

<b>SUBJECT:</b>	<b>2023/24 REVENUE &amp; CAPITAL BUDGET – MONTH 9 UPDATE</b>
<b>MEETING:</b>	<b>PERFORMANCE &amp; OVERVIEW SCRUTINY COMMITTEE</b>
<b>DATE:</b>	<b>20<sup>th</sup> February 2024</b>
<b>DIVISION/WARDS AFFECTED:</b>	<b>ALL</b>

**1. PURPOSE:**

- 1.1 To provide Committee 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 9 (December), 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 9 of £314k, a slight deterioration of £29k since the previous forecast.
- 3.2 That Cabinet note the forecast 85% delivery of the £12.3m required service savings for the year, resulting in a £1.86m deficit that is needing to be managed as part of the overall revenue budget. The overall level of required savings includes the additional in-year budget recovery measures of £2.1m instigated at Month 5.

- 3.3 That Cabinet note the budgetary risks included within the 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 through to year-end;
  - The severely limited reserve cover available to the Council to cover any further deterioration in outturn position.
- 3.4 That Cabinet note the forecast draw of £5.6m on schools delegated balances as outlined in **Appendix 1** of this report, an increased draw of £1.85m since the previous forecast. Cumulative school balances are forecast to move into a deficit of £1.35m by the end of the financial year, with sixteen schools now forecast to be in a deficit balance.
- 3.5 That Cabinet note an overall forecast Capital budget under spend of £3.5m, alongside an indication of slippage in capital schemes of £11.9m. This consequently introduces £815k of useable capital funding that can assist in meeting forward capital pressures.

### 3. KEY ISSUES:

Summary messages
<i>A slight deterioration in the overall revenue budget forecast of £29k, comprising additional cost pressures identified within core service delivery directorates of 685k, offset by favourable movements in treasury costs, final pay award costs being less than previously forecast, and the pension costs relating to service redesign now being able to be met from existing capitalisation direction budgets.</i>
<i>The assumption for further unbudgeted grant income has now been removed from the forecast given the short period of time through to year-end and in light of continuing pressures on Welsh Government budgets.</i>
<i>A significant movement in cumulative School balances is forecast for the year, moving from a surplus of £4.25m to a forecast deficit of £1.35m at year-end. Sixteen schools are currently forecast to be in deficit by year-end.</i>
<i>Remaining service risks and variables through to the end of the year are the continuing high levels and complexity of demand for social care; the level of Homelessness presentations; and; the level of any additional unbudgeted grant awards and the subsequent ability for further core Council expenditure to be met from this.</i>

***The risk highlighted at Month 6 relating to the potential deficit in funding for Universal Free School Meals is now removed following recent notification of further funding that meets the ongoing costs of roll out to all schools.***

***An overall under spend on the capital programme of £3.5m which results in £815k of useable funding that is released to assist in meeting forward capital pressures. The remaining £2.7m relates to specific scheme financing by way of borrowing and grant that is not available for future use.***

## **Context**

- 3.1 Councils across the UK continue to 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 Financial headwinds continue to impact the service operating environment through higher inflation and interest rates, a shortage in staff resources, supply chain issues, and higher demands as a result of the cost of living crisis and the wider and longer lasting impact of the pandemic on communities.
- 3.6 These ultimately result 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 immediately instigated mitigating action to develop a structured approach to tackling the remaining forecast deficit through £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 The forecast at the end of Month 9 indicates an overall forecast deficit against budget of £314k, a slight deterioration of £29k since that reported at Month 6:

### **Month 9 Revenue budget forecast**

**Table 1: Budget forecast at Month 9**

Directorate	Shortfall in saving target £000's	New budget Pressures / Savings £000's	Total Forecast (Under) / Over Spend @ Month 9 £000's	Forecast (Under) / Over Spend @ Month 6 £000's	Variance Month 6 to Month 9 £000's
Social Care & Health	969	2,662	3,631	3,190	441
Children & Young People	107	304	411	340	71
Communities & Place	509	492	1,001	896	104
Monlife	76	(68)	8	8	0
Chief Executives Units	0	(46)	(46)	(45)	0
Law & Governance	30	121	151	115	36
Resources	175	(319)	(144)	(178)	33
Corporate, Treasury, Reserves & Financing	0	(4,698)	(4,698)	(3,306)	(1,393)
<b>Totals</b>	<b>1,866</b>	<b>(1,552)</b>	<b>314</b>	<b>1,022</b>	<b>(708)</b>
<b>Grant assumption for remainder of year</b>			0	(737)	737

<b>Net budget position forecast at Month 9</b>			<b>314</b>	<b>285</b>	<b>29</b>
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- 3.11 The overall deficit is due to a combination of a shortfall in services being able to meet their budgeted savings targets of £1.866m; in-year budgetary pressures across three of our frontline service directorates; offset significantly by in-year use of reserves of £2.5m to mitigate inflationary pressures, and savings within treasury, corporate costs, and financing budgets.
- 3.12 Whilst the ongoing work to embed placement and practice change continues to drive improvements within our Social Care directorate, we are continuing to see a trend of increased demand related pressures, with a £441k deterioration since Month 6, most notably in relation to additional adult’s care home placements, and increased complexity in Children’s care needs.
- 3.13 Treasury costs for the year are expected to be £1.1m less than originally budgeted. This budget predominantly covers the Council’s capital financing costs which have remained lower due to the peak in interest rates being lower than expected; higher than anticipated cash balances throughout the year, and; active treasury management to lock into forward starting loans at lower rates in light of a rising interest rate environment.
- 3.14 Within our Corporate budget which primarily covers centrally allocated costs, further work to identify the final impact of the pay award for Local Government employees has resulted in overall costs being less than previously forecast by £700k. Alongside this, the pension costs relating to service redesign have been able to be met from existing capitalisation direction budgets, resulting in a benefit to the revenue budget of £380k.
- 3.15 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 a maximum of £4m of capital receipts to meet revenue expenditure under regulation.

**Service pressures and savings summary**

- 3.16 **Appendix 1** to this report details the service pressures and savings that have been highlighted at Month 9. 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	882	<p>The recycling market remains volatile with increased reprocessing costs and reduction in recycling income. Inflationary pressures, and delays in rolling out polyprop reuseable bags due to depot infrastructure and vehicle issues is adding to pressure.</p> <p>This represents a deterioration of £115k 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>There has been no material change in position since Month 6.</p>
Housing/Homelessness	471	<p>The Housing team are continuing to review accommodation and the number of B&amp;Bs in usage. Placements have increased from the last forecast from 47 to 50. Since the previous forecast costs have increased by £89k mainly due to additional damage repair and utility costs.</p>
Adult's care services	3,104	<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> <p>This is offset by under spends of £900k in the My Day My Life, and Care at Home vacancies.</p> <p>This is an increase in over spend since Month 6 of £95k primarily as a result of external care home placements trending upwards.</p>
Children's care services	600	<p>Increased cost of new placements to meet demand and increase in provision for some existing packages. An increased over spend of £393k since Month 6.</p>
ALN Transport & Recoupment	579	<p>Transport contracts pressure of £737k (£650k at Month 6).</p> <p>Change in ALN formula for schools - all out of county recoupment for mainstream schools will be delegated to schools £451k (minimal change since Month 6).</p> <p>Reduction in number of pupils in out of county/independent schools, and further grant funding has resulted in a saving of £609k (£529k at Month 6).</p>

MonLife Finance & Business development	220	<p>Borough Theatre income deficit £180k and Attractions income deficit £80k, both due to lower than budgeted visitor levels.</p> <p>Contact centre/hubs £90k due to delays in implementing a restructure and cover for long term sickness.</p> <p>Offset by holding of staff vacancies as part of budget recovery measures.</p> <p>A reduction in over spend of £30k since Month 6.</p>
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. No change since Month 6.
Pay inflation - non-teaching	185	The pressure over and above base budget provision for pay based upon the concluded outcome of pay negotiation by Local Government Employers. A reduction of £775k since Month 6 as final costs are now known.
Planning & Building Control	128	A £46k adverse swing from month 6 and is down to a further deterioration in income in both building control and planning due to the downturn in the economy meaning applications are reducing.
Investment properties	143	<p>NLP is expected to generate a £290k surplus after loan repayments, however this falls £47k short of the budget target for 23-24.</p> <p>Castlegate is forecasting to over spend by £96k due to unbudgeted utility costs associated with our vacant units.</p> <p>No change from Month 6.</p>
Coroners service	104	Coroner's Service are forecasting an over spend due to the urgent restructuring of the service as required by the Chief Coroner of England and Wales review.
CYP support services	(409)	Primarily in-year budget recovery action relating to use of PV reserves, sourcing of additional grant and holding some staff vacancies. Minimal change from Month 6.
Business Growth & Enterprise	(169)	Managed staff savings due to the funding of core staff costs in Economic development by grant. No change from Month 6.
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. Further under spend of £23k since Month 6.
Facilities & fleet	(295)	<p>Improved private hire income and bus operator support grant provided by WG - £119k</p> <p>Building cleaning income and staff vacancies - £88k</p>

		Solar farm increased income £88k
Leisure, Youth & Outdoor Adventure	(108)	Higher than anticipated income at Monmouth Leisure Centre and higher than budgeted grant in sports development, offset by overspend in outdoor adventure and youth. A slight deterioration of £25k since Month 6.
Corporate Training	(124)	Staff vacancies being held within the unit. A further under spend of £13k since Month 6.
Financial services	(200)	A combination of significant staff vacancies held across the service, increased grant income, and the ability to passport qualifying costs to capital. A reduced under spend of £42k from Month 6 following inclusion of a bad debt provision.
Treasury costs	(1,118)	Forecast saving as a result of interest rate rises pausing and higher than expected cash balances. An increased under spend of £388k since Month 6 as trends continue.
Council Tax	(350)	Council tax reduction scheme caseloads are running slightly below historical levels. A reduced under spend of £80 since Month 6 as discounts and exemptions trend upwards.
Corporate costs	(138)	Primarily business rate refunds on Council owned properties following appeals process.
Inflation contingency budget	(3,000)	Full use of the reserve backed contingency budget is forecast. No change since Month 6.
Other variances	(259)	A number of smaller under spends within services
<b>Total</b>	<b>314</b>	

### **Unbudgeted grant assumption**

- 3.17 Previous budget forecasts have included an assumption that up to a further £1m of unbudgeted grant would be awarded during the financial year, and that this award would allow for core Council expenditure to be met from the additional grant.
- 3.18 Whilst this assumption is in line with trends over recent years, it was noted that as the year progresses this assumption would continue to come with a higher degree of risk following the well documented in-year pressures on the Welsh Government budget.
- 3.19 At the time of writing, it is estimated that £450k of unbudgeted grant has been received during the year to date which has allowed core Council costs to be offset. It is now felt prudent to remove any further forecast for grant given the short period of time through to year-end and in light of continuing pressures on Welsh Government budgets.



## **Budgeted savings targets**

3.20 Services are currently forecasting to deliver 85% (87% at Month 6) of their overall savings targets for the year, inclusive of the in-year additional budget recovery action identified. The shortfall of 15% or £1.86m 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	Total Saving / Budget recovery	Month 9 Forecast	Variance to Budgeted	% Forecast to be met
		£000	£000	
Social Care & Health	(3,495)	(2,526)	969	72.3%
Children & Young People	(2,241)	(2,134)	107	95.2%
Communities & Place	(3,396)	(2,887)	509	85.0%
Monlife	(1,292)	(1,216)	76	94.1%
Chief Executives Unit	(104)	(104)	0	100.0%
Law & Governance	(157)	(127)	30	80.9%
Resources	(1,178)	(1,003)	175	85.1%
Corporate Costs & Levies	(433)	(433)	0	100.0%
<b>Totals</b>	<b>(12,296)</b>	<b>(10,430)</b>	<b>1,866</b>	<b>84.8%</b>

## **School Balances**

3.21 There is a significant movement in cumulative School balances forecast for the year, moving from a surplus of £4.25m to a forecast deficit of £1.35m at year-end. Sixteen schools are currently forecast to be in deficit by year-end.

3.22 There isn't a consistent picture of schools' balances. There has been a fluctuating trend for some time with some schools showing a continuing reduction in schools balances, which is of concern, and others a more stable trend.

- 3.23 Grants awarded to schools at 2020/21 and 2021/22 year-ends to manage the impact of the pandemic on education resulted in a large increase in overall school balances, which has somewhat masked inherent structural budget deficits across some schools.
- 3.24 The legacy impact of the pandemic continues within the school environment, particularly in respect of attendance, behaviours and increased additional learning needs. This has required increased staff and specialist resources to tackle the issues presenting and increased overall costs of provision. Higher than budgeted pay awards have also impacted upon budgets.
- 3.25 Finance teams will continue to support schools to closely monitor and manage expenditure through to the financial year-end in order to mitigate the impact on closing balances.

### **Remaining budgetary risks**

- 3.26 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 could lead to above forecast use of costly Bed & Breakfast or temporary housing solutions despite the strategies engaged to reduce this;
  - The **increased level and complexity of demand within Social care** continues to provide a financial risk through to year-end. Whilst the work to embed placement and practice change in both Adults and Childrens social care continues, demand for services can be volatile and in some cases can present emergency needs that are required to be met.
  - 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;
  - The trend of **reducing debt recovery** and the need to make full assessment of the impact this may have on both our current year and medium term recoverability assumptions;
  - **Limited reserve cover** – the one-off use of revenue reserves to support the 2023/24 budget means reserves are at minimum prudent levels to provide sufficient cover for ongoing unforeseen risks. Any further deterioration in the revenue budget outturn position will impact upon this level of reserves.
  - **National picture** – there is continued pressure on both UK and Welsh Government budgets resulting from the wider economic environment. This will impact upon levels of further unbudgeted funding.

### **Financial implications and future focus**

- 3.27 The continuing financial headwinds, increasing demand for services, funding uncertainty, and the need for service savings of £12m to be delivered within a challenging operating environment continues to present tangible ongoing budget risks for the remainder of the year.
- 3.28 There is therefore a requirement for all services to continue 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.
- 3.29 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.
- 3.30 Whilst the next formal budget update report will be the financial outturn report, Cabinet will continue to receive monthly informal updates on the overall progress being made.
- 3.31 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; full utilisation of the budgeted capitalisation direction; and legitimately maximising all grant funding and income generation opportunities.
- 3.32 To the extent that this action can result in a surplus being delivered against budget at year-end, this will allow for a full evaluation of the Council's overall financial position, including an assessment of the robustness of revenue reserves and the sustainability of school balances.

#### **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

**AUTHORS:**

Jonathan Davies, Head of Finance (Deputy S151 officer)

**CONTACT DETAILS:**

**Tel:** (01633) 644114

**E-mail:** [jonathandavies2@monmouthshire.gov.uk](mailto:jonathandavies2@monmouthshire.gov.uk)