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| SUBJECT: | 2021/22 REVENUE & CAPITAL OUTTURN STATEMENT |
| MEETING: | CABINET |
| DATE: | 27th July 2022 |
| DIVISION/WARDS AFFECTED: | ALL |

1. PURPOSE:

- 1.1 The purpose of this report is to provide Members with information on the Authority's financial results for the 2021/22 financial year in respect of the revenue budget, capital programme, and associated reserves position.

2. RECOMMENDATIONS:

- 2.1 That Cabinet recognises a positive net revenue budget position at outturn of £5.62m prior to transfers to earmarked reserves of £4m, and that this represents a significant improvement of £5.3m from the position forecast at month 9, primarily as a result of:
- Receipt of £1.87m of Welsh Government Covid-19 hardship funding since month 9 to compensate the Council to support its enhanced costs of service delivery and loss of income as a direct result of Covid-19 impact;
 - Receipt of circa £1.3m in unbudgeted grants that were communicated to and received by the Authority late in the financial year and that have offset core budget funding;
 - Improved income and reduced expenditure across many service areas as a result of in-year budget recovery action as well as the impact of the ongoing operating conditions experienced during the financial year and where services have been reduced or stopped, travel requirements have reduced, office and buildings have remained closed and substantial staff vacancies have remained unfilled.
- 2.2 That Members acknowledge the extent that the Welsh Government Covid-19 Hardship Fund has covered all Covid-19 related additional costs directly incurred during the financial year of £12.3m together with compensation for loss of income of £3.6m, noting that the Hardship Fund closed on the 31st March 2022 and that continued budgetary pressures and risks result for 2022/23 and beyond.
- 2.3 That Members endorse the strategy applied to replenish reserves as noted within the report to support future financial challenges and ensure financial resilience during a period of continuing uncertainty and as we continue to recover from the pandemic and as the delivery of our services take shape in light of a severely altered socio-economic landscape, a period of significant economic uncertainty, and as wider policy commitments both locally and nationally begin to take shape.

- 2.4 That Cabinet acknowledges the continued improvement in Schools reserve balances of £3.5m as contained in **Appendix 1** and **Appendix 4** that reflects the significant levels of grant support from Welsh Government that was notified late in the financial year.
- 2.5 That Cabinet reaffirms the requirement for schools carrying significant surplus balances that are above levels guided by Welsh Government to provide investment plans setting out how they intend to spend their significant surplus balances, whilst also appreciating that the inherent structural budget deficits that led to 17 schools being in deficit prior to the pandemic will in some cases still require resolution, irrespective of the unprecedented funding received.
- 2.6 That Members acknowledge the capital outturn spend of £25.2m, introducing an under spend of £1.1m and that subsequently releases £640k of capital receipts back to reserve to support future capital investment.
- 2.7 That Members approve the capital slippage requests of £68.5m as listed in **Appendix 5**, acknowledging the challenging operating conditions and external influences impacting progress during the year.

3. KEY ISSUES:

3.1 Overall Summary

3.2 The 2021/22 revenue budget outturn position is summarised in **Table 1** below with the Authority at a headline level returning a £5.621m surplus against budget for the year, prior to contributions to reserves.

3.3 **Appendix 1** provides the detailed explanation of the reasons for the variance to budget, alongside a full assessment of the movement in School balances, and details of the progress of the Authority's Capital programme during the year.

3.4 The sections that follow look to provide an overview of the key issues influencing the financial position of the Authority during 2021/22 and the consequential impact upon the 2022/23 budget and beyond, and are categorised as follows:

- A financial assessment of the core service delivery
- The progress made against mandated savings and budget mitigations
- Assessing the ongoing financial impact of the pandemic on the Council
- The recommended use of 2021/22 Revenue surplus and reserves
- The movement in School balances during the year
- The Capital budget programme outturn position

Table 1: Overall Revenue outturn position

| Directorate | 2021/22 Budget | Total variance at outturn: Deficit or (Surplus) |
|--|-------------------|--|
| | £000's | £000's |
| Social Care, Health & Safeguarding | 52,643 | 14 |
| Children & Young People | 56,479 | 1,014 |
| Communities & Place | 21,119 | (1,588) |
| Monlife | 3,968 | (345) |
| Chief Executives Unit | 2,812 | (136) |
| People & Governance | 3,830 | (378) |
| Resources | 4,964 | (588) |
| Corporate Costs & Levies | 24,271 | (1,335) |
| Appropriations | 8,095 | (422) |
| Expenditure budget | 178,180 | (3,764) |
| Financing | (178,180) | (1,857) |
| Total budget | 0 | (5,621) |
| | | |
| Transfers to earmarked reserves | | 4,000 |
| Closing surplus transferred to Council fund reserve | | (1,621) |

3.5 Financial assessment of core service delivery

3.6 The overall 2021/22 revenue outturn position, prior to contributions to earmarked reserves, of £5.621m surplus was brought about by numerous factors impacting services and financing budgets during the year, and a full service commentary is provided in **Appendix 1** to this report. However in summary, the variances primarily driving the surplus relate to:

- Receipt of £3.25m additional Welsh Government or Health grants that have been used appropriately to offset core Social care budget funding;
- Receipt of other unbudgeted Welsh Government grant funding of £1.45m;
- Receipt of further unhypothecated Welsh Government settlement funding of £1.58m;
- Positive variances across many areas of service delivery in relation to staffing costs, service provision costs and from additional income;
- Offset by; increasing demand placed on children's social care services, adult social care and our children with additional learning needs budgets.

3.7 Importantly the overall outturn position was supported by £1.57m of identified eligible expenditure to be funded from capital receipts under the flexible use of capital receipts directive. Reliance on these mitigations is a short term measure only and is clearly not sustainable over the medium term.

3.8 It is important to note that the majority of the savings or income identified above that assist the in-year budget are one-off in nature and will not bring any recurrent benefit to future year's budgets. Conversely, the majority of the pressures services continue to

accommodate are recurrent pressures, some of which would have been partially considered as part of the wider budget process for 2022/23 and beyond.

- 3.9 Of note, the continuing level of staff vacancies being carried in the establishment is not considered to be sustainable position in the medium term, and services across the Authority report that active recruitment is ongoing to mitigate the ongoing impact and pressure this is having upon service delivery.
- 3.10 Whilst the final outturn position is welcomed, there remain areas of significant concern and risk going forward, especially in light of the wider challenging economic climate. Some services continue to face significant demand led pressures, some continue to operate at below pre-pandemic levels, whilst other services continued to have a level of significant reliance on Welsh Government Hardship funding which has now ended. Whilst ongoing plans are in place to deliver services within budget during 2022/23 it is highly likely that considerable levels of mitigation will be required as the Council progresses through the year.

3.11 Progress against mandated savings and budget mitigations

Table 2: Progress against mandated savings

| Directorate | 2021/22 Budgeted Savings £000 | Saving achieved £000 | Delayed Savings £000 | Savings Unachievable £000 | % Achieved |
|--------------------------|--|----------------------------|----------------------------|---------------------------------|---------------|
| Children & Young People | (1,510) | (1,275) | (235) | 0 | 84% |
| Social Care & Health | (874) | (874) | 0 | 0 | 100% |
| Communities & Place | (821) | (821) | 0 | 0 | 100% |
| Monlife | (100) | (80) | 0 | (20) | 80% |
| Resources | (165) | (123) | (42) | 0 | 75% |
| Chief Executives Unit | (32) | (20) | (12) | 0 | 63% |
| Corporate Costs & Levies | (1,508) | (1,508) | 0 | 0 | 100% |
| Appropriations | 275 | 275 | 0 | 0 | 100% |
| Total | (4,734) | (4,426) | (289) | (20) | 93% |

- 3.12 The 2021/22 budget was set based on the requirement for £4.7m of mandated savings to be achieved by service areas. Given the challenging operating environment that services have performed under during 2021/22 it is pleasing to note their performance in achieving 93% of their budgeted savings.
- 3.13 There has been a delay in the implementation of £289k of budget savings proposals and this was primarily due to being unable to increase the recoupment income from other Local Authorities for pupils who were out of county and attending our mainstream schools, as a number of pupils have moved into Monmouthshire during the year.

- 3.14 A full list of the progress against savings mandates can be found at **Appendix 2** to this report.
- 3.15 The 2021/22 budget included the budgeted use of a Capitalisation direction of £2.2m where one-off costs are eligible to be capitalised under the guidance issued by the Welsh Government in respect of the flexible use of capital receipts. Given the reduced service activity during the year only £1.57m of the budgeted use was utilised resulting in £640k remaining in the capital receipts reserve for future use.

Those costs capitalised are listed and **Appendix 3** to this report and in summary relate to:

- Sharing back-office and administrative services with one or more other council or public sector body;
- Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation;
- Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible;
- Integrating public facing services across two or more public sector bodies to generate savings or to transform service delivery.

3.16 **Assessing the ongoing financial impact of the pandemic on the Council**

- 3.17 The 2021/22 budget was set against the backdrop of an unprecedented period of uncertainty, both in Local Government and in the wider context. The Covid-19 pandemic continues to have a major impact on all local authorities and wider public services across Wales. From a financial perspective, the response to the pandemic has required the Council to incur significant additional expenditure, for example, costs relating to infection control measures, safeguarding the public and employees and support for elderly and vulnerable residents. In addition, income losses have also been substantial, during the period where services either have been closed or have experienced significant reductions in demand or footfall due to conditions experienced.
- 3.18 During the year Welsh Government continued to provide significant one-off support through numerous funds as the impact of the Covid-19 pandemic continued in 2021/22. The extent of this support is outlined in **Table 3** below.

Table 3: Direct Grant funding received to aid in Covid-19 pressures

| | £000s |
|--|---------------|
| Welsh Government Covid19 Hardship Fund - Additional costs incurred | 12,320 |
| Welsh Government Covid19 Hardship Fund - Compensation for loss of service income | 3,587 |
| Council Tax Income Collection shortfalls | 1,018 |
| Business Grants - administration costs | 156 |
| Total | 17,081 |

- 3.19 The Welsh Government communicated clearly during the year that the Hardship Fund in its current form had an end date of the 31st March 2022, and that the increased Local

Government funding settlement for 2022/23 contained an element of funding expected to meet any further pressures relating from the impact of the pandemic upon Local Authorities.

- 3.20 In addition to the specific grant funding outlined above, the Welsh Government announced in March 2022 the distribution of £60million of additional Revenue Support Grant to Welsh Authorities, with Monmouthshire receiving an additional £1.58m of unhypothecated funding. In distributing this resource Welsh Government indicated that it could be used to assist with the management of inflationary and service pressures and the closure of the Covid-19 Hardship Fund, as well as helping to continue to decarbonise Council services, including providing access to electric vehicles. In this latter regard this report is predicated upon transferring £214k to a specific reserve to help support the transfer of an element of the Councils' transport fleet to EV technology.
- 3.21 Clearly, given the significant level of support that has been provided from the Hardship Fund in both 2020/21 and 2021/22, there remains a significant budgetary risk for the Authority to carry into 2022/23 in light of a severely altered socio-economic landscape, a period of significant economic uncertainty, extended national policy commitments, and the continuing legacy impacts of the pandemic upon service delivery.
- 3.22 The Authority, as part of its budget deliberations for 2022/23, looked to partly mitigate some of these risks with further investment into some of the key services continuing to be impacted by the pandemic, notably Social care, Additional learning needs, and in meeting the needs of the Homeless.
- 3.23 However it is clear that these service areas, along with services such as Leisure, Outdoor Education, Investment properties and Car parking continue to be significantly impacted by the underlying impact of the pandemic, and for which that impact is very difficult to measure, with the factors influencing the demand pressures and income levels being multifaceted. Alongside this, the risks presenting in the wider economic environment are expected to place upward pressure on our pay budgets over the medium term. This undoubtedly presents further budgetary risks over and above those budgeted for as we move into 2022/23.
- 3.24 In light of these continuing budget risks, the Authority has prudently set aside further reserve funding at the end of 2021/22 totalling £4m for specific Covid-19 related pressures which are yet to fully materialise, and in the event that further funding commitments from Welsh Government fall short of mitigating some of these key budget risks. Given the Councils comparatively low level of reserve cover, and the financial challenges still presenting over the medium term and beyond, recourse to this funding should be seen as an absolute last resort after exhausting all other alternative options.
- 3.25 In working with all parts of the Welsh Public Sector, the Welsh Government provided significant one-off support to the Welsh population through numerous funds which have been administered by the Council during the year. This has ranged from support to local businesses via Business Support Grants, payments made to care workers, support for those self-isolating and for Winter fuel pressures. The extent of the support administered by the Authority during the financial year is detailed in **Table 4** below:

Table 4: Welsh Government support funds administered in year

| Support fund | £000s |
|---|--------------|
| Care worker Payments | 1,894 |
| Statutory sick pay enhancement for Care workers | 147 |
| Business support grants | 1,836 |
| Self-isolation payments | 1,002 |
| Winter fuel pressures | 476 |
| Total | 5,355 |

3.26 Recommended use of 2021/22 Revenue surplus

3.27 Irrespective of the impact of the Covid-19 pandemic the Authority was already dealing with underlying service pressures which resulted in £10.3m of pressures being accommodated within the 2021/22 budget, primarily consisting of:

- Pay and pension-related spending pressures in our schooling system;
- The increasing demand placed on children’s social care services, adult social care and our children with additional learning needs budgets;
- Significant service pressures within the passenger transport unit and within recycling and waste and that look to ensure that the Council supports and sustains key service delivery;
- Investment that ensures that homeless people are provided adequate support, advice and accommodation in their time of need;
- An ongoing commitment to recognise and value the contribution made by the workforce and ensuring that local government staff are paid no less than the minimum wage set by the Living Wage Foundation, extending to the apprenticeship roles within the Council.

3.28 Despite this further investment, and that accommodated within the 2022/23 budget round, it is clear that demands upon services and operating models continue to be impacted as we move through and past the recovery phase of the pandemic, presenting significant further budgetary risks, notably:

- The pandemic has brought about Welsh Government policy change, significantly in the area of Homelessness, and where the funding picture still remains unclear;
- The continuing impact on the most vulnerable members of the County and the ongoing and additional support that this may require, notably in the areas of Social Care and Additional learning needs;
- Implications on demand levels for some of our income generating services such as Leisure facilities, Outdoor Education, Investment properties and Car parking;
- The risks presenting in the wider economic environment that are expected to place upward pressure on our pay budgets over the medium term;

- Supply chains continue to be radically disrupted.

- 3.29 It is also important to recognise the impact of the current economic environment with global economies having been hit hard by the pandemic, the impact of the ongoing conflict in Ukraine and the continuing resolution of Brexit agreements. All of these will inevitably impact on future public spending and Local Government settlements.
- 3.30 In particular as we look towards 2022/23, the inflationary environment and the cost of living crisis in our communities is of significant concern and the ongoing support for the most vulnerable residents in our County will be a key service consideration as we move forwards.
- 3.31 Welsh Government has helpfully provided indicative funding settlements on an all Wales basis of 3.4% and 2.5% respectively for 2023/24 and 2024/25. Whilst this provides a degree of funding certainty over the medium term, when coupled with the impact of the wider economic environment, pandemic recovery and taking into account the current demand led pressures on services, it is clear that future budget rounds will continue be challenging.
- 3.32 Maintaining a sustainable level of reserve cover, alongside targeted and effective reserve investment will ensure a degree of ongoing financial resilience to the Council, and will allow the Authority to form an appropriate and risk informed budget approach as the picture resolves itself.
- 3.33 Given all of these uncertainties it remains difficult to identify the timing and quantum of investment required into the Council's key corporate priorities moving forward and also in responding to the wider national policy agenda commitments.
- 3.34 In considering all of the above and in apportioning the outturn position the future financial stability of the Council was considered, alongside the potential additional unknown costs that could occur in dealing with post Covid-19 recovery, whilst also giving financial resilience to service areas to deal with service pressures and the wider policy commitments that will shape future service delivery. In this regard the revenue surplus is proposed to be allocated to the following reserves:

Table 5: Reserves balances and proposed replenishment

| Reserve | 31st March 2021 | 31st March 2022 | Proposed replenishment | 31st March 2022 |
|--------------------------------|-----------------|-----------------|------------------------|-----------------|
| | £000's | Draft £000's | | Final £000's |
| Council Fund (Authority) | (8,907) | (8,907) | (1,621) | (10,528) |
| Council Fund (School Balances) | (3,418) | (6,954) | | (6,954) |
| Sub Total Council Fund | (12,325) | (15,861) | (1,621) | (17,482) |
| Earmarked Reserves: | | | | |
| Invest to Redesign | (1,356) | (1,456) | | (1,456) |

| | | | |
|---------------------------------------|-----------------|-----------------|----------------|
| IT Transformation | (854) | (931) | (931) |
| Insurance and Risk Management | (935) | (925) | (925) |
| Capital Receipt Generation | (416) | (365) | (365) |
| Treasury Equalisation | (590) | (590) | (590) |
| Redundancy and Pensions | (857) | (769) | (769) |
| Capital Investment | (627) | (627) | (627) |
| Priority Investment | (1,905) | (1,905) | (1,905) |
| Covid19 Reset Reserve: Social Care | 0 | 0 | (1,400) |
| Covid19 Reset Reserve: Homelessness | 0 | 0 | (1,400) |
| Covid19 Reset Reserve: Leisure income | 0 | 0 | (300) |
| Covid19 Reset Reserve: Pay inflation | 0 | 0 | (900) |
| Other Earmarked Reserves | (3,131) | (4,547) | (4,547) |
| Total Earmarked Reserves | (10,671) | (12,115) | (4,000) |
| Total useable revenue reserves | (22,996) | (27,976) | (5,621) |

4 MOVEMENT IN SCHOOL BALANCES

Table 6: Movement in school balances

| 2021/22 School Balances Summary outturn position | Opening Reserves (Surplus) / Deficit £000's | In year Draw / (Contribution) £000's | Reserve Balances at 2021/22 Outturn £000's |
|---|--|--|---|
| Cluster | | | |
| Abergavenny | (1,158) | (987) | (2,145) |
| Caldicot | (1,091) | (1,075) | (2,166) |
| Chepstow | (349) | (346) | (695) |
| Monmouth | (794) | (1,074) | (1,869) |
| Special | (26) | (53) | (79) |
| Total | (3,418) | (3,536) | (6,954) |

- 4.1 In a similar manner to the general revenue activities of the Council, Schools have continued to benefit from Welsh Government hardship funding of £1.047m during the year to compensate for additional general Covid costs incurred (e.g. PPE, staff cover due to self-isolation, enhanced cleaning) and income lost and this is included within the figures outlined in **Table 6** above.
- 4.2 From a financial perspective, 2021/22 continued to see schools receive several significant Welsh Government grants to support them and their pupils during a period of continued disruption to learning and recovery from the impact of the pandemic on schools. This has resulted in all but one of the schools carrying forward a surplus balance into the 2022/23

financial year. The movements in individual school balances are outlined in **Appendix 4** to this report.

- 4.3 The Authority continues to require 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 intend to spend the significant balances being held. These plans are assessed regularly and inform the budget monitoring process.
- 4.4 It is clear that the inherent structural budget deficits that led to a situation of 17 schools being in deficit prior to the pandemic may in certain cases still remain, and the Authority will look to work with those schools in particular to look to develop a sustainable medium term budget structure irrespective of the additional Welsh Government funding received. 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.
- 4.5 In specific relation to Chepstow Comprehensive, when the windfall Welsh Government grants are disregarded, it continues to mask a significant recurring budget deficit that has been brought about predominately due to the curtailing of any staff redundancy processes during the pandemic. These were pivotal to their recovery plans. This leaves the school comparably weaker than if they had executed their recovery plans as intended. Consequently they do not now have the level of surplus balances that the other three comprehensive schools now have. The Authority will continue to work with and support the school to develop a sustainable budgetary position over the medium term.

5 CAPITAL BUDGET PROGRAMME OUTTURN

- 5.1 The capital expenditure outturn detailed in **Appendix 1** shows a net under spend of £1.139m against budget which can largely be attributed to specific grant funded schemes where the full grant allocation initially offered by funding partners was greater than the actual scheme costs required to deliver the schemes (£685k). This under spend does not release any capital financing for future use as the grant actually received matches the overall expenditure.
- 5.2 An additional surplus of £640k relates to under-utilisation of the capitalisation direction and primarily where redundancy costs incurred within the revenue budget (and which were eligible to be capitalised) were significantly lower than budgeted. This subsequently releases £640k of capital receipts back to reserve for future capital investment.
- 5.3 The remaining variance relates to vehicle acquisitions and within unsupported borrowing and leasing, where it was more cost-effective to the Authority to finance vehicle purchases from borrowing instead of leasing as initially budgeted. It is important to note that any variance in this budget is met in full by the service department from their existing revenue budget for vehicle fleet costs over the course of the vehicles life.

- 5.4 Members are asked to approve the slippage requests totalling £68.558m as shown in detail in **Appendix 5** to this report. The vast majority of the slippage requests are due in some degree to the delays encountered relating to the impact of Covid-19 and was very much outside of the control of the Authority, with two schemes (Asset Investment Fund and Abergavenny 3-19 School) accounting for two thirds of the total slippage.
- 5.5 The impact of Covid-19 on the capital programme has varied and is very much been dependent on the nature of the works being undertaken. Following initial delays on schemes during periods of operating restrictions, contractors adapted to revised working arrangements, although the wider indirect impacts of cost inflation and supply chain issues continue to present a challenge to project delivery. Some of these issues will be temporary, however it still remains unclear whether certain increases in cost inflation will be sustained over the medium term.

5.6 Useable Capital Receipts Available

Table 7: Useable Capital receipts forecast

| | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
|---|--------------|---------------|---------------|---------------|--------------|
| | £000 | £000 | £000 | £000 | £000 |
| Balance as at 1st April | 9,581 | 9,030 | 11,904 | 11,818 | 10,873 |
| Capital receipts used for financing | (1,880) | (4,264) | (1,294) | (1,194) | (1,094) |
| Capital receipts used to support capitalisation direction | (1,567) | (2,650) | (507) | (507) | (507) |
| Capital receipts Received or Forecast | 2,896 | 9,788 | 1,715 | 756 | 104 |
| Forecast Balance as at 31st March | 9,030 | 11,904 | 11,818 | 10,873 | 9,376 |

- 5.7 The movement in capital receipts balances for the year is shown above. Whilst overall balances on the face of it are healthy, there remains the risk that forecast receipts receivable for 2023/24 onwards are at comparatively low levels, and combined with the fact that receipts are continuing to be used to subsidise the revenue budget through capitalisation direction means that the scope for further capital investment funded via receipts will be limited.
- 5.8 The clear focus for 2022/23 will be on securing the forecast receipts of £9.7m which will ensure the medium term position is stabilised, and until such time that further development potential opportunities are clarified both locally and nationally via the LDP framework.

6 RESOURCE IMPLICATIONS:

The report itself covers the resource implications of the entirety of the revenue and capital budget activity during the year. There are no further resource implications as a result of the recommendation in this report.

7 EQUALITY AND FUTURE GENERATIONS EVALUATION (INCLUDES SOCIAL JUSTICE, SAFEGUARDING AND CORPORATE PARENTING):

- 7.1 This report provides Members with information on the revenue and capital outturn position of the Authority and carries no decisions. There are therefore no equality of future generations' implications directly arising from this report.
- 7.2 Any such impacts will be fully considered subsequently when Council receives further budget proposals.

CONSULTEES:

Senior Leadership Team
Performance & Overview Scrutiny Committee
Cabinet

Feedback from Performance & Overview Scrutiny Committee 7th July 2022:

Following detailed scrutiny of the revenue and capital position at outturn, the committee requested a breakdown of the inflationary pressures being faced be emailed to members to assist them in gaining an understanding of the impact of rises in inflation on the Council's budgetary position.

BACKGROUND PAPERS:

Appendix 1 – Revenue and capital outturn report including school balances
Appendix 2 – Progress made against mandated savings
Appendix 3 – Capitalisation directive schedule
Appendix 4 – Movement in individual school balances
Appendix 5 – Capital slippage schedule

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