

SUBJECT: 2023/24 REVENUE BUDGET – MONTH 5 UPDATE
MEETING: PERFORMANCE & OVERVIEW SCRUTINY COMMITTEE
DATE: 22nd November 2023
DIVISION/WARDS AFFECTED: ALL

1. PURPOSE:

- 1.1 To provide Committee with an update of the progress of the Councils revenue budget for the 2023/24 financial year, as forecast at the end of Month 5 (August).

RECOMMENDATIONS TO PERFORMANCE AND OVERVIEW SCRUTINY COMMITTEE

- i. That the Performance and Overview Scrutiny Committee scrutinise the revenue budget forecast for the 2023/24 financial year, as prepared based on information available at the end of Month 5 (August).
- 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 budget savings targets.

2. RECOMMENDATIONS TO CABINET:

- 3.1 That Cabinet note the overall revenue budget deficit forecast at month 5 of £124k.
- 3.2 That Cabinet endorse the budget recovery action as outlined in **Appendix 3**, that has been enacted as a direct result of Cabinet's request at their July 2023 meeting for immediate mitigating budget recovery action following signalling of early budget pressure.
- 3.3 That Cabinet note the budgetary risks that are inbuilt into the month 5 forecast, namely;

- The volatility of demand for high-cost services, particularly in Adults & Childrens Social Care and Homelessness;
- Continuing negotiation around national pay agreements which will further impact forecasts if it results in an award over and above the current offer;
- The risk of further non-delivery of the £10m of budgeted savings targets, with services currently forecasting 83.6% delivery;
- The severely limited reserve cover available to the Council;
- The continued pressure on both UK and Welsh Government budgets, and wider challenging economic environment;
- The potential shortfall in funding of the increased responsibilities transferred to Councils, particularly within Universal Free School Meals and Homelessness that have the potential to further impact forecasts.

3.4 That in light of the severity of the current financial position and the risk that this presents to the ongoing financial sustainability of the Council, that all possible budget mitigation actions continue to be instigated by services such as to limit the call on severely limited reserve balances.

3.5 That Cabinet note the forecast draw on schools delegated balances as outlined in **Appendix 1** of this report of £3.663m, with school balances forecast to reduce to £594k by the end of the financial year with eleven schools forecast to be in a deficit balance.

3. KEY ISSUES:

Context

3.1 Councils across the UK 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, and inflationary pressures.

3.2 Our 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 Additional learning needs.

- 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 half 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 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.
- 3.7 Cabinet received an early financial update for the year at their 26th July 2023 meeting which highlighted significant early pressure on the Council's budget of around £6m. As part of a package of measures to tackle this, Cabinet approved the use of £2.5m of useable revenue reserves to increase the Council's overall level of inflation contingency. This equated 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. When set alongside a further unbudgeted grant assumption of £1m, this left a remaining forecast budget pressure of £2.6m.
- 3.8 Cabinet therefore requested that the Strategic Leadership Team engage in immediate mitigating action and develop a structured approach to tackling the remaining forecast deficit through budget recovery action.

Revenue budget forecast

Table 1: Budget forecast at Month 5

Directorate	Shortfall in saving target £000's	In-year budget Pressures / Savings £000's	Total budget pressure at Month 5 £000's
Social Care & Health	1,113	1,863	2,976
Children & Young People	105	658	763
Communities & Place	294	1,548	1,842
Monlife	37	307	344
Chief Executives Units	0	13	13
People & Governance	0	191	191
Resources	115	(124)	(9)
Corporate, Treasury & Financing	0	(2,850)	(2,850)
Service budget deficit	1,664	1,605	3,269

Unbudgeted grant assumption for remainder of year	(1,000)
Budget recovery action	(2,145)
Remaining budget deficit at Month 5	124

Service budget deficit

- 3.9 A service budget deficit of £3.269m is forecast at month 5, which is a combination of a shortfall in services being able to meet their budgeted savings targets of £1.664m, alongside in-year net budget pressures for the year of £1.605m.
- 3.10 It is important to note that the total service deficit forecast for the year is mitigated by revenue reserves totalling £5.5m, £3m of which were approved as part of the original budget, and an additional contribution of £2.5m that was approved by Cabinet at their meeting on the 26th July 2023. Further mitigation is provided by utilising £3m of capital receipts to meet revenue expenditure under regulation.

3.11 **In-year service pressures and savings:** *Appendix 1* to this report details all service pressures and savings that have developed since the budget was set in March 2023. At a summary level these primarily relate to the following areas:

Table 2: Service budget pressures and savings

Pressure / Saving	Value £000's	Summary
Neighbourhood Services	812	The recycling market remains volatile and delays in rolling out polyprop reusable bags due to depot infrastructure and vehicle issues is adding to pressure. Income targets on trade waste and grounds maintenance remain challenging.
Fleet Maintenance	318	Fuel and parts inflation remain high, supply chain issues for replacement parts is leading to the outsourcing of repairs to external contractors. Downtime of vehicles is also driving up hire costs.
Housing/Homelessness	636	B&B accommodation costs remain high despite a reduction in the number of rooms in use, as room rates have increased. This is exacerbated by being unable to claim full housing benefit subsidy. Further costs have been incurred to rectify damage caused by tenants in hostel and leased accommodation.
Passenger Transport	153	An increase in costs due to retender of some contracts, and a bus operator removing a service route which has to be covered by MCC.
Adults care services	2,734	Negotiated Care provider fees are £1.5m more than budgeted following significant hikes in rates in the current market. A further pressure of £1.1m from an increase in care home placements together with an increase in the average cost of placements. A shortfall of £1m against budgeted savings targets. This is offset by under spends of £900k in the My Day My Life, and Care at Home vacancies.
ALN Transport & Recoupment	643	Transport contracts pressure of £650k. Change in ALN formula for schools - all out of county recoupment for mainstream schools will be delegated to schools £358k. Reduction in number of pupils in out of county schools has resulted in a saving of £378k
MonLife Income / Contact centre	339	Borough Theatre £210k and Attractions £86k, both due to lower than budgeted visitor levels. Contact centre £54k due to delays in implementing a restructure and cover for long term sickness.
Democratic Services	160	Members costs have increased as a result of pay awards, higher than anticipated take up of the superannuation scheme, and an increase in co-opted members.
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
Other variances	224	A number of smaller over spends within services

Treasury costs	(250)	Estimated saving as a result of interest rate rises pausing and higher than expected cash balances.
Council Tax	(460)	The Council tax base is currently slightly above budgeted levels and CTRS caseloads is running slightly below historical levels.
Inflation contingency budget	(3,000)	Full use of the reserve backed contingency budget is forecast
Total	3,269	

3.12 **Budgeted savings targets:** Of the above budget pressures of £3.269m, there is a shortfall of £1.664m or 16.4% currently forecast against the service savings targets that were set as part of the original budget for 2023/24. Full details can be found at **Appendix 2** to this report, however the main variances are as follows:

Table 3: Progress against budgeted savings targets

Savings proposals by Directorate	Budgeted Saving	Month 5 Forecast	Variance	Variance	Comment
	£000	£000	£000	%	
Social Care & Health	(3,349)	(2,236)	1,113	33.2%	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.
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
Communities & Place	(2,513)	(2,219)	294	11.7%	£177k shortfall in meeting energy reduction targets following a delay in resourcing the team £100k shortfall in mileage reductions following delays in the roll out of the pool car scheme and other initiatives intended to reduce business mileage £17k shortfall as we are unable to change the licencing arrangements for schools and community transport due to the number of vehicles we are operating
Monlife	(930)	(893)	37	4.0%	A delay in progressing some staffing reductions
Chief Executives Unit	(39)	(39)	0	0.0%	
People & Governance	(86)	(86)	0	0.0%	

Resources	(991)	(876)	115	11.6%	Property estate rationalisation has not progressed as quickly as anticipated
Corporate Costs & Levies	(433)	(433)	0	0.0%	
Totals	(10,150)	(8,486)	1,664	16.4%	

Unbudgeted grant assumption

- 3.13 The overall month 5 forecast includes an assumption that a further £1m of unbudgeted grant will be awarded during the remainder of the year, and that this award will allow for core Council expenditure to be met from the additional grant.
- 3.14 Whilst this assumption is in line with trends over recent years, as the year progresses this assumption comes with a higher degree of risk following indications of the in-year pressures on the Welsh Government budget. On the 18th October 2023 Welsh Government published a package of budget changes that looks to prioritise and support the NHS and Transport budget in Wales for the remainder of the year. Whilst Local Government budgets have been protected as part of these changes, it is clear that funding priorities remain with the NHS and Transport.
- 3.15 The Chancellor's Autumn Statement on the 22nd of November will provide further information on the level of further support, if any, that maybe provided by way on consequential funding to Welsh Government for the remainder of the year.

Budget recovery action

- 3.16 Following the signalling of significant budgetary pressure early in the financial year, Cabinet required the Strategic Leadership Team to engage in immediate budget recovery action.
- 3.17 Full details of the budget recovery action totalling £2.145m that has been enacted can be found at **Appendix 3** to this report. At a summary level the action taken revolves around the following mitigations:

Table 4: Budget recovery action

Type	Children & Young People	Social Care, Health & Safeguarding	Communities & Place	MonLife	People & Governance	Chief Executives Unit	Resources	Total
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Increase Grant / Income	138	60	86	139			75	498
Freeze vacant posts	24	75	259	89	60	17	55	579
Expenditure reduction		11	131	48	3	8	48	249
Service reduction / change				56				56
Service reserve funding	270			30				300
Transfer of cost to Capital			407		8	40	9	464
Total	432	146	883	362	71	65	187	2,145

3.18 Whilst the recovery action identified falls short of the original £2.6m target, there has been a favourable movement in service budget positions since the early budget forecast was presented, that now results in an overall remaining forecast budget deficit of £124k at month 5.

Remaining budgetary risks

- 3.19 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 sustainability as a Council:
- **Homelessness presentations** continue to be volatile and a return to higher numbers during the winter period could lead 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 current forecasts.
 - There remains 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 started the year with £15.4m in useable revenue reserves which has since reduced to £12.9m after allowing for the in-year use of £2.5m. When allowing for the minimum recommend prudent level to be held in the Council fund reserve for emergency use of £7.9m, this leaves only £5m of useable revenue reserves available. All banked capital receipts have currently been committed to this years or future budgets.
 - **National picture** – there is continued pressure on both UK and Welsh Government budgets resulting from the wider economic environment. This has the potential to impact upon levels of further budget consequential funding;
 - Significant **increased responsibilities** have been transferred to 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. Whilst it is hoped that this pressure will be recognised with further funding during the remainder of the year, this remains a key budgetary risk area.

Financial implications and future focus

- 3.20 The continuing financial headwinds, increasing demand for services, funding uncertainty, and the need for service savings now totalling £12m to be delivered within a challenging operating environment present tangible ongoing budget risks for the year.
- 3.21 When this is considered alongside a significant budget gap to be resolved for 2024/25, and a challenging funding outlook in the medium term, there remains a severe risk to the financial sustainability of the Council in the near term.
- 3.22 There is therefore a requirement for all services to bear down on avoidable cost and identify further income opportunities wherever possible for the remainder of the year, in order to limit the call on severely limited useable revenue reserves.
- 3.23 A targeted vacancy freeze has been enacted by the Senior Leadership Team with vacancy needs firstly being evaluated by senior management teams and considered for authorisation by the Chief Executive.
- 3.24 More regular financial monitoring arrangements continue for the remainder of the year. This has been formalised through the establishment of a Financial Management Board who will focus on high budget risk areas and in regularly assessing the progress being made against budgeted service savings, and the additional budget recovery action.
- 3.25 As we move towards the next formal monitoring period at Month 6, work will continue to deliver on the structured approach to tackling the underlying budget pressures, which will continue to explore all available options open to the Council. This will include vacancy management, the potential for further or alternative savings, consideration of a pause in capital expenditure, and a more targeted review of grant funding opportunities and income generation.

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 recommendations 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 and future generations' implications directly arising from this report.

CONSULTEES:

Senior Leadership Team
Cabinet

BACKGROUND PAPERS:

Appendix 1 – Detailed service commentaries
Appendix 2 – Progress against budgeted savings
Appendix 3 – Budget recovery action

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