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| SUBJECT: | 2023/24 REVENUE BUDGET PROGRESS – EARLY UPDATE |
| MEETING: | PERFORMANCE & OVERVIEW SCRUTINY COMMITTEE |
| DATE: | 17th July 2023 |
| DIVISION/WARDS AFFECTED: | ALL |

1. PURPOSE:

- 1.1 To provide the Committee with an early update of the progress of the Councils revenue budget for the 2023/24 financial year.

RECOMMENDATIONS TO PERFORMANCE AND OVERVIEW SCRUTINY COMMITTEE

- i. That the Performance and Overview Scrutiny Committee perform pre-decision scrutiny on the Authority's early progress update in respect of the 2023/24 revenue budget.
- ii. That the Committee as part of their role assesses whether effective budget monitoring is in place; the extent to which budgets are spent within the agreed budget and policy framework, including the reasonableness of the explanation for variances and; consider the achievement of progress in meeting mandated budget savings targets.
- iii. That Committee feedback is provided to Cabinet who will receive this report at their meeting on the 26th July 2023.

2. RECOMMENDATIONS (to Cabinet):

- 2.1 That Cabinet note the early signalling of pressure against the Council's revenue budget of £2.6m following a review of material pressures and savings and the potential mitigations that can be applied.
- 2.2 That Cabinet note the ongoing financial risks continuing to manifest in the current difficult operating environment where:

- inflation is continuing to remain resolutely high with a consequential impact of rising interest rates;
- the ongoing cost of living crisis and further impact that rising interest rates will have housing costs;
- the likelihood for the UK economy to enter recession;
- a shortage of staff linked to the ongoing tight labour market;
- continuing supply chain issues that require more costly alternative or expedited arrangements;
- the impact the above is having on the increasing demand for supportive Council services and reducing demand for income generating services.

- 2.3 That in considering the above, and as part of the mitigations outlined in 2.1, that Cabinet approves the budgeted use of £2.5m of useable revenue reserves to increase the Council's overall level of inflation contingency budget for 2023/24 to a total of £3m. The use of a further £2.5m equates to the amount of reserves that were originally anticipated to be required to support the 2022/23 budget outturn position, but were not ultimately called upon.
- 2.4 That in light of the severity of the current financial position and the continuing financial headwinds as outlined in this report, that Cabinet require the Strategic Leadership Team engage in immediate mitigating action to bear down on avoidable cost and identify all potential further income opportunities.
- 2.5 That Cabinet require officers to develop the structured approach to tackling the budgetary pressures presenting, leading up to a more detailed Month 4 financial forecast being brought forward in September.

3. KEY ISSUES:

Context

- 3.1 Councils are facing financial challenges on an unprecedented scale. It is widely acknowledged that local government funding over recent years has not kept pace with increased service demand, the additional responsibilities being transferred to Councils, and inflationary pressures.
- 3.2 The 2022/23 revenue budget culminated in an over spend of £3.5m which required funding from earmarked reserves to cover the additional expenditure incurred following acute pressures experienced within Adult's and Children's services, Homelessness, and Education.

- 3.3 The 2023/24 budget set in March 2023 accommodated additional costs of delivering services of £26m or 14%. Whilst income and funding increased by 9% (£16m) to meet some of these costs, the Council needed to find savings of 5% (£10m) from services.
- 3.4 The budget when set highlighted a number of known budgetary risks that sat outside of the core budget, some of which have now materialised and have resulted in further pressures being reported.
- 3.5 The first three months of 2023/24 has seen continuing financial headwinds which are having a severe impact upon the service operating environment:
- Inflation has not fallen as quickly as economic projections predicted in the first quarter of the 2023/24 financial year and is placing a significant additional financial burden upon service delivery;
 - Interest rates have risen sharply to combat inflation, significantly above recent economic forecasts;
 - The cost of living crisis continues to have a significant impact on our communities, and will be further exacerbated by the UK economy likely to enter recession during the year, and the recent sharp interest rate rises that will impact housing costs as we move through the year;
 - The Council continues to deal with a shortage of staff resources due to the ongoing tight labour market that requires more costly temporary solutions to be used;
 - Supply chain issues continue which requires more costly alternative or expedited arrangements;
 - The wider and longer lasting impact of the pandemic continues to impact the Council, particularly in the areas of Homelessness, Children's services, Adult social care and Children's additional learning needs.
- 3.6 All the above results in a growing need for supportive Council services, a reduced demand for income generating services, increased risks around debt recovery, and a continued high-cost operating environment.

Early budget update

Table 1: Early assessment of budget pressures identified:

| Directorate | Shortfall in saving target £000's | New budget Pressures / Savings £000's | Indicative early budget pressure £000's |
|---------------------------------|--------------------------------------|--|--|
| Children & Young People | 105 | 582 | 687 |
| Social Care & Health | 1,401 | 1,600 | 3,001 |
| Communities & Place | 251 | 1,262 | 1,513 |
| Monlife | 0 | 0 | 0 |
| Resources | 34 | 51 | 85 |
| Chief Executives Units | 105 | 0 | 105 |
| People & Governance | 0 | 16 | 16 |
| Corporate, Treasury & Financing | 0 | 710 | 710 |
| Total | 1,896 | 4,221 | 6,117 |

Unbudgeted – Reserves usage not called on in 22/23 outturn

(2,500)

Grant assumption for remainder of year

(1,000)

Net budget pressure

2,617

3.7 **Service pressures:** A number of service pressures are estimated at this early stage of the year totalling £4.221m which are summarised below:

| Pressure / Saving | Value £000's | Summary |
|-------------------|-----------------|--|
| Waste | 1,000 | Recycling market increased charges for disposal £500k. Increased building rates & inflation on contracts and materials £100k. Staff to cover bank holidays, garden waste collections, new additional houses, agency for staff sickness, cover for additional day leave £400k |
| Fleet Maintenance | 100 | Budget is insufficient to cover the cost of our vehicle fleet, exacerbated by inflationary increases. |

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| Homelessness | 440 | Presentations remain high - cannot reduce the use of B&Bs by the number that we had originally included in our 23/24 mandate. Additional security costs £75k |
| Democratic services | 50 | Inconsistent elections and grant funding and increased Members expenses owing to increased physical meeting post pandemic is creating a pressure. |
| Commercial investment - Castlegate | 111 | Service charge costs have increased significantly for the financial year 23/24 primarily associated with inflation and planned maintenance works to the onsite boiler infrastructure. Where there remain vacant units, there will be an associated service charge cost for MCC to meet. |
| Care provider fees - Adults and Childrens services | 1,600 | Negotiations are continuing with care providers around the agreed contractual rate. The current estimate is a total additional YOY cost of £2.6m against an allocated budget pressure of £1m. This estimate to date does not take account of the uplifts in out of county care placements for which we have little control as these are set by the host Local Authority. |
| ALN Transport & Recoupment | 582 | Transport contracts £525k. Change in ALN formula for schools - all out of county recoupment for mainstream schools will be delegated to schools £257k. Reduction in number of pupils in out of county schools has resulted in a saving of £200k |
| Pay inflation - non-teaching | 960 | Estimated pressure over and above base budget based upon the employer's current pay offer of a flat rate £1,925 |
| Treasury costs | 250 | Estimated pressure as a result of continuing interest rate rises over and above those indicated at the time of budget build |
| Vacant posts | (372) | Vacant posts are in the process of being filled, however the tight labour market conditions will mean that some of these vacancies will last longer into 2023/24 |
| Inflation contingency budget | (500) | Full use of the budgeted contingency budget forecast |
| Total | 4,221 | |

3.8 **Savings targets:** A shortfall of £1.896m is currently estimated against the service savings targets that were set as part of the original budget for 2023/24:

| Savings proposals by Directorate | Budgeted Saving | Current Forecast | Variance | Variance % | Summary |
|----------------------------------|-----------------|------------------|----------|------------|---------|
| | £000 | £000 | £000 | | |
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|--------------------------|-----------------|----------------|--------------|--------------|--|
| Children & Young People | (1,809) | (1,704) | 105 | 5.8% | Not possible to meet target of increased ALN recoupment income following changes agreed in the ALN formula for schools |
| Social Care & Health | (3,349) | (1,948) | 1,401 | 41.8% | Children's services - £200k shortfall against £1.16m target due to slight delay in progression planning for Children against the availability of placement options (transferring away from commissioned and agency solutions). Adult's services - £1.1m shortfall against £2.0m target due to the complexity and level of demand for care needs restricting progress, some savings being dependent upon third party negotiation, and challenges resourcing some of the service change required. |
| Communities & Place | (2,513) | (2,262) | 251 | 10.0% | £177k shortfall in meeting energy reduction targets following a delay in resourcing the team. £50k shortfall in mileage reductions following delays in the roll out of the pool car scheme and other initiatives |
| Monlife | (628) | (628) | 0 | 0.0% | |
| Resources | (991) | (957) | 34 | 3.4% | Mobile phone contract changeover delayed by 2 months |
| Chief Executive Unit | (341) | (237) | 105 | 30.6% | A delay in progressing some staffing reductions |
| People & Governance | (86) | (86) | 0 | 0.0% | |
| Corporate Costs & Levies | (433) | (433) | 0 | 0.0% | |
| Totals | (10,150) | (8,254) | 1,896 | 18.7% | |

Financial implications

- 3.9 Despite the early stage of the financial year it is clear that the financial headwinds outlined will have a significant impact upon the cost of service delivery for the year and which are expected to be over and above our base budgets.
- 3.10 Whilst it isn't unusual to see an over spend being forecast early in the financial year and for an improving position to develop as the year progresses, continuing financial headwinds, increasing demand for services, and the need for service savings of £10m to be delivered within this operating environment present tangible ongoing risks.

- 3.11 As the year develops and based on recent trends, it is fully expected that a further level of unbudgeted grant will be notified from Welsh Government and other partners to support areas of acute financial pressure that Councils are facing. Officers have made prudent consideration within financial planning for the remainder of the year that this will benefit income by a further £1m.
- 3.12 The 2022/23 outturn saw an improved position from that which had been previously forecast, and which resulted in the call upon useable revenue reserves being £2.5m less than anticipated. Given the developing financial pressures outlined in this report it is recommended that Cabinet approves the use of this sum to further mitigate the inflationary pressure within services, and which will increase the Council's overall inflation contingency budget for 2023/24 to £3m.
- 3.13 There is now an immediate need for all services to bear down on avoidable cost and identify further income opportunities wherever possible. Further detailed work will continue leading up to a more detailed Month 4 financial forecast in order to develop the structured approach to tackling the early pressure presenting itself.

Budgetary risks

- 3.14 There remain key specific budgetary risks presenting for the remainder of this financial year and beyond, that have the ability to further impact upon our financial situation:
- Negotiation continues with a number of care providers around the agreed contract rate and there remains potential for regional positions and out of County placements to influence final costs;
 - Homelessness presentations continue to be high which is leading to above forecast use of costly Bed & Breakfast or temporary housing solutions despite the strategies engaged to reduce this;
 - Pay agreements - The current employers pay offer for non-teaching staff is for a flat rate £1,925 and which is the subject of continued negotiation. Any agreement reached that is above this level would result in a further budgetary pressure over and above the current pressure.
 - There is a risk that further non-delivery of budgeted savings targets in the current difficult operating environment will impact on both 2023/24 and the medium-term if alternative strategies to deliver savings cannot be found;
 - Limited reserve cover – we start the year with £15.4m in useable reserves (this reduces to £12.9m after allowing for the £2.5m earmarked for inflation contingency as part of this report), and all banked capital receipts have been committed.
 - National picture – there is continued pressure on both UK and Welsh Government budgets resulting from the wider economic picture. This has the potential to impact upon levels of further budget consequential funding;
 - Significant increased responsibilities have been transferred on Councils which are not currently being fully funded through the Welsh Government settlement or through specific grants. For 2023/24 this focusses primarily on increased responsibilities around

Homelessness where Monmouthshire has significant specific local factors that impact cost, and the rollout of universal free school meals where inflationary pressures mean costs are significantly above funding levels.

Ongoing focus

- 3.15 The immediate focus centres itself on the requirement for all services to engage in urgent action to mitigate where at all possible the financial pressures presenting through cost reduction action and identifying alternative income opportunities.
- 3.16 More regular financial monitoring arrangements have been instigated during the year which focus on high budget risk areas and regularly assessing the progress being made against budgeted service savings.
- 3.17 Service savings and reform remains critical to ensuring that the Council reduces the overall cost of services and remains in financially sustainable position in the medium term by limiting the need to deplete severely limited reserve balances. With an indicative £6m budget gap for 2024/25 it is vital that services deliver on savings targets or alternative service reform strategies are found that drive efficiencies, even if these are delayed.
- 3.18 As we move towards the first formal monitoring period at Month 4, work will continue to formalise a structured approach to tackling the early budget pressures which looks to explore all available options open to the Council. This will include a review of vacancies being held, the potential for further or alternative savings, mitigation of pressures, and a more targeted review of unbudgeted grant funding and income.

4 RESOURCE IMPLICATIONS:

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

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

- 5.1 This report provides Members with an update on the early progress being made against the revenue budget of the Authority and carries no decisions. There are therefore no equality of future generations' implications directly arising from this report.

CONSULTEES:

Senior Leadership Team
Cabinet

BACKGROUND PAPERS:

Appendix 1 – Early revenue budget pressures identified and indicative progress against savings targets

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