SUBJECT:	**REVENUE & CAPITAL BUDGET MONITORING 2022/23 – MONTH 6 FORECAST**
MEETING:	**CABINET**
DATE:	**7th December 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 forecasts for the 2022/23 financial year in respect of the revenue budget, capital programme, and associated reserves position.

2. RECOMMENDATIONS:

2.1. That Cabinet recognises the concerning net deterioration of £355k since the previous revenue budget forecast that results in a forecast over spend at Month 6 of £9.15m, driven by an increase of £880k within Children's services to a £4.4m over spend; an increase of £194k in meeting the needs of the Homeless to a £1.5m over spend; offset by a number of favourable movements, significantly the level of ongoing staff vacancies being carried or held in the workforce.

2.2. That Cabinet notes that the Strategic Leadership Team have taken immediate action to arrest the forecast over spend and developed a robust recovery plan as outlined in ***table 3*** that will result in a balanced outturn position being achieved. These are notably through the one-off use of revenue and capital reserves; reprioritisation of grant funding; and through cost moderation or reduction in service delivery.

2.3. That Cabinet note the further financial risk represented by the current volatile environment that both Adult's and Children's services are operating within that is associated with the level and complexity of demand, inflationary pressures, and labour shortages, and the risk this represents to the ongoing financial sustainability of this Council.

2.4. That Cabinet require the respective Chief Officers and the Responsible Financial Officer to continue to closely monitor and manage operational and financial performance, specifically in relation to Children's services, Adult's services, and Housing, but also the other service areas highlighting forecast over spends, and to ensure the release of at least £2.185m of highlighted service budget mitigations across all directorates as a consequence of the budget recovery plan.

2.5. That Cabinet recognise the ongoing financial risks to the revenue budget of the current wider economic climate, including the inflationary and interest rate environment; supply chain disruption; the volatile energy market; and notably the potential impact of the cost of living crisis on communities, and the associated financial impact this may have on the Council.

2.6. That Cabinet recognises the importance of a balanced outturn position being achieved for 2022/23, in that it minimises the need to draw further upon any planned use of reserves and capital receipts and which will be required to assist in meeting the unprecedented projected budget deficit highlighted for 2023/24.

2.7. That Cabinet note that the overall revenue budget continues to be subsidised by £2.65m of capital receipts which are being used to fund identified eligible expenditure under the flexible use of capital receipts directive.

2.8. That Cabinet note the forecast 100% delivery of the budgeted mandated savings as detailed in ***appendix 2*** and as approved as part of the budget set by full Council.

2.9. Cabinet notes the extent of forecast movements in Schools reserve usage contained in ***table 6***, and ***appendices 1 & 3*** which highlight the possibility of a further seven schools entering into a deficit reserve position by the end of the financial year.

2.10. Cabinet considers the forecast capital outturn spend of £59.9m as outlined in ***appendix 1*** that currently indicates a forecast over spend of £310k, noting the continuing difficulty in delivering capital projects to their allocated budget in the current challenging economic environment.

3. KEY ISSUES:

3.1. In setting the 2022/23 budget there was an expectation that the Council would see a gradual return to a more stable operating environment relative to the last two years, with the direct impacts of the pandemic potentially set to ease.

3.2. There was a known and accepted risk that the Welsh Government Hardship fund would end and consequently any direct or indirect costs resulting from the pandemic would fall upon the Council to fund. It was also highlighted that the challenges experienced in achieving historic income levels would continue, and that the permanent change in national policy initiative around the needs of the homeless would not be adequately funded by Welsh Government.

3.3. The timing and degree to which these risks would manifest was the key uncertainty within the budget setting process, and on that basis, Cabinet agreed a package of measures to combat the known and unknown pressures presenting in terms of a mix of base budget provision of a further £10.1m, and the creation of specific earmarked reserves of £4m.

3.4. In respect of the £10.1m of budget pressures that were accommodated, these were notably:

- All pay and pension related spending pressures in our schooling system, up to a threshold of a 3% pay award
- The increasing demand on schools and the Local Education Authority of pupils with additional learning needs
- 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

- 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
- 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
- Responding to the needs of homelessness with housing related support
- Further investment in our Highways and transport infrastructure alongside our IT and network estate

3.5. It is therefore disappointing that despite accommodating the above pressures into the 2022/23 budget, that significant further in year service pressures are forecast, with many of these pressures developing in the same key areas that have been provided additional support in the budget.

3.6. ***Table 1*** below summarises the forecast £9.15m net over spend against the Council's revenue budget for the year.

Table 1: 2022/23 Revenue budget forecast as at Month 6

Month 6 Revenue budget forecast	Total budget for the year	Total forecast expenditure / (income)	Total forecast variance to budget	Variance as a % of budget	Change since Month 4
Directorate	**£000's**	**£000's**	**£000's**	**%**	**£000's**
Social Care, Health & Safeguarding	57,870	63,581	5,711	9.9%	↑ 655
Children & Young People	59,513	60,245	732	1.2%	↓ 9
Communities & Place	23,713	24,472	759	3.2%	↑ 143
Monlife	4,494	4,957	462	10.3%	↓ 17
Chief Executive Unit	3,108	2,820	(288)	-9.3%	↓ 288
People & Governance	4,856	4,884	28	0.6%	↑ 28
Resources	7,637	8,246	609	8.0%	↓ 147
Corporate**	25,653	27,549	1,896	7.4%	↓ 22
Appropriations	5,853	5,603	(250)	-4.3%	↓ 24
Financing	(192,699)	(193,203)	(504)	0.3%	↑ 38
Total	**(0)**	**9,155**	**9,155**		↑ 355

***** Includes the estimated impact (£2.1m) of the non-teaching pay award over and above the 3.5% already budgeted for.***

3.7. A full breakdown of the variances forecast by services at Month 6 is contained within ***appendix 1***, however at a summary level the principal pressures and mitigating savings forecast are within the areas of:

Table 2: Summary of principal pressures and savings forecast at Month 6

Pressure/Saving	£000's	Change	Description
Children's services	4,399	↑ 880	Children looked after numbers have increased by 7 since month 4, and there continue to be increasing numbers of high cost placements, including extremely costly emergency arrangements for children where there is no regulated placement. Alongside this there is continued use of agency staff to fill vacancies.
Adults Services	1,475	↓ 123	Older Adults budgets have seen a dramatic influx of clients requiring services as we move out of the pandemic, with continued pressures from hospitals to discharge patients into the social care sector, and some clients requiring more intense services due to delayed health care during the pandemic. Some in-house services are currently undergoing reviews, with in year savings being used to partially offset over spends.
Additional Learning Needs	499	↓ 34	Due to placement costs outside of our own schools (£313k), a reduction in income from other Councils for out of County pupils attending our schools (£108k), and additional support for pupils attending our own schools (£78k).
Housing	1,521	↑ 194	Primarily due to national policy change impacting upon the service and where our housing costs in relation to the needs of the Homeless are not attracting full funding. £228k in net additional costs, and £1.3m where by emergency accommodation placements do not allow the Council to claim full housing benefit subsidy.
MonLife	462	↓ 17	Due to the sections inability to generate the expected income targets in relation to Leisure and Outdoor education services.
Passenger Transport Unit (PTU)	377	↓ 47	Increased pay, fuel and repair costs have meant that operators have handed back contracts resulting in re-negotiated external prices or increased in-house provision required.
Non-teaching pay award	2,017	No change	An allowance is made within the forecast for the result of pay award negotiations over and above the 3.5% budgeted for. Negotiations have concluded between local government employer's representatives and trade unions which will result in an overall award of approximately 6.25%.
Car Parks & Civil Parking Enforcement	242	↓ 13	Parking enforcement fines will not hit budgeted targets and in addition there are over spends in expenditure primarily in transport, premises and software costs.
Markets	137	↑ 8	The number of traders has dropped off considerably since Covid-19 and this has meant the service is struggling to meet income targets alongside increases in waste disposal costs.
Council tax	(504)	↑ 38	Out-performance of budgeted Council tax collection.
Net Borrowing costs	(250)	↓ 25	A reduction in net budgeted borrowing costs reflective of a lower than budgeted interest rate environment at the start of the year, and significant capital slippage at the end of 2021/22 delaying borrowing need.
Staff vacancies	(872)	↓ 376	Significant staff vacancies being carried in the establishment.
Rental income	(172)	↓ 172	Recovery of the rental of Innovation House from the Ukrainian grant funding scheme.
Solar Farm & Sustainability	(153)	↓ 40	Improved income from our Solar Farm and PV installations caused by the increased market rates for energy.
Neighbourhood services	(164)	↑ 63	Primarily due to the improvement gained from the installation of LEDs in our street-lighting over and above budgeted levels (£125k), and Waste contract savings resulting from a strong recycling market (£29k). A downturn in the recyclate market has impacted forecasts since month 4.

3.8. Alongside the efforts to put shape to the overall budget recovery plan, it should be noted that the Month 6 forecast includes a variety of measures that services have already undertaken in efforts to arrest the over spend position and in moderating cost, or exploring additional funding. This has resulted in significant forecast savings as noted above offsetting the increases in cost reported primarily within the areas of Children’s services and Housing.

4. Ongoing budgetary risks

4.1. Whilst immediate mitigating action has been taken to arrest the significant forecast in-year deficit we need to be acutely aware of the further financial risks presenting during 2022/23 and in light of the turbulent socio-economic environment currently facing households, businesses and the public sector alike.

4.2. The Cost of living crisis continues to have a significant impact on our communities, with a growing need for additional Council services, the impact upon demand for the Council’s income generating services, and risks around future debt recovery. Alongside this, the wider economic and inflationary environment continues to impact service delivery, both in respect of cost and supply chain disruption, and in presenting continued recruitment challenges.

4.3. The wider and longer lasting indirect impact of the pandemic continues to impact Council services, particularly in the areas of Homelessness, Children’s services, Adult social care and Children’s additional learning needs. There remains significant latent and complex demands in these areas as a result, and some of these impacts will take a significant period of time to unwind.

4.4. Significant savings from existing staff vacancies have already been factored into forecasts and alongside this there is very little scope for further savings in financing and treasury budgets in light of a rising interest rate environment.

4.5. Importantly the overall outturn position continues to be supported by £2.65m of identified eligible expenditure to be funded from capital receipts under the flexible use of capital receipts directive. Reliance on these mitigations was a short-term measure only and is not currently sustainable at this level beyond 2022/23 as capital receipts forecast to be generated start to fall away.

4.6. In considering all of the above, this presents a unique and unprecedented operating environment for the Council, and one which severely curtails the immediate ability of the Council to influence its primary expenditure and income drivers, and therefore its ability to be able to bear down on cost, or increase income to any significant degree without resorting to more extreme measures.

4.7. As we look to the remainder of the financial year the key financial focus now centres itself on two significant areas that will be vital to ensuring that the Council ends the year in a financially sustainable position:

1. Delivering on the range of service budget mitigations identified by the Strategic Leadership Team of at least £2.185m, and that involve a mix of cost moderation and reduction in service delivery;

2. Close monitoring and management of the operational and financial performance of Children's services, Adult's services, and Housing with a view to reassessing and considering what our financially viable "core offer" is in relation to these services.

4.8. When looking beyond this financial year, it is important to note that many of the savings that will assist the in-year budget recovery are one-off or temporary in nature and will not necessarily bring any further benefit to future year's budgets. Conversely, the majority of those pressures highlighted above are demand driven and recurrent in nature and are being scrutinised for consideration as part of the wider budget process for 2023/24 and beyond.

5. Assessment of identified budget mitigation measures

Table 3: Summary of budget mitigation measures identified at Month 6

Mitigation measure	Application	Risks	Forecast usage
Revenue Reserves	Revenue reserves have been replenished by approximately £11m over past two years, with particular focus at the end of 2021/22 in providing protection against some the budget risks now manifesting (In particular Social care, Homelessness, Leisure income, and Pay).	Reserves only provide a finite and one-off source of mitigation and do not address recurrent and structural budgetary deficits. It is essential that a prudent reserve level continues to be in place to ensure ongoing financial resilience in light of the 2023/24 budget situation where unprecedented pressures are materialising around demand, inflation, energy, pay, and levels of funding.	**£5m**
Capitalisation directive	Identification of further revenue costs, over and above the £2.65m already budgeted, that can be categorised as enabling service transformation, and that can be legitimately funded from capital receipts under the regulations.	Capital receipts are a one-off source of funding and further use under this measure will restrict the amount available for future capital investment.	**£1.27m**
Funding	Further unbudgeted grant funding becoming available during the remainder of the year. Of particular note, since month 4 there has been notification from Welsh Government that no further funding will be made available in respect of winter social care pressures. (Circa £1m in previous years.) In mitigation of this, it is estimated that £700k of Social care workforce sustainability grant can be released to aid in budget recovery due to the ongoing inability to recruit or procure care to the levels required to meet unmet care needs.	Nil risk up to £0.7m level. In respect of further funding, all parts of the public sector are facing significant budget challenges in the current global economic environment and notably Welsh Government have made significant funding commitments in 2022/23 in relation to Free School meal provision, the Ukrainian crisis, and the Cost of Living crisis. Further funding commitments to Local Government therefore come	**£0.7m**

Mitigation measure	Application	Risks	Forecast usage
		with a significant level of uncertainty.	
Cost moderation / Reduction in services	Non-pay cost reduction in supplies and services, third party, premises, and transport budgets. Pay budget cost reduction - significant vacancies are currently being held across services with many being forecast to be filled during the Autumn. Given the current recruitment market challenges it is expected that further savings could materialise. Reduce the level of service provision, either through reduced capacity or by the switching off of discretionary services.	As outlined individually within Appendix 4.	**£2.185m**

6. Usable revenue reserve levels

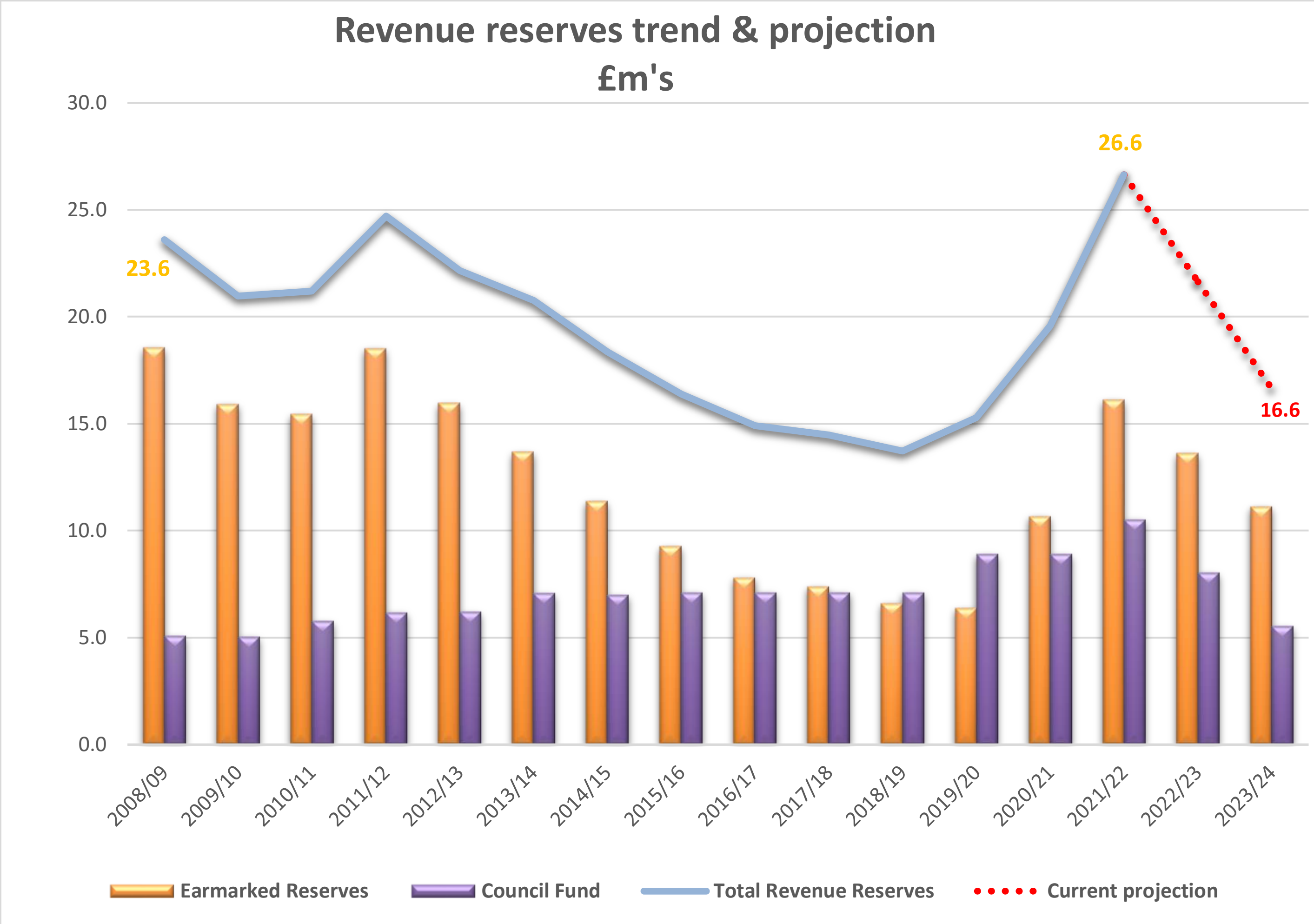
6.1. Usable revenue reserves (excluding schools) have been replenished by approximately £11m over past two financial years, and stand at £26.6m at the start of 2022/23.

6.2. Reserves have been able to be replenished as above through the pandemic as a result of significant Welsh Government hardship funding and one-off grants. This reversed a continuing trend of depleting balances since 2011/12 through a period of financial austerity and challenging budget rounds for Council's.

6.3. Reserves are an integral part of the Council's financial strategy and are used to create long-term budgetary stability. As well as being available to fund unexpected funding pressures, they enable the Council to manage organisational change without undue impact on council tax payers and can also be an important funding source to support 'invest to save' initiatives designed to reduce the ongoing cost of providing services.

6.4. ***Table 4*** below outlines the trend in revenue reserves levels over time and includes a projection based upon drawing on £5m of revenue reserves as outlined in the above budget recovery plan. For illustrative purposes only, and to demonstrate how such a reliance on reserves would impact upon reserve sustainability, the table makes the further assumption that if no corrective budget action is taken to reduce the Council's overall costs for 2023/24 that £5m of such support would continue to be required.

Table 4: Revenue reserve trend and projection



6.5. Despite the replenishment in reserves over the past two financial years, balances remain at the lower end of the scale on an all-Wales comparison when comparing reserve balances as a percentage of the Council's net revenue budget.

6.6. To put the balances in context, the balance of revenue reserves of £23.6m in 2008/09 represented 18.5% of the Council's net revenue budget, whilst in 2021/22 the balance of £26.6m represents only 14.9%. If projections continue as estimated, this would fall to 9.3% by the end of 2023/24.

7. Progress against 2022/23 budgeted mandated service savings

7.1. The 2022/23 budget included mandated savings totalling £2.129m and the progress against these is summarised in ***table 3*** below and in more detail in ***appendix 2***.

Table 5: Progress against mandated savings

Directorate	2022/23 Budgeted Savings £000	Savings forecast £000	Delayed Savings £000	Savings Unachie-vable £000	% Achieved
Social Care & Health	(120)	(120)	0	0	100%
Communities & Place	(959)	(959)	0	0	100%
Resources	(300)	(300)	0	0	100%

Chief Executives Unit	(33)	(33)	0	0	100%
Corporate Costs & Levies	(717)	(717)	0	0	100%
Total	**(2,129)**	**(2,129)**	**0**	**0**	100%

7.2. It is pleasing to note the forecast 100% delivery of mandated savings, especially in light of the ongoing challenges faced by services in current operating conditions. Finance officers will continue to work with services to ensure that these mandated savings are fully delivered as well as identifying any further areas of service efficiency which may deliver additional savings.

8. School balances

8.1. From a financial perspective, 2021/22 was another unprecedented year for schools who continued to receive several significant Welsh Government grants to support them and their pupils during, and following a period of significant disruption to learning. This resulted in all but one of our schools bringing forward a surplus balance into the 2022/23 financial year, with the vast majority carrying significant surplus balances above those guided by Welsh Government school funding regulations (£50k for a Primary, £100k for a Secondary or Special school).

8.2. The Authority requires schools carrying balances above those levels guided by Welsh Government to provide investment plans setting out how they intended to spend the excess balances being held. These plans informed the budget process for 2022/23.

8.3. At month 6, the forecast is for an overall contribution from school balances of £4.9m, resulting in a forecast surplus at year-end of £2.05m.

Table 6: Forecast movement in school balances for 2022/23

Draft Council Fund Outturn 2022/23 – School Balances Summary outturn position at Month 6	**(A) Opening Reserves (Surplus) / Deficit Position 2022/23 £000's**	**(B) Draw / (Contribution) from / (to) School Balances @ Month 4 £'000**	**(C) Draw / (Contribution) from / (to) School Balances @ Month 6 £'000**	**(D) Draw / (Contribution) from / (to) School Balances @ Month 9 £'000**	**(A+C) Forecast Reserve Balances at 2022/23 Outturn £'000**
Cluster					
Abergavenny	**(2,145)**	1,181	**1,272**		**(873)**
Caldicot	**(2,165)**	1,570	**1,284**		**(881)**
Chepstow	**(695)**	863	**899**		**204**
Monmouth	**(1,869)**	1,425	**1,353**		**(516)**
Special	**(82)**	106	**91**		**9**
Total	**(6,956)**	**5,145**	**4,900**		**(2,057)**

8.4. The budget for 2022/23 made allowance for a pay award for schools staff up to a threshold of 3%, with any award agreed above this level to be funded from schools balances. The above forecast is predicated upon a further pressure of 2% over and above the 3% budgeted based upon the current level of pay offer put forward by the independent Welsh pay review body. This accounts for £1.2m of the overall £4.9m forecast draw upon school balances this year.

8.5. It should be noted that the teaching unions are currently balloting over industrial action in respect of the current pay offer and that this represents an associated downside risk to the current forecasts in place.

8.6. The investment plans enacted by schools look to deliver the best learning outcomes for pupils in line with the purpose of the grant funding provided over the past two financial years. ***Appendices 1 & 3*** outline the forecast movement in individual school balances for the year, and whilst it is clear that the investment plans enacted will bring many school balances more in line with those levels guided by Welsh Government, it is disappointing to note that a further seven schools are now forecast to move into deficit by year-end.

8.7. There remains significant concern from a financial perspective that the inherent structural budget deficits that led to a significant number of schools being in deficit pre-pandemic in some cases still remain. Whilst the current economic climate is severely challenging, schools balances are designed to provide a level of financial resilience to mitigate and smooth such risks and are not expected to fund ongoing day-to-day expenditure. Officers will continue to work closely with those schools of concern and look to aid the return to a more sustainable budget plan over the medium term.

9. Capital outturn forecast

9.1. The capital expenditure forecast detailed in ***appendix 1*** indicates a net forecast over spend of £310k, with numerous pressures presenting themselves totalling £1.165m, offset by the identification of over-capacity in the Disabled facilities grant budget of £855k.

Scheme Category	Scheme	Over / (Under spend) £000's	Comment
Development Schemes Over £250k	Crick Road Care Home	151	Additional costs in fitting-out equipment required for resident's privacy. An additional bid has been submitted to ABuHB for additional RIF funding to offset the over spend.
Development Schemes Over £250k	Property Acquisition for Children and Young People with Complex Needs	114	Additional refurbishment costs over and above original cost projection. A bid has been made to the Regional Integration Fund and we are waiting for a decision to offset the forecasted overspend.
Development Schemes Over £250k	Abergavenny borough theatre refurbishment	333	Currently running at a projected overspend due to increased construction costs over and above original cost projection due to unforeseen lighting costs and over-run

			charges from contractor. If further funding cannot be obtained from joint partners in the project, then additional borrowing funded from the service budget will be utilised as per the cabinet decision.
Infrastructure	Tintern Wireworks Bridge	130	The refurbishment of the Tintern Wireworks Bridge at Tintern in conjunction with Gloucestershire County Council is currently forecast to overspend by £130k, due to the complexity of restoring this listed structure and the increased cost of materials.
Specific Grant Funded	Essential flooding works	360	Cost overruns for essential flooding works required at Capel-y-Ffin and Glan-Grywny embankments for works that couldn't be delayed any further. Urgently seeking clarification of potential Welsh Government flooding grants that could offset.
Specific Grant Funded	Siltbuster	76	The Siltbuster project is forecast to be £76k overspent due to increased costs. This will be funded from additional borrowing which will be funded by the Highways revenue budget.
Disabled Facilities grants	Disabled Facilities grants	(855)	There is an off-setting under spend on Disabled Facilities grants as referrals (over 50 to date) that have to be completed within year have been reached. Part of the overall budget assigned for DFG's can be released to aid in meeting alternative capital pressures, or in reducing future revenue pressures.

9.2. Finance officers will continue to work with the project managers concerned to seek budget mitigation measures, either through cost reduction measures or through the alternative funding mechanisms identified above.

9.3. As outline in ***appendix 1***, nine schemes are indicating delays at this early stage in the year, with £6.2m forecast slippage following revision of project timescales. Whilst the month 6 forecast highlights £6.2m of capital slippage, previous year's trends would indicate that this will increase substantially as the year progresses, and as more certainty becomes available both in terms cost and contract delivery timescales.

9.4. The current economic environment continues to have a significant impact on the overall capital programme with cost inflation and supply chain issues continuing to present a challenge to project delivery. Whilst every effort is being made by project managers to work within the budgetary plans and timescales set, it is inevitable as the year progresses that further cost pressures will materialise. This will in turn limit the scope of project delivery, especially in the areas of property maintenance and Infrastructure works where less schemes can be delivered within the overall budget allocated.

9.5. The forecast movement in capital receipts balances for the year is shown below. Whilst overall balances on the face of it are healthy, there remains the risk that forecast receipts 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.

Table 7: Forecast movement in capital receipt balances

Month 6 update	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Balance as at 1st April	10,414	12,398	13,509	12,565	11,068
Capital receipts used for financing	(3,776)	(1,547)	(1,194)	(1,094)	(1,094)
Capital receipts used to support capitalisation direction	(2,650)	(507)	(507)	(507)	(507)
Capital receipts received	7,071	-	-	-	-
Capital receipts forecast	1,338	3,165	756	104	104
Forecast Balance as at 31st March	**12,398**	**13,509**	**12,565**	**11,068**	**9,572**

10. RESOURCE IMPLICATIONS:

10.1. 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.

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

11.1. This report provides Members with information on the forecast revenue and capital outturn position of the Authority and carries no decisions. There are therefore no equality of future generations' implications directly arising from this report.

12. CONSULTEES:

Strategic Leadership Team
Performance & Overview Scrutiny Committee
Cabinet

Feedback from Performance & Overview Scrutiny Committee 21st November 2022:

13. BACKGROUND PAPERS:

Appendix 1 – Detailed outturn statements and directorate commentaries
Appendix 2 – Progress against mandated budget savings
Appendix 3 – Forecast movement in individual school balances
Appendix 4 – Detailed service budget recovery plan

14. AUTHORS:

Jonathan Davies, Head of Finance (Deputy S151 officer)
Tel: 01633 644114
E-mail: jonathandavies2@monmouthshire.gov.uk