dynamic situation. Subsequent to a new administration outlining its policy aims and ambitions post May a new Corporate Plan will inform and influence a full update of the Medium Term Financial Strategy and Plan later in 2022 and part of the preparations leading into the 2023/24 budget process. This comprehensive update will include an ongoing assessment of pressures, risks and modelling assumptions. As well as savings proposals and options that together with a robust and updated capital receipts and reserves strategy enables the Council's finances to be put on a sustainable footing.

BUDGET PROCESS CONTEXT AND CHANGES

- 3.28 Subsequent to Cabinet's budget consideration on 19th January 2022, revenue budget proposals went on consultation and which looked to accommodate £10.41m of pressures by way of savings proposals of £1.55m and a one-off contribution from the Council's general reserves of £863k. Work has continued to review and revise existing and new savings and pressures in the light of further engagement and scrutiny. All the original proposals are available as part of the draft budget proposals. Details of revised savings

and pressures and the movement from draft to final proposals are included in **Appendix D** and **E**.

3.29 The table below illustrates the movements that have been seen as a result of the budget proposals being finalized and subsequent to public consultation, scrutiny and more up to date information being made available since the draft proposals were released on consultation on 19th January 2022.

Budget Reconciliation	Amount £'000
Draft budget proposals – budget shortfall	0
Revisions and additions to pressures	(299)
Revisions and additions to savings	(575)
Update to treasury and appropriation budgets	(250)
Update to full cost Corporate budgets	(347)
Reduction in council tax increase	608
Removal of one-off contribution from Council Fund	863
Final budget proposals – budget shortfall	0

3.30 The revisions and additions to pressures are summarised as follows:

- A £55,000 investment to increase capacity and expertise in the council's equality and Welsh language functions to ensure that all areas of the work are carried out in accordance with the Equality Act 2010, the Welsh Language Measure (Wales) 2011 and Welsh Language Standards which apply to the authority.
- £263,000 to meet the cost of holiday pay entitlement under legislation for staff who regularly work over their contracted hours as part of their normal working pattern, or casual staff who are given standard working hours.
- A £668,000 revision to the pressure for employer national insurance contributions which will increase by 1.25%, reflecting the requirement of Central Government to collect and earmark the additional funds to be spent on the NHS and social care in the UK.
- A reduction in the Commercial investment income pressure of £408,000 reflecting revised expectations around tenancy levels at Castlegate and Newport Leisure Park for the 2022/23 financial year.
- A reduction in the pressure relating to the budget provision and contingency that will allow the Council to suitably respond to the challenges brought about by the fragility of the care sector and the current levels of unmet need. Further analysis around the trends in unbudgeted grant being received within this service, together with a strengthening of the reserve cover that will result from an anticipated under spend in 2021/22, has resulted in the pressure being revised downwards by £700,000.

- Due to the current positive position around the disposal cost of Waste recycles the Waste services budget pressure has been reduced by £100,000.
- The Council received final notice from the South Wales Fire & Rescue Authority of their precept for next year after the draft budget was released and this has now been revised downwards by £77,000 following final clarification.

3.31 The revisions and additions to savings are summarised as follows:

- An assessment of properties in temporary Council tax bands and likely new properties eligible for Council tax charging during 2022/23 has resulted in further income being forecast over and above the draft budget estimates of £275,000.
- Increases in wholesale electricity prices have driven up the rate that achievable for the units produced by our Solar Farm. We have recently received the results from the energy auction and there is potential for our turnover to increase by at least £300,000 in 2022/23.

3.32 Further changes to the budget proposals for 2022/23 include:

- As is the case ahead of the final budget proposals being prepared a full and further update is undertaken, based on most recent forecasts, of treasury budgets. This aligns with the work done in parallel in producing the Council's treasury strategy for 2022/23. As a result of the significant work undertaken by officers and treasury advisors the Council will be looking to make more continued use of short-term borrowing during 2022/23 and resulting from the continued low interest rate environment. The consequence of this has been a net reduction in anticipated treasury costs of £250,000.
- The modelling assumption for the non-teaching pay award has been revised downwards from 4% to 3.5%, reducing the estimated pressure by £347,000. Any increase in pay award above this will draw further on the Council's finances and therefore this remains a key risk. It is felt that the risk has been suitably mitigated and within the affordability constraints faced by the Council. However, a risk remains regardless given inflation and cost of living pressures playing out nationally. The Council awaits subsequent notification on pay from awarding bodies and that will now extend into 2022/23 and where pay awards are subject to consultation with trade unions.
- The increase in the Band "D" equivalent Council Tax for the County has been reduced from 3.95% to 2.95% and resulting from resident feedback and the budget consultation and scrutiny process. The consequence of this will be a reduction in council tax income of £608,000 in 2022/23 and has a continued impact on the MTFP going forward.
- The consequence of the adjustments results in the originally proposed one-off contribution from general reserves of £863,000 now no longer being required. This is welcomed and allows for the retained headroom within the Council Fund above minimum 4% thresholds to be reserved as cover against future financial risks and challenges.

3.33 Whilst no further changes to funding levels are anticipated as a result of the final settlement announcement by Welsh Government on 1st March, any further proposed changes to the budget proposals will be considered as part of the Council Tax resolution when it is considered by Full Council on 3rd March 2022.

3.34 It is worth noting that the ongoing financial challenges remain as always a dynamic situation. As stated in recommendation 2.9 further work will be undertaken to develop the MTFP and that will include an ongoing assessment of pressures, risks and modelling assumptions. Notably key risks remaining to be assessed and managed in 2022/23 and as yet unknown are:

- The Council is grateful to Welsh Government for the continued funding provided to local authorities via its COVID Hardship Fund to offset significant COVID related expenditure and income losses to date. However, the COVID Hardship Fund ceases with effect from the 31st March 2022 and Welsh Government have confirmed that the settlement makes allowance for the residual impacts that Councils will continue to bear. That being said clarification is still being sought around further specific grant funding and where the Council carries specific risks into 2022/23. Notably around homelessness pressures and where the fragility of the social care system is concerned. Reserve cover will be established and that looks to take opportunity of the now anticipated under spend for the current 2021/22 financial year and to ensure that provision is in place to cover any resultant and residual risk that cannot be managed by way of in-year budget recovery action.
- A residual financial risk relates to the pay awards for local government staff and teaching staff. The Minister has already made it clear when issuing the provisional settlement that provision had been made for pay awards in the settlement and that no further funding would be provided subsequently. The implications of pay awards in 2022/23 will therefore need to be accommodated within the Council's budget planning and through reserve cover in place as required.

Local government pay is nationally set by Local Government Employers (LGE) and Teachers pay in Wales is set by the IWPRB (Independent Welsh Pay Review Body). Pay budgets have been built on a modelling assumption and pay award of 3.5%, with funding for schools provided for all pay and pension related pressures up to a pay award of 3%. Any increase in pay award above this will draw further on the Council's finances and therefore this remains a key risk. It is felt that the risk has been suitably mitigated and within the affordability constraints faced by the Council. However, a risk remains regardless given inflation and cost of living pressures playing out nationally. The Council awaits subsequent notification on pay from awarding bodies and that will now extend into 2022/23 and where pay awards are subject to consultation with trade unions.

- Clarification is still being sought on levels of specific revenue and capital grant funding for next year. It was hoped that further detail is provided when Welsh Government released the final settlement on 1st March. Whilst further confirmation has been received around all-Wales grant allocation the Council is yet to receive confirmation of all of its specific allocations. This will be closely monitored in the coming weeks and any material impacts will be considered as part of in-year budget monitoring with recovery action being taken as required. Furthermore, and whilst the late and significant grant funding from Welsh Government is very much welcomed it does not aid financial planning over the medium term nor does it allow for effective decision making and where budget recovery action has to be taken to arrest over spends that are then subsequently offset by unexpected specific grant income.
- Demand-led pressures remain, as evidenced by the extent and level of pressures needing to be accommodated within these budget proposals. Ongoing budget monitoring and review of pressures will identify whether any further pressures need to

be managed. As stated this is a dynamic situation to which the Authority will respond as any situation evolves.

Council Tax

- 3.35 The increase in the Band “D” equivalent Council Tax for the County has been reduced from 3.95% to 2.95% and resulting from resident feedback and the budget consultation and scrutiny process. The revised increase of 2.95% is now being used as the planning assumption in the budget model and to apply for County purposes in 2022/23, reverting to a 3.95% increase for 2023/24 and in each of the subsequent 2 years.

OVERALL REVENUE BUDGET POSITION

- 3.36 The current revenue position for each of the next 4 years is included in **Appendix H2**. The proposed position for 2022/23 specifically is:

Services	Indicative Base 2022/23 £000	Indicative Base 2023/24 £000	Indicative Base 2024/25 £000	Indicative Base 2025/26 £000
Children & Young People	58,990	60,350	61,481	62,613
Social Care & Health	57,877	58,685	59,361	60,165
Enterprise	23,827	24,206	24,920	25,683
MonLife	4,430	4,676	4,913	5,157
Resources	7,023	7,292	7,509	7,732
Chief Executive's Unit	3,046	2,961	3,047	3,136
People & Governance	4,078	4,210	4,326	4,445
Corporate Costs & Levies	26,204	34,109	39,847	45,705
Sub Total	185,475	196,491	205,406	214,637
Transfers to reserves	188	63	63	63
Transfers from reserves	(494)	(88)	(88)	(88)
Treasury	7,050	8,123	8,586	9,168
Appropriations Total	6,744	8,098	8,561	9,143
Total Expenditure Budget	192,220	204,588	213,966	223,781
Aggregate External Financing (AEF)	(112,275)	(116,205)	(118,993)	(121,373)
Council Tax (MCC)	(62,596)	(65,069)	(67,639)	(70,311)
Council Tax (Gwent Police)	(14,191)	(14,752)	(15,334)	(15,940)
Council Tax (Community Councils)	(3,158)	(3,158)	(3,158)	(3,158)
Contribution to/(from) Council Fund	0	0	0	0
Sub Total Financing	(192,220)	(199,183)	(205,125)	(210,782)
(Headroom)/Shortfall	0	5,406	8,842	12,999

Note: An explanation of how services are grouped is included in **Appendix M**.

CAPITAL BUDGET

- 3.37 On September 19th 2019 Council approved the first full Capital Strategy, an annual requirement of the Prudential Code for Capital Finance that was updated in 2017. The Authority's Capital Strategy is required to define at a high level how the Authority ensures its capital plans:
- Contribute to the provision of local public services;
 - Are affordable, prudent and sustainable;
 - Demonstrate that existing assets are adequately maintained;
 - Are developed with a full understanding of the risks involved;
 - Are appropriate for the Authority and suit local circumstances; and
 - Have due regard for the long term financing implications and risks to the Authority.
- 3.38 In preparing the draft capital budget proposals for 2022/23 and the subsequent three years of the capital MTFP regard has been given to underlying principles of the current strategy and that remained fit for purpose.
- 3.39 An updated capital strategy for 2022/23 will be considered by Council alongside the treasury strategy at its meeting on 3rd March 2022. The draft revised strategy is appended for information at **appendix K**.
- 3.40 The capital MTFP and capital strategy seek to work towards a financially sustainable core capital programme, whilst balancing the need to deliver capital investment plans in line with policy commitment and need.
- 3.41 The draft capital budget proposals were prepared on this basis and were issued by Cabinet for consultation purposes at its meeting on 19th January 2022. They included a schedule of proposed further capital investment for consideration by Cabinet and through the consultation process.
- 3.42 During the financial year, any new schemes volunteered can only be added to the programme if the business case demonstrates either:
- That they are self-financing;
 - The scheme is deemed a higher priority than current schemes in the programme and therefore displaces it;
 - They do not compromise the core principles of affordability, sustainability or prudence
- 3.43 When considering the relative merits of projects and potential displacement, the priority matrix in the capital strategy will be applied, either endorsing or amending it for onward consideration by full Council.
- 3.44 The Welsh Government provisional funding settlement announced on 21st December 2021 highlighted a reduction of £762k in respect of core general capital grant for 2022/23. This is extremely disappointing, especially in light of the Councils limited recourse to internal resources in the form of capital reserves and receipts, or the additional revenue burden that would materialise from any resultant borrowing to meet the funding gap. This is expected to be a one-year reduction only and modelling assumptions assume a return to

previous levels for the latter 3 years of the capital MTFP. Any continued reduction in future years would have consequences on both capital and revenue budgets.

- 3.45 However, since the draft budget proposals were released the Council has been notified of a further allocation of general capital grant for 2021/22 of £1.917m and it is proposed that this will be carried over to mitigate in full the reduction of £762k, with the remaining amount contributing to the further capital investment recommended to be made during 2022/23.
- 3.46 The proposed changes to the capital programme since the draft proposals were released on consultation by Cabinet on January 19th, based on feedback from public consultation and scrutiny, more up to date information being made available, and clarification of the urgent capital risks impacting 2022/23 have resulted in the following increases in the capital programme:

Financial Year	Draft proposals £'000	Final proposals £'000	Increase £'000
2022/22	26,242	31,086	4,844
2023/24	10,538	13,796	3,258
2024/25	10,665	11,278	613
2025/26	10,665	11,178	513

- 3.47 The further recommended capital investment has been assessed using the principles of the Council's capital strategy, with the investment representing a requirement for more urgent and targeted investment and that unless addressed, will present significant Health & safety or legal implications for the Council. It therefore represents investment that is considered affordable, prudent and sustainable and that will prevent future additional cost burden falling upon the Council.
- 3.48 The further investment recommended is summarized below alongside the recommend financing envelope, and outlined in more detail in **Appendix I2**.

Capital Budget	Indicative Budget 2022/23 £000	Indicative Budget 2023/24 £000	Indicative Budget 2024/25 £000	Indicative Budget 2025/26 £000
Highways - additional infrastructure investment	627			
Tintern wireworks bridge	800			
Wye Bridge Chepstow	188	375		
Wye Bridge Monmouth	150	2,170		
Ash Dieback/Dangerous Trees	400	300	200	100
CCTV for bus fleet	200			
Infrastructure & Transport Schemes	2,365	2,845	200	100
ICT Desktop replacement	260	260	260	260
Network Estate replacement	116	50	50	50
SRS capital reserve contribution	61	61	61	61
Ransomware & security software	42	42	42	42
ICT Schemes	479	413	413	413
Match funding for Housing provision	2,000			
Other Schemes	2,000	0	0	0

Total Expenditure	4,844	3,258	613	513
Unsupported Borrowing - Tintern Bridge	(800)			
Unsupported Borrowing - Highways works	(627)			
Unsupported Borrowing - Wye Bridge Chepstow		(375)		
Unsupported Borrowing - Wye Bridge Monmouth		(2,170)		
Unsupported Borrowing - Match Funding (Housing)	(2,000)			
Unsupported Borrowing	(3,427)	(2,545)	0	0
2021/22 General capital grant	(1,154)			
Grants & Contributions	(1,154)	0	0	0
ICT Reserve - SRS capital reserve contribution		(61)	(61)	(60)
ICT Reserve - Ransomware & security software		(42)	(42)	(42)
ICT Reserve Funded	0	(103)	(103)	(103)
Capital Receipts - ICT Desktop replacement	(260)	(260)	(260)	(260)
Capital Receipts - Network Estate replacement	(2)	(50)	(50)	(50)
Capital Receipts - Ash Tree Die Back/Dangerous Trees		(300)	(200)	(100)
Capital Receipts	(262)	(610)	(510)	(410)
Total Funding	(4,844)	(3,258)	(613)	(513)

3.49 Investment in our Infrastructure and housing based assets commonly results in the economic benefits being derived over of the longer term, sometimes as long as 50 years+, and as such longer term loan funding can be sourced at competitive rates with limited annual revenue budget volatility. The Council derives greater revenue benefit by using capital receipts in affording replacement of short life assets, such as ICT and Network assets, given the avoidance of proportionately more significant borrowing costs.

3.50 The Council's borrowing costs remain sustainable within the context of the Authorities overall revenue budget in so much that they are fully provided for within the final Revenue budget and within the medium term financial plan. The borrowing costs will be spread over no more than, the lower of 50 years and the expected economic life of the resultant asset, so the assets will be paid for by the Council tax payers benefitting from them over the life of the assets.

3.51 The specific additions to the capital budget proposals for are:

- Investment in our Infrastructure and transport network through works to repair & strengthen our bridges at Tintern Wireworks, Wye Bridge Monmouth and Wye Bridge Chepstow; Highways refurbishment schemes to maintain the existing level of investment and address locally problematic issues; Management of Ash Tree dieback disease and associated dangerous trees; CCTV cameras for our PTU buses to support in future investigations into accidents and damage.
- Investment in our ICT and network estate using the identified asset replacement plan which will look to improve the resilience of our service delivery in light of increased demands on connectivity in the current working environment.
- Investment to address to longer term housing needs of the homeless within the County and that looks to create a more sustainable and cost effective approach following the change in Welsh Government policy.

3.1 The Summary Capital MTFP is shown in **Appendix I1**. Whilst the further planned investment in the Council's infrastructure goes a long way in meeting the requirement to maintain our existing estate, there still remains a considerable number of backlog pressures that sit outside of the core capital programme as indicated in **Appendix I8**, and

this will continue to have varying levels of risk associated with it. Cabinet have previously acknowledged and accepted this risk.

3.52 **Appendix I4**, the capital receipts summary shows the expected level of receipts and planned usage and highlights the balances available in the next few years. Future investment in capital schemes, is in part dependent on future success of achieving capital receipts and there are risks attached to some receipts materializing as shown in **Appendix I5**. The revised forecast receipt schedule is provided as exempt background papers to this report for Members approval as **Appendix I6**.

3.53 The value of Capital receipts forecast after 2022/23 drops off quite considerably which is reflective of the replacement local development plan (RDLP) not proceeding as quickly as envisaged in the original delivery agreement. This will have a substantial impact on the balance of receipts available to fund future capital investment demands. It is therefore important that reliance on capital receipts used to support capitalisation direction (to fund one-off revenue costs eligible to be met from capital resources) is seen as a short term measure only.

THE PRUDENTIAL CODE

3.54 Under the Prudential Code, local authorities are required to publish Prudential Indicators produced to demonstrate that capital programmes are prudent, sustainable and affordable in the longer term. The indicators for 2022/23 to 2025/26 are contained at **Appendix J** to this report, assuming eventual Council approval of Cabinet's budget and Council Tax recommendations.

THE ROBUSTNESS OF PROCESS AND RESERVES

3.55 The level of the Council Fund, The Council's general reserve, is at £8.9 million, subject to 2021/22 year-end, but at present it is within the range of 4-6% of net revenue budget and considered to be at a prudent level. The final revenue budget proposals do not now include a requirement to use any of the general reserve to balance the budget in 2022/23.

3.56 The Council tactically created headroom in its general reserve at the end of 2019/20 and based on this current assessment the headroom above the de minimum 4% threshold in general reserves stands at £1.912m.

3.57 The focus therefore turns to the uncertain outlook and future financial challenges and where the headroom in the Council Fund balance is 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 budget pressure in 2022/23 resulting from pay award announcements in excess of the 3.5% modelling assumption in the final budget proposals;
- Any continuing Covid-19 related pressures caused by the lasting impact of the pandemic, particularly in the areas of Homelessness, Adult social care, Leisure service demand and rental income;
- Any one-off contributions needed in 2022/23 and to the extent that in-year budget recovery action is unable to mitigate service pressures and over spends;
- To allow for any future reserve cover across the MTFP and beyond and as the Council looks to put its finances back on a sustainable footing.

- 3.58 Pre pandemic, net school balances had remained at low levels and had reduced to a net deficit balance of £435k. Receipt of unprecedented levels of grant support from Welsh Government during 2020/21 and 2021/22 have looked to ensure support for schools and their pupils during a period of significant disruption to learning. This has resulted in schools balances currently being forecast to be in surplus at the end of 2021/22 of £4.105m and despite significant investment plans in place this year.
- 3.59 Irrespective of the significant one-off funding given to schools, it is clear that the inherent structural budget deficits that 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.
- 3.60 Continued emphasis is placed by LEA finance colleagues to agree budgets with schools that are sustainable to the resources available rather than passporting additional deficits to their school reserve. Recovery plans are in place for the two schools remaining in deficit and are being closely monitored by the LEA and relevant Cabinet members.
- 3.61 The total planned net earmarked reserve utilization in support of the 2022/23 revenue and capital budget is £0.41m. **Appendix G1** shows the call on and contributions to reserves for the 2022/23 budget and **Appendix G2** shows the reserve balances projected for the medium term. Total planned reserve utilization in support of current year revenue and capital budgets means that by the end of 2021/22 the balance of earmarked reserves is likely to be £10.1m. The further call in 2022/23 means that the earmarked reserves will fall to £9.7m, with the useable balance down to £6.57m.
- 3.62 Useable capital receipts also provide a limited one-off resource to support financing of the capital programme. In recent years the Council has also made use of Welsh Government's guidance allowing flexible use of capital receipts to meet one-off costs associated with service reform. The Council has needed to make use of this flexibility in 2019/20, 2020/21 2021/22, and similarly in 2022/23 and over the remaining three years of the MTFP. Useable capital receipts are forecast to reduce to £7.2m by the end of 2025/26 based on the capital MTFP. The continued use of capital receipts for this purpose is recognized as a necessary but unsustainable approach and has the added consequence of requiring the Council to fund any further and future capital investment through prudential borrowing where it cannot be met from other sources.
- 3.63 Under the provisions of the 2003 Local Government Act, the Responsible Financial Officer has to provide conclusions on the robustness of the budget process and the adequacy of reserves. Those conclusions are shown at **Appendix F**. The RFO opinion also includes an acknowledgement of the risks taken into account in producing the budget proposals for 2022/23 as well as those budgetary risks that will need to be managed going forward in the MTFP.
- 3.64 The effect of Cabinets revenue budget recommendations is shown at **Appendix H**. The effect of Cabinet's capital recommendations is shown at **Appendix I**. Final Council Tax setting is reserved for decision of Full Council on 3rd March 2022.

4. OPTIONS APPRAISAL:

- 4.1 Chief Officers and Directorates are required to consider and outline the options that have been considered for each of the budget savings proposals and pressures accommodated within the final budget proposals presented in this report.

4.2 The detail is contained in the original budget mandates that supported the drafted budget proposals. Where new or amended proposals have been considered as part of the final budget proposals these are available under **appendix E1 & E2**.

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 the Council has been reporting on both Covid-19 and core budget variances, with the former being funded by Welsh Government to date through the Covid Hardship Fund. It is expected that reporting will revert back to previous practice in 2022/23 with the hardship fund due to close on 31st March 2022.

5.3 Subsequent to a new administration outlining its policy aims and ambitions post May a new Corporate Plan will inform and influence a full update of the Medium Term Financial Strategy and Plan later in 2022 and part of the preparations leading into the 2023/24 budget process. This comprehensive update will include an ongoing assessment of pressures, risks and modelling assumptions. As well as savings proposals and options that together with a robust and updated capital receipts and reserves strategy enables the Council's finances to be put on a sustainable footing.

6. REASONS:

6.1 To make appropriate recommendations to Council on the revenue and capital budgets for 2022/23, and the resultant Council Tax recommended to be set for County purposes, taking into account the public consultation and scrutiny in January and February.

6.2 To sustain the capital programme and establish capital resources to support the programme by the sale of surplus assets where this is deemed necessary and appropriate.

6.3 As required by statute, to consider the Responsible Financial Officer's conclusions on the robustness on the budget process and the adequacy of reserves going forward.

6.4 To approve the Prudential Capital Indicators calculated by the Responsible Financial Officer.

7. RESOURCE IMPLICATIONS:

As identified within the report and appendices.

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

8.1 There is a requirement placed on Local Authorities to comply with the general equality duties set out in the Equality Act 2010 and the specific equality duties such as the statutory responsibilities to assess the equality impacts of their budgetary decisions. The Equality Act 2010 places a General Duty on Monmouthshire County Council to eliminate discrimination according to "protected characteristics" (age, religion or belief, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, sex and sexual orientation). Also we need to comply with the Welsh Language Act 1993 and the Welsh Language Measure 2011 through which the Welsh Language Commissioner has shaped the Welsh Standards which came into force from 30th March 2016.

8.2 The Wellbeing of Future Generations Act requires public bodies to improve social, economic, environmental and cultural wellbeing, by taking action in accordance with the sustainable development principle aimed at achieving the Wellbeing Goals. The authority was an early adopter of The Act and re-shaped its pre-decision evaluation tool to reflect the well-being goals and the principles which it sets out.

8.3 The Council has continued to respond to these issues by building considerations of equality, diversity and sustainability into the planning and delivery of its 2022/23 budget. It has done this by:

- Requiring Chief Officers to undertake a Future Generations evaluation of savings proposals they offered for their service area to contribute towards the Council's overall savings target. Where necessary this evaluation has since been updated to reflect the final budget proposals and individual evaluations are linked to each budget proposal.
- Producing an overall FGE assessment of the revenue budget proposals and publishing this as part of the revenue budget proposals for consultation. This is attached as **appendix L** and the assessment has been updated as a result of budget consultation and the final revenue budget proposals being presented to Cabinet for consideration.
- Undertaking a FGE assessment of the capital budget proposals and publishing this as part of the capital budget proposals for consultation.
- Enabling the Council's Cabinet Members to consider savings proposals with the benefit of the FGEs, and to make initial decisions based on this information. The budget proposals reflect Cabinet's key priorities and therefore key services that support equalities – such as social care and schools.
- Deciding that once the final shape of the budget is agreed by Council in March, Council service areas carry out more detailed work to mitigate and manage any equalities or Future Generation issues that have been identified.
- Including the FGEs as part of this report and published on the Council's website so that residents can understand the factors that went into the planning of the 2022/23 budget.
- Ensuring that where proposals will be the subject of further reports it is expected that further FGEs will be undertaken at that time and where savings are being made from decisions already taken then those implementing those decisions should consider mitigating any negative impacts where necessary.

9. **CONSULTEES:** Cabinet, Strategic Leadership Teams

10. **BACKGROUND PAPERS:**

- a) Directorate Budget builds, detailed capital programme and associated papers
- b) Draft revenue budget proposals, draft capital budget proposals – released on consultation by Cabinet on 19th January 2022
- c) Provisional Local Government Settlement
- d) The CIPFA Prudential Code for Capital Expenditure

11. **AUTHORS:**

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Appendices:

- A1 Extract of draft minutes of Adults Select Committee – 24th Jan 2022
- A2 Extract of draft minutes of Strong Communities Select Committee – 25th January 2022
- A3 Extract of draft minutes of Children & Young People Select Committee – 31st Jan 2022
- A4 Extract of draft minutes of Economy & Development Select Committee – 3rd February 2022
- A5 Draft minutes of Schools Budget Forum – 20th January 2022
- A6 Draft minutes of JAG (Joint Advisory Group) – 24th January 2022
- A7 Summary of Head Teachers meeting – 28th January 2022
- A8 Overview of Monmouthshire County Council budget engagement, including feedback from:
MyMates livestream event – 27th January 2022
Budget livestream event – 27th January 2022
Engage to change (young people) event – 27th January

- B1 Provisional Settlement Data
- B2 Provisional Settlement – MCC response letter
- C Specific Grants 2022/23 (All Wales)
- D Summary of savings and pressures
- E1 New Revenue budget mandates
- E2 Briefing note – change in draft revenue budget pressures and savings
- F Responsible Financial Officers Opinion
- G1 Use of reserves for Revenue Budget Purposes
- G2 Reserve Balances
- H1 Reconciliation through the Revenue budget process
- H2 Revenue Budget Summary
- I1 Capital Budget Summary
- I2 New capital investment summary
- I3 Future Schools Capital Budget Summary
- I4 Capital Receipts Balances
- I5 Receipt Risk Factors
- I6 Detailed Capital Receipts (Exempt – supplied under separate cover)
- I7 Exemption form for Appendix I6
- I8 Backlog capital pressures and medium term Monlife Investment considerations
- J Prudential Indicators
- K Capital and treasury management strategies 2022/23
- L Overall Wellbeing and Future Generations Evaluation
- M Revenue budget service groupings