

**SUBJECT: 2023/24 REVENUE & CAPITAL BUDGET – MONTH 6 UPDATE**  
**MEETING: PERFORMANCE & OVERVIEW SCRUTINY COMMITTEE**  
**DATE: 15<sup>th</sup> January 2024**  
**DIVISION/WARDS AFFECTED: ALL**

**1. PURPOSE:**

- 1.1 To provide Cabinet with an update of the progress of the Councils revenue budget for the 2023/24 financial year, based on actual expenditure incurred at the end of Month 6 (September), and overlaid with the most up to date budget information up until the time of publishing.

**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;
- 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:**

- 3.1 That Cabinet note the overall revenue budget deficit forecast at month 6 of £284k, a deterioration of £160k since the previous forecast.
- 3.2 That Cabinet note the forecast 87% delivery of the £12.3m budgeted service savings for the year, resulting in a £1.6m deficit that is needing to be managed as part of the overall revenue budget. The overall level of budgeted savings includes the additional in-year budget recovery action of £2.1m as recommended by Cabinet as part of the Month 5 report.

- 3.3 That Cabinet note the ongoing budgetary risks that remain inbuilt into the month 6 forecast, namely;
- The volatility of demand for high-cost services, particularly in Adults & Childrens Social Care and Homelessness;
  - The risk of further non-delivery of the £12.3m of budgeted savings targets;
  - 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 if a suitable funding resolution is not achieved.
- 3.4 That Cabinet note that the negotiation of national pay agreements for Local Government employees has concluded, and that the outcome is in line with previous budget forecasts.
- 3.5 That Cabinet note the forecast draw on schools delegated balances as outlined in **Appendix 1** of this report of £3.76m, with school balances forecast to reduce to £494k by the end of the financial year and with fifteen schools now forecast to be in a deficit balance.
- 3.6 That Cabinet note a forecast Capital budget underspend of £2.19m, alongside an indication of slippage in capital schemes of £9.2m. The £2.19m underspend is in relation to the Asset Investment Fund budget that is funded by borrowing and does not therefore represent a usable surplus budget.
- 3.7 That Cabinet approve the capital budget revisions as outlined in **Appendix 3** as a result of additional unbudgeted grant allocations notified since the beginning of the year, and a required draw on Section 106 major maintenance sums to fund required works.

**3. KEY ISSUES:**

Summary messages
<i>An overall improvement in the core service forecasts of £103k, comprising additional grant income for housing support of £263k, favourable movements in treasury forecasts of £456k, offset by a net deterioration in other service area costs of £615k.</i>

***The additional grant funding of £263k reduces the assumption for further unbudgeted grant for the remainder of the year from £1m to £737k.***

***Overall this results in a forecast £284k deficit, a deterioration of £160k from the previous forecast.***

***National pay agreements for Local Government employees have concluded and the outcome is in line with previous budget forecasts.***

***Remaining key risks through to the end of the year are the continuing high levels of demand for Adult social care; the level of Homelessness presentations; the potential shortfall in funding around transferred responsibilities, and; the level of any additional unbudgeted grant awards and the subsequent ability for further core Council expenditure to be met from this.***

## **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 26<sup>th</sup> 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. Subsequently, the Month 5 forecast that Cabinet considered at their 8<sup>th</sup> November meeting detailed the £2.1m of budget recovery proposals brought forward by services.

3.9 These proposals included a targeted vacancy freeze, maximising grants and income, bearing down on all non-essential spend, and identifying eligible capital related costs that could be met from capital funding.

3.10 When overlaid with the most up to date budget forecasts, this culminated in a Month 5 forecast over spend of £124k being reported.

### **Month 6 Revenue budget forecast**

***Table 1: Budget forecast at Month 6***

Directorate	Shortfall in saving target £000's	In-year budget Pressures / Savings £000's	Total budget pressure at Month 6 £000's	Forecast (Under) / Over Spend @ Month 5	Variance Month 5 to Month 6
	'000's	'000's	'000's	'000's	'000's
Social Care & Health	794	2,396	3,190	2,830	360
Children & Young People	105	235	340	331	9
Communities & Place	509	387	896	959	(63)
Monlife	37	(29)	8	(18)	26
Chief Executives Units	0	(49)	(49)	(52)	2
Law & Governance	30	90	120	120	0
Resources	125	(303)	(178)	(196)	18
Reserves, Treasury & Financing	0	(3,306)	(3,306)	(2,850)	(456)
<b>Core service forecast</b>	<b>1,600</b>	<b>(579)</b>	<b>1,021</b>	<b>1,124</b>	<b>(103)</b>
<b>Unbudgeted grant assumption for remainder of year</b>			<b>(737)</b>	<b>(1,000)</b>	263
<b>Remaining budget deficit at Month 6</b>			<b>284</b>	<b>124</b>	<b>160</b>

### Core service forecast

- 3.11 A service budget deficit of £1.021m is forecast at Month 6, representing a marginal improvement from the previous forecast of £103k.
- 3.12 The deficit is due to a combination of shortfall in services being able to meet their budgeted savings targets of £1.6m; budgetary pressures across three of our frontline service directorates; offset significantly by in-year use of reserves of £2.5m and savings on treasury and financing budgets.
- 3.13 The overall improvement in core service forecast since the last update of £103k comprises of additional grant income notified for Housing support of £263k; favourable movements in treasury forecasts of £456k; offset by a net deterioration in other service area costs of £615k, notably around Adult's social care (£390k) and Waste (£190k).

- 3.14 It is important to note that overall, the revenue budget for the year is being supported by one-off use of 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 26<sup>th</sup> July 2023. Further mitigation is provided by utilising £3m of capital receipts to meet revenue expenditure under regulation.
- 3.15 **In-year service pressures and savings:** *Appendix 1* to this report details the service pressures and savings that have been highlighted at Month 6. At a summary level these primarily relate to the following areas:

**Table 2: Service budget pressures and savings**

Pressure / Saving	Pressure / (Saving) £000's	Summary
Waste Services	767	<p>The recycling market remains volatile with increased reprocessing costs and reduction in recycling income. Delays in rolling out polyprop reusable bags due to depot infrastructure and vehicle issues is adding to pressure.</p> <p>This represents a deterioration of £189k from the previous forecast as the recycling market volatility continues to add to overall costs.</p>
Fleet	270	<p>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.</p> <p>This represents a deterioration of £137k since the previous forecast as a result of the sharp increases in fuel prices since August.</p>
Housing/Homelessness	382	<p>The Housing team are continuing to review accommodation and the number of B&amp;Bs that we use have reduced to 47 in October, which has reduced our forecast B&amp;B spend. Since the previous forecast the overspend has been part offset by unbudgeted grant funding from WG of £237k.</p>
Adults care services	3,009	<p>Negotiated Care provider fees are £1.5m more than budgeted following significant hikes in rates in the current market.</p> <p>A further pressure of £1.25m from an increase in care home placements together with an increase in the average cost of placements.</p> <p>A shortfall of £0.8m against budgeted savings targets.</p>

		This is offset by under spends of £900k in the My Day My Life, and Care at Home vacancies.
		Transport contracts pressure of £650k.
ALN Transport & Recoupment	566	Change in ALN formula for schools - all out of county recoupment for mainstream schools will be delegated to schools £445k.  Reduction in number of pupils in out of county/independent schools, and further grant funding has resulted in a saving of £529k.
MonLife Income / Contact centre	304	Borough Theatre £170k and Attractions £80k, 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	137	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	The pressure over and above base budget provision for pay based upon the concluded outcome of pay negotiation by Local Government Employers.
CYP support services	(400)	Primarily as a result of in-year budget recovery action relating to use of PV reserves, sourcing of additional grant and holding some staff vacancies.
Business Growth & Enterprise	(169)	Managed staff savings due to the funding of core staff costs in Economic development by grant.
Highways management & flooding	(339)	Fee income will exceed budgets mainly in road closure, inspection and SABs fees.  Staff vacancy savings have increased as a result of the overall vacancy freeze in place.
Leisure, Youth & Outdoor Adventure	(133)	Higher than anticipated income at Monmouth Leisure Centre and higher than budgeted grant in sports development, offset by overspend in outdoor adventure and youth.
Financial services	(242)	A combination of significant staff vacancies held across the service, increased grant income, and the ability to passport qualifying costs to capital.
Treasury costs	(730)	Forecast saving as a result of interest rate rises pausing and higher than expected cash balances.
Council Tax	(430)	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
Other variances	69	A number of smaller over spends within services
<b>Total</b>	<b>1,021</b>	

3.16 **Budgeted savings targets:** Services are currently forecasting to deliver 87% of their overall savings targets for the year, inclusive of the in-year additional budget recovery action identified. The shortfall of 13% or £1.6m is outlined below and full details can be found at **Appendix 2** to this report.

**Table 3: Progress against budgeted savings targets**

Savings proposals by Directorate	Budgeted Saving	In year budget recovery	Total Saving	Month 6 Forecast	Variance	% Met	Comment
	£000	£000	£000	£000	£000		
Social Care & Health	(3,349)	(146)	(3,495)	(2,701)	794	77.3%	Adult's services - £840k 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)	(432)	(2,241)	(2,136)	105	95.3%	Not possible to meet target of increased ALN recoupment income following changes agreed in the ALN formula for schools
Communities & Place	(2,513)	(883)	(3,396)	(2,887)	509	85.0%	<p>£177k shortfall in meeting energy reduction targets following a delay in resourcing the team</p> <p>£160k shortfall in Fleet reduction and mileage reductions following delays in the roll out of the pool car scheme and other initiatives intended to reduce business mileage</p> <p>£70k as changes to Passenger transport routes have not been able to be achieved due to insufficient budget to make the changes necessary to improve the amber route.</p> <p>£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</p>
Monlife	(930)	(362)	(1,292)	(1,255)	37	97.1%	A delay in progressing some staffing reductions
Chief Executives Units	(39)	(65)	(104)	(104)	0	100.0%	
Law & Governance	(86)	(71)	(157)	(127)	30	80.9%	Additional Land charges income target has been impacted by the downturn in wider economy and will not be met



Resources	(991)	(187)	(1,178)	(1,053)	125	89.4%	Property estate rationalisation has not progressed as quickly as anticipated
Corporate Costs & Levies	(433)	0	(433)	(433)	0	100.0%	
<b>Totals</b>	<b>(10,150)</b>	<b>(2,146)</b>	<b>(12,296)</b>	<b>(10,695)</b>	<b>1,600</b>	<b>87.0%</b>	

### Unbudgeted grant assumption

- 3.17 The previous Month 5 forecast included an assumption that a further £1m of unbudgeted grant would be awarded during the remainder of the year, and that this award would allow for core Council expenditure to be met from the additional grant.
- 3.18 Since that forecast, the Council has been notified of additional WG grant funding of £263k to assist in Housing support costs that will offset the Council's core expenditure. The additional grant assumption has consequently been reduced to £737k for the remainder of the year.
- 3.19 Whilst this assumption is in line with trends over recent years, as the year progresses this assumption continues to come with a higher degree of risk following the well documented in-year pressures on the Welsh Government budget.
- 3.20 It was anticipated that the Chancellor's Autumn Statement on the 22<sup>nd</sup> of November may provide further clarity on the level of further support, if any, that would be provided by way of consequential funding to Welsh Government for the remainder of the year. However, the initial independent analysis of the Statement indicates that there was very little by way of additional funding of a revenue nature that will be of direct or indirect benefit to Local Government in Wales.

### Remaining budgetary risks

- 3.21 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;
  - 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 unbudgeted 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**

- 3.22 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.
- 3.23 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.
- 3.24 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.
- 3.25 The targeted vacancy freeze that has been enacted will continue through to the end of the year. The more regular financial monitoring arrangements continue, strengthened by the Financial Management Board who continue to focus on high budget risk areas and in regularly assessing the progress being made against budgeted service savings, and the additional budget recovery action.
- 3.26 Whilst the next formal monitoring report will not be until Month 9, Cabinet will continue to receive monthly informal updates on the overall progress being made.
- 3.27 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 includes vacancy management, the potential for further or alternative savings, consideration of a pause in capital expenditure, and legitimately maximising all grant funding and income generation opportunities.

#### **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, Schools budget forecast, Capital budget forecast

**Appendix 2** – Progress against service saving plans

**Appendix 3** – Capital budget revisions

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