

## REPORT

<b>SUBJECT:</b>	<b>Revenue and Capital Budget 2024/25 – Final proposals following scrutiny and public consultation</b>
<b>MEETING:</b>	<b>Cabinet</b>
<b>DATE:</b>	<b>28th February 2024</b>
<b>DIVISION/WARDS AFFECTED:</b>	<b>ALL</b>

### 1. PURPOSE:

- 1.1 To update Cabinet with the consultation responses to the draft budget proposals issued by them on the 17th of January in respect of the Capital and Revenue budgets for 2024/25.
- 1.2 To make recommendations to Council on the Capital and Revenue budgets including the level of Council Tax for 2024/25.
- 1.3 To receive the statutory report of the Responsible Financial Officer on the budget process and the adequacy of reserves.
- 1.4 To receive the Responsible Financial Officer's Prudential Indicator calculations for capital financing.

### 2. RECOMMENDATIONS:

- 2.1 That Cabinet considers the responses to consultation and recommends to Council:
  - a) The 2024/25 revenue budget as attached in **Appendix C**.
  - b) The 2024/25 capital budget and indicative 2025/26 to 2027/28 budgets as attached in **Appendix I**.
- 2.2 That a 7.8% increase in the Band "D" equivalent Council Tax is applied for County purposes for 2024/25. Cabinet asks that efforts are maximised to ensure that individuals and households eligible for council tax exemptions or reductions claim the benefit available to them.
- 2.3 That Cabinet approves changes to proposed saving and pressures, updated following public consultation, scrutiny and more up to date information being made available since the draft proposals were released on consultation on 17th January 2024.
- 2.4 That Cabinet approves the proposed changes to the capital programme that include additional highways and infrastructure investment of £1.65m for 2024/25.
- 2.5 That Cabinet considers the Responsible Financial Officer's report on the robustness of the budget process and adequacy of reserves issued under the provisions of the Local Government Act 2003 and an assessment of the current and future financial risks facing the Council.
- 2.6 That Cabinet adopts the Responsible Financial Officer's report on the prudential Indicator calculations for capital financing.

## 2.7 That Cabinet requests:

- a) That the existing arrangements in place for more regular budget monitoring and scrutiny continue during 2024/25, with monitoring and reporting of budget savings being strengthened in acknowledgement of the deliverability risk involved.
- b) That the financial strategy is now developed, accompanied by a medium-term financial plan (MTFP) that looks to keep the Council on a secure and sustainable path going forward.
- c) That timely review is undertaken of the MTFP to ensure it remains up to date, including an assessment of evidence-based pressures and risks, underlying modelling assumptions and the ongoing affordability implications of the Community and Corporate Plan.

## 3. KEY ISSUES:

### BUDGET CONTEXT

- 3.1 Councils across the UK are continuing to face significant financial challenges. It is widely acknowledged that local government funding has not kept pace with increased service demand and inflationary pressures. 2024/25 will be no different.
- 3.2 The Council has seen continuing financial headwinds which are severely impacting the service operating environment:
- 3.3 The Inflationary drivers impacting pay and supplies and services continue to far outstrip available resources:
  - Demand led pressures continue to increase in the areas of Homelessness, Social Care, Children's additional learning needs, and Transport;
  - Interest rates have risen sharply to combat inflation, significantly above economic forecasts;
  - The Council continues to deal with a shortage of staff resources due to ongoing labour market challenges which require the use of more costly temporary solutions;
  - Supply chain issues continue which require more costly alternative or expedited arrangements;
  - The cost of living crisis continues to have a significant impact on our communities. This will be further exacerbated over the medium term by a weak growth forecast in the UK economy impacting on public sector spending, and by heightened interest rates that will impact housing costs as we move through the year.
- 3.4 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.
- 3.5 Cabinet published their budget setting process and timetable at their meeting on the 15th of November 2023. This highlighted an initial budget gap of £14.4m, which was made up of gross expenditure pressures of £22.7m or 10%, offset by modelled increases in funding of £8.3m or 4% of increased Welsh Government grant, Council tax and fees and charges for services.

- 3.6 This is the second successive year that the Council has needed to tackle gross expenditure pressures of £20m+. Whilst the Council in the past has regularly dealt with financial challenges in the order of £5m - £10m in an annual planning cycle, the scale of the pressure for 2024/25 is challenging, and particularly following a budget cycle for the current financial year which saw significant service change needing to be delivered across the Council that continues to draw on staff capacity and resources.
- 3.7 Cabinet released its draft budget proposals on consultation following its meeting on 17th January. The proposals looked to meet the budget gap through:

Reduction in energy costs	£1.6m
Reduction in borrowing costs	£1.8m
Increased in income through grant	£2.7m
Increased income from Council tax	£5.4m
Increased income from Fees and charges	£0.8m
Service savings and efficiencies	£8.5m

## FINAL SETTLEMENT

- 3.8 The provisional settlement from Welsh Government received on 20th December 2023 provided a funding increase of 2.3% for 2024/25, set alongside an all-Wales average increase of 3.1%, and introduced a year-on-year increase of £2.7m of funding to the Council.
- 3.9 Welsh Government is due to publish its final budget on 27<sup>th</sup> February 2024 and alongside it the final settlement for local authorities in Wales. Due to the provisional settlement being issued in late December it is not expected that there will be any further changes brought about by distributional changes. However, there are two key changes that are expected:
- a) An increase in the settlement resulting from £25m of consequential funding from UK Government that Welsh Government have confirmed will be passported through to local authorities in full by way of a reversal of a planned reduction in the social care workforce grant (£10m to restore the grant to £45m across Wales) with the remainder being added to the final settlement. Both of these changes have been factored into the Council's final budget proposals.
  - b) A small number of transfers into the settlement from specific grants which result from an ongoing programme of work by Welsh Government to reduce the number of separate grants paid to local authorities or to consider moving grants into the de-hypothecated settlement if the wider context makes this appropriate. There is no overall impact on the final budget proposals as a result of these transfers.
- 3.10 There are also two notable remaining uncertainties relating to further and future funding allocations:
- a) Notification and passporting of funding by UK Government for planned increases in employer pension contribution rates for the centrally administered Teachers and Fire and Rescue Authority (FRA) pension schemes. An expectation was set by the Chancellor in his Autumn budget statement that these would be funded. However, confirmation is still awaited on whether full funding will be provided. This represents

a potential risk and further budget pressure for 2024/25. If it is not fully funded. It is expected that confirmation will be provided in the Spring budget announcement by the Chancellor on 6<sup>th</sup> March. The current budget planning assumption is that it will be fully funded.

- b) A question mark remains over the actual pressures that will arise for pay. Welsh Government has been clear that authorities' budget planning must accommodate the cost of pay awards and in light of the settlement. The Teachers pay offer is expected to be made known by Welsh Government in the summer for the period September 2024 to March 2025. The NJC pay offer is usually expected to be lodged with unions before the end of March. However, recent years have shown that negotiations with unions have become protracted as pressure is applied for pay offers to be increased further. The budget planning assumption is that no further funding will be made available by either UK Government or Welsh Government if pay awards exceed modelling assumptions.

- 3.11 As a result of the final settlement being announced the day prior to the meeting of Cabinet a verbal update will be provided at the meeting to confirm any further changes and how these would be accommodated in the final budget proposals.
- 3.12 No further changes to funding levels are anticipated beyond those above as a result of the final settlement announcement by Welsh Government on 27<sup>th</sup> February. However, any further changes to the budget will need be considered as part of the Council Tax resolution when it is considered by Full Council on 29<sup>th</sup> February 2024.
- 3.13 There remains a need to think differently about the even greater challenges over the medium term. This work and engagement will continue in the coming months, notably with other local authorities, Welsh Government and the Welsh Local Government Association (WLGA).

## **BUDGET CONSULTATION**

- 3.14 Given the nature and extent of the budget challenge faced for 2024/25 and the range of budget savings proposals being proposed, Cabinet directed Council to reached out and purposefully engage with a wide range of different interest groups and communities within Monmouthshire. The feedback received has been addressed in the final budget.
- 3.15 The Council's engaged with 206 attendees across 13 stakeholder session that included:
  - a) Delivering a number of countywide budget consultation events throughout the consultation period;
  - b) Reaching out and consulting with town and community councils representatives;
  - c) Meeting with business representatives and forums from across the County;
  - d) Holding a number of targeted consultation events with groups who were keen to engage in the consultation process (e.g. Care experienced children, MyMates, School Council representatives).
  - e) Engaging with the school budget forum, Head Teachers and School Governors
- 3.16 Beyond the direct engagement held with residents, key stakeholders and interest groups, a letter was sent out to other stakeholders to signpost them to the consultation on the draft budget proposals and in offering them to provide feedback or to meet if required.

- 3.17 A dedicated budget section on the Council's website signposted members of the public to accessible information about the draft budget proposals along with ways to engage in the process. A budget survey was also available and to allow feedback on the proposals to be rated and commented upon. Members of the public were also able to pre-submit questions in advance of countywide events.
- 3.18 Beyond the direct and targeted engagement outlined above the consultation period clearly demonstrated that residents had a clear preference to engage digitally. Footfall at countywide digital events whilst low significantly outweighed those indicating a preference to attend face to face countywide consultation events. The budget survey was by far the most popular means by which the wider public engaged in the consultation process with 313 responses received.
- 3.19 The proposals were also scrutinised by the Performance and Overview Scrutiny Committee, People Scrutiny Committee, Place Scrutiny Committee and the Joint Advisory Group (JAG).
- 3.20 **Appendix A** outlines the feedback received throughout the consultation process. In summary this positioned itself in the following areas:
- a) The majority of respondents to the budget survey agreed with the individual savings proposals being considered. However, there was disagreement in respect of some education savings that concerned the increased charge for school breakfast clubs, reduced funding of the Gwent Music Service, and the requirement for efficiencies within school's budgets. This was similarly echoed in public consultation events, stakeholder engagement, and during member scrutiny.
  - b) A significant number of residents raising concern about the level of council tax increase proposed, especially in light of cost of living and inflationary pressures being experienced in households. However, there was a recognition that the choices available to the Council were limited in the face of an unprecedented cost and demand pressures for services that supported the needs of residents.
  - c) Concerns were raised regarding charging for food waste bags and the impact this could have on recycling rates and the additional costs to families.
  - d) Whilst acknowledging the need for increases in discretionary fees and charges to meet the increasing cost of providing those services assurances were asked for to ensure those who don't have sufficient means were not being adversely impacted by the increases.
  - e) Concerns about the deliverability of the proposed savings, the risk involved and the cross-collateral impacts. With particular concerns raising around adult social care and the impact of the savings proposed.
  - f) Comments were raised about condition of the extensive highways network across the county and the need to improve infrastructure for residents.
  - g) Concerns were raised around the extent of the cumulative impact of savings proposals on families/parent(s) with children and low pay/income households.
  - h) The need to consider different ways of using the Council's assets to provide services or to support communities. Assurances were asked for and clarification provided around assets that had been identified for potential disposal or alternative use.
  - i) Concerns were raised about the impact on businesses of increased car parking charges and the national issues affecting business rate reliefs.
  - j) Concerns around the reduced opening hours proposed at MonLife facilities and the impact that would have on residents and users of the services.

- k) Reassurances were asked for around the risks and uncertainties that the Council was facing at this time and into the future. With particular concern around homelessness and adult social care.
- l) Concerns raised around continued pressure on services such as in education, social care, operational frontline services and children with additional learning needs.

## **FINAL BUDGET**

3.21 After review, reflection and consideration of feedback received it is recommended that the following revisions are made to service savings and pressures proposals:

### Change in service savings:

- That the proposal to require schools to make efficiency savings of £835,000 is removed in full. Cabinet have listened to the feedback from all stakeholders and understand the impact that this saving would have on the school environment and the ability for schools to support our most vulnerable learners at a time of increasing need.
- That the proposal to charge for food waste bags is removed. The consultation process highlighted concerns of the impact this may have on our excellent recycling rates and the disproportionate impact upon low income households.
- The removal of the saving proposal related to an increase in planning application fee income. The proposal highlighted that this required Welsh Government legislative change which has not been progressed as quickly as anticipated.
- Similarly, the saving in relation to additional income from an increase in the social care domiciliary care cap required legislative change by Welsh Government. It is anticipated that the introduction of any such change will not happen until the Autumn.

### Change in service pressures:

- Cabinet have recognised the continuing demand pressures being placed upon our Adult's social care service, with a continuing upward trend in care home placements, alongside further complexity presenting in cases transferring into the service. A further cost pressure of £600,000 is recognised within the final budget proposals.

3.22 Cabinet have used Integrated Impact Assessments to inform its decision making and ensure mitigations are identified wherever possible to minimise the impact on people in greatest need.

3.23 The scope to reduce the level of savings or to generate additional income through council tax or fees is very limited. Given the scale of the challenge it was inevitable that council tax needed to rise to support valued local services. Council tax is a key source of income that allows the council to sustain services that meet the needs of residents and in particular those who are most vulnerable.

3.24 Following consultation feedback Cabinet considered that the impact of the proposed level of service savings upon the most vulnerable residents in the County was too high. To mitigate this impact, Cabinet have explored every opportunity for further cost saving, efficiency, or income generation.

3.25 As a result, Cabinet are proposing a slight variation in the level of Council tax increase from 7.5% to 7.8%, a £4.69 increase for the year (9 pence a week) on a band D equivalent

property. This will generate a further £202,000 that together with other proposed changes will protect vital local services and our most vulnerable residents in the County.

- 3.26 The council tax reduction scheme, which offers mitigation for those on low incomes and those in receipt of benefits, will still be in place and single person households are also eligible for a 25% reduction on council tax. There are currently 5,506 (12.8%) of council taxpayers benefitting from the council tax reduction scheme, and 14,891 (34.7%) in receipt of single person discount.
- 3.27 Cabinet will maximise its efforts to ensure that individuals and households eligible for council tax exemptions or reductions claim the benefit available to them. Take-up will be monitored through the year.
- 3.28 The table below illustrates the movements that have been seen as a result of the budget proposals being finalised and subsequent to public consultation, scrutiny and more up to date information being made available since the draft proposals were released on consultation on 17th January 2024.

<b>Budget Reconciliation</b>	<b>Amount £'000</b>
<b>Draft budget proposals – (Surplus) / Deficit</b>	<b>0</b>
Change in service savings	1,186
Change in service pressures	600
Update to core WG funding	(381)
Notification of reversal of cut in specific social care workforce grant	(250)
Use of specific service reserves to fund one-off costs	(325)
Utilise further capitalisation direction to meet the costs of service reform and redesign	(685)
Increase in borrowing costs – Capital investment in highways	57
Council tax increase: further 0.3%	(202)
<b>Final budget proposals – (Surplus) / Deficit</b>	<b>0</b>

- 3.29 Further key changes to the budget proposals for 2024/25 include:
- Consequential funding from UK Government that Welsh Government have confirmed will be passported through to local authorities in full by way of a reversal of a planned reduction in the social care workforce grant and an increase to the final settlement will provide a £631k benefit, and that has in part enabled Cabinet to accommodate further changes to the budget proposals.
  - A clear and firm commitment was made as part of the budget strategy not to support the funding of any recurrent costs and as a result of the need to preserve and protect the limited amount of general and specific revenue reserves held. However, some earmarked reserves are established to meet specific and intended one-off expenditure.

The final proposals include a transfer from the Ukraine reserve to meet anticipated eligible costs of £400k, along with a prudent draw of £125k on the council tax premium reserve to meet legitimate one-off cost that supports the provision of homelessness accommodation.

- c) As a result of a further assessment of capital receipts balances a careful and planned further use of the capitalisation direction that allows for flexible use of capital receipts to meet £685k of costs associated with service reform and redesign.
- d) An increase in borrowing costs of £57k and that reflects additional unsupported borrowing proposed and that allows further capital investment to support the ongoing repair of the Council's highways and bridge infrastructure.

Welsh Government plan to make one further key change that will feature in the final settlement. Welsh Government plan to make a small number of specific grant transfers into the final settlement and that results from an ongoing programme of work by Welsh Government to reduce the number of separate grants paid to local authorities or to consider moving grants into the de-hypothecated settlement if the wider context makes this appropriate. There is no overall impact on the final budget proposals as a result of these transfers and the adjustment is anticipated to be £283k.

## **BUDGETARY RISK**

- 3.30 It is worth noting that the ongoing financial challenges remain as always, a dynamic situation. Further work will be undertaken to develop the medium term strategy and plan that will include an ongoing assessment of pressures, risks and modelling assumptions along with a clear plan and approach to address the budget shortfalls forecast.
- 3.31 The key risks remaining to be assessed and managed in 2024/25 and as yet unknown are:
  - The deliverability of budget savings proposals represents an ongoing risk for 2024/25, especially where the budget proposals involve the generation of income, changes to current structures, systems and processes, consideration of alternative delivery models or have implications for service design involving community, other partners and entities. The month 9 forecast reported an anticipated 85% delivery of £12.3m of savings and a resultant deficit that needed to be managed as part of in-year budget recovery action taken.
  - Continued service demand pressures in children's social services, demographic changes such as an increasing elderly population, changes in pupil numbers, increase in special educational need provision and increase in homeless presentations have been included where known in the current budget process. These pressures remain significant in both the current year and next year. The need for continued and robust monitoring is essential to ensure that there is cost control and continued efforts are made to refrain from non-essential spend.
  - Late notification of grant funding streams being removed or reduced. There are still some specific grant streams that the Council relies upon, that have either not yet been communicated by Welsh Government, have been received late in the budget process or where the impact of notifications is awaiting further clarification. It is hoped that



further detail will be provided when Welsh Government release the final settlement on 27th February. Any funding shortfalls will need to be managed on a case by case basis.

- The risk of pay awards being greater than modelled budget assumptions and not being fully funded by UK and Welsh Government.
- Formal confirmation is still awaited from UK Government to confirm its full funding of the planned increase in the employer pension contribution rates for the centrally administered Teacher's pension scheme. To the extent that it is not fully funded this presents a potential risk and further budget pressure for 2024/25.
- The impact of higher interest rates and inflation brought about by a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, has the potential to impact on service and treasury budgets respectively.

3.32 In light of the above risks and the ongoing strain on the Council's finances the strengthened governance arrangements and that include the oversight provided by the Financial Management Board will continue through 2024/25 such as to provide assurance that arrangements are in place leading into and throughout next financial year to both deliver savings and to respond to any circumstances where further budget pressures might require further mitigation or savings to be brought forward.

## 2024/25 REVENUE BUDGET AND INDICATIVE FUTURE BUDGETS

3.33 The proposed revenue budget for 2024/25 and indicative budgets for 2025/26 to 2027/28 are shown below.

Services	Final Base Budget 2024/25 £000's	Indicative Base Budget 2025/26 £000's	Indicative Base Budget 2026/27 £000's	Indicative Base Budget 2027/28 £000's
Children & Young People	64,853	66,188	67,553	68,940
Social Care & Health	68,410	69,123	69,896	70,593
Communities & Place	27,249	27,585	28,460	29,100
MonLife	8,088	8,274	8,467	8,629
Resources	8,344	8,489	8,638	8,774
Chief Executive's Unit	3,288	3,372	3,458	3,536
Law & Governance	2,894	2,962	3,031	3,095
Corporate Costs & Levies	29,553	40,974	49,548	58,253
<b>Sub Total</b>	<b>212,680</b>	<b>226,967</b>	<b>239,050</b>	<b>250,919</b>
Transfers to reserves	833	872	914	957
Transfers from reserves	(1,955)	(349)	(527)	(354)
Treasury	8,423	10,324	10,779	10,562
<b>Treasury &amp; Reserves Total</b>	<b>7,302</b>	<b>10,847</b>	<b>11,166</b>	<b>11,165</b>
<b>Total Expenditure Budget</b>	<b>219,981</b>	<b>237,814</b>	<b>250,216</b>	<b>262,084</b>
Aggregate External Financing (AEF)	(126,096)	(126,939)	(127,828)	(128,722)
Council Tax (MCC)	(72,582)	(76,356)	(80,326)	(84,503)
Council Tax (MCC Premium)	(755)	(794)	(836)	(879)
Council Tax (Gwent Police)	(16,940)	(17,821)	(18,747)	(19,722)
Council Tax (Community Councils)	(3,608)	(3,608)	(3,608)	(3,608)
Contribution to/(from) Council Fund	0	0	0	0
<b>Sub Total Financing</b>	<b>(219,981)</b>	<b>(225,518)</b>	<b>(231,345)</b>	<b>(237,435)</b>

<b>(Surplus)/Deficit</b>	<b>0</b>	<b>12,296</b>	<b>18,871</b>	<b>24,649</b>
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**Note:** An explanation of how services are grouped is included in **Appendix H**.

- 3.34 Indicative budgets for the 2025/26 to 2027/28 period are modelled using a range of budget assumptions for pay and employer pension contributions, future Welsh Government funding increases and council tax increases (for modelling purposes only).
- 3.35 Provision of £7.5m per annum is currently made within the medium-term financial plan for modelling purposes, reflective of the trend in service pressures developing annually over recent years, over and above the approved budget. This is represented in the table above by the increase in Corporate Costs and Levies over the 2025/26 to 2027/28 period.
- 3.36 The resultant production of the Council's financial strategy and update to the MTFP will require a reassessment of the underlying budget assumptions and in light of the expected challenges facing local authorities over the medium term in respect of anticipated cost and demand pressures alongside constraint on funding for local government. It is clear from current modelling that the challenge over the medium term will be a significant one for the Council with a £24.6m budget shortfall projected to be managed over the next three years.
- 3.37 The medium term financial strategy (MTFS) currently being developed will outline the approach to addressing these forecast shortfalls, and align the shape and cost of future service delivery with the approved Community & Corporate Plan in a financially sustainable model.

### **THE ROBUSTNESS OF BUDGET PROCESS AND RESERVES**

- 3.38 As can be seen from the table below the Council's reserves have been and will be significantly depleted as a consequence of the reserve cover needed to both support budget proposals and resultant budget recovery action in 2022/23 and 2023/24. This follows a period through the pandemic where reserves were restored as a result of significant Welsh Government funding.
- 3.39 The decisions taken to draw on reserves had been carefully considered as the consequence of not doing so would have led to very significant consequences for service delivery. Ultimately a balance had to be struck and given the extent of the inflationary and demand pressures faced as a result of the Cost of Living and Health crises.
- 3.40 Cabinet were clear in their budget planning framework for 2024/25 that there is a need to progress the Council on a path towards financial sustainability including conserving an appropriate and prudent level of financial resilience. The framework established the principles for general and earmarked reserve use.
- 3.41 The level of the Council Fund reserve stood at £11.1m at the start of 2023/24, excluding delegated school balances. The budget for 2023/24, as updated for the in-year budget recovery action needed, includes a £1.18m call on the Council Fund reserve. Subject to outturn this reduces the Council Fund reserve to £9.92m.
- 3.42 The final revenue budget proposals do not include any use of the Council Fund reserve to balance the budget for 2024/25 in line with the budget planning framework agreed by Cabinet. The level of the reserve remains in the range of 4-6% at 5.86% of net revenue budget and is considered to be at a prudent level.
- 3.43 The focus therefore turns to the uncertain outlook and future financial challenges and where the headroom in the Council Fund balance is reserved and if required to cover the

following, and where mitigating budgetary recovery action is unable to manage such pressures on the Council's budget:

- Any budget pressure in 2024/25 resulting from pay award announcements in excess of the modelling assumptions used in the final budget proposals;
- Any continuing pressures caused by the cost of living and health care crises, particularly in the areas of Homelessness, Adult social care and Children's Services;
- To allow for any future reserve cover to meet any one-off costs across the MTFP and beyond as the Council looks to put its finances back on a sustainable footing, and to the extent that they cannot be funded from capital receipts under Welsh Government guidance allowing for one-off costs of service reform to be met.

- 3.44 Pre pandemic, net school balances had remained at low levels and had reduced to a net deficit balance of £435k at the end of 2019/20. Receipt of unprecedented levels of grant support from Welsh Government during 2020/21 and 2021/22 had looked to ensure support for schools and their pupils during a period of significant disruption to learning. This had resulted in school balances being in surplus at the beginning of 2022/23 of £6.95m.
- 3.45 The investment plans enacted by schools looked to deliver the best learning outcomes for pupils in line with the purpose of the grant funding provided. At the beginning of 2023/24 school balances had reduced to £4.26m as a result.
- 3.46 Irrespective of the significant one-off grant funding given to schools and the surplus balances held at the beginning of 2022/23, it is clear that the inherent structural budget deficits that led to a significant number of schools being in deficit over the past few years remain and these will require resolution regardless. The month 9 forecast highlights a forecast draw of £5.6m on schools delegated balances, an increased draw of £1.85m since the previous forecast and with cumulative school balances now 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.
- 3.47 School 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 without impacting on educational standards.
- 3.48 Recovery plans are put in place for schools that move into deficit, and these are being closely monitored by the LEA and relevant Cabinet members.
- 3.49 The total planned use of earmarked reserves in support of the 2024/25 revenue and capital budget is £1.38m. Earmarked reserve use is only planned to meet one-off costs and in line with a specific reserve's intended purpose and use. **Appendix F** shows the call on and contributions to reserves for the 2024/25 budget and the reserve balances projected for the medium term.
- 3.50 Total planned reserve use in support of current year revenue and capital budgets means that by the end of 2023/24 the balance of earmarked reserves is likely to be £7.84m. The

further call in 2024/25 means that the earmarked reserves will then fall to £6.46m, with the useable balance down to £3.93m. The low level of revenue reserves now requires the reserves policy to adapt such that revenue reserves are very much protected to provide cover for foreseen or unforeseen risks that might result. Improved budget management and discipline going forward will need to ensure that in-year over spends are quickly identified and to the extent they cannot be mitigated for in-year savings to be found.

- 3.51 Useable capital receipts also provide a limited one-off resource to support financing of the capital programme. In recent years the Council has also made use of Welsh Government's guidance allowing flexible use of capital receipts to meet one-off costs associated with service reform. The Council has needed to make use of this flexibility since 2019/20. The planned use in 2023/24 has been extended to support the budget recovery plan and will continue for 2024/25.
- 3.52 Useable capital receipts are forecast to reduce to £4.97m by the end of 2027/28 based on the capital MTFP. The continued use of capital receipts for this purpose is recognised as a necessary approach to support the Council to transition itself on to a more sustainable financial footing. However this is not a sustainable approach in itself and has the added consequence of requiring the Council to fund any further and future capital investment through prudential borrowing where it cannot be met from other sources.
- 3.53 Under the provisions of the 2003 Local Government Act, the Responsible Financial Officer has to provide conclusions on the robustness of the budget process and the adequacy of reserves. Those conclusions are shown at **Appendix E**. The RFO opinion also includes an acknowledgement of the risks taken into account in producing the budget proposals for 2024/25 as well as those budgetary risks that will need to be managed going forward in the MTFP.
- 3.54 The effect of Cabinets revenue budget recommendations is shown at **Appendix C**. The effect of Cabinet's capital recommendations is shown at **Appendix I**. Final Council Tax and budget setting is reserved for decision of Full Council on 29th February 2024.

## **CAPITAL BUDGET**

- 3.55 In the current climate of financial constraint, capital investment needs to remain within affordable limits. Demand for capital resources remains high and therefore inevitably, prioritisation of projects, leveraging in other sources of funding and working with partners remain key to meeting this demand.
- 3.56 The current Capital programme is impacted by the same external factors affecting the revenue budget. Inflation, supply chain issues and internal resourcing capacity means that current capital budgets are being delayed or deliver less for the same amount of budget.
- 3.57 The Welsh Government provisional funding settlement announced on 20th December 2023 highlighted a small increase of £6k in respect of core general funding for 2024/25. This is extremely disappointing, especially in light of the Councils limited recourse to internal resources in the form of capital reserves and receipts, or the additional revenue burden that materialises from any resultant borrowing to meet the funding gap.
- 3.58 The current and forward capital programme has been reviewed since draft budget stage to establish:
- Whether the schemes are still relevant to current Council priorities;
  - Are current budgets allocated still workable given the factors identified ;

- Are there more urgent schemes coming forward, either from the backlog list of pressures or otherwise that need to displace existing schemes;
- Whether there are any further external funding opportunities;
- Does the capital programme remain prudent and affordable in light of the wider economic pressures and revenue budget gap;
- Does potential slippage or under spend from the 2023/24 capital budget provide opportunities to re-purpose existing budgets to allow one-off investment in immediate capital risks.

3.59 When considering the relative merits of projects and potential displacement, the priority matrix in the capital strategy has been applied to ensure consistency of approach.

3.60 The draft capital budget proposals were released on consultation by Cabinet on January 17th. Feedback from public consultation and scrutiny, more up to date information being made available, and clarification of the urgent capital risks impacting 2024/25 have resulted in the following proposed changes to the capital budget proposals:

<b>Scheme</b>	<b>£000's</b>
<b>Infrastructure</b> – Urgent road infrastructure improvements	1,000
<b>Infrastructure</b> - Footway Reconstruction	148
<b>Infrastructure</b> - Carriageway Resurfacing, drainage & SCRIM surveys	312
<b>Infrastructure</b> - Bridges, Structures & Retaining Walls	141
<b>Infrastructure</b> - Flood Alleviation	19
<b>Infrastructure</b> - Road Safety & Traffic Management and Signing Upgrades and Disabled adaptations	32
Rights of Way bridges - emergency works and replacement	150
Decarbonisation assessments	100
<b>Depots</b> - H&S improvements Countywide	350
<b>Depots</b> – Feasibility works - Transport Depot South of County	150
Public spaces protection orders – signage and implementation	45
Solar Farm Development Costs	150
<b>Total</b>	<b>2,597</b>

- Further investment of £1.65m in our highways and structures with targeted work to improve the condition of our road infrastructure.
- Capital investment of £150,000 to allow for emergency works to be undertaken on bridges across the Council's extensive public rights of way network, and to ensure that a risk based approach is being taken to maintain assets and keep the network safe.
- Capital investment of £100,000 to allow full assessment of potential Decarbonisation measures across the Council's estate with the aim of reducing carbon emissions, making a positive contribution to addressing the climate and nature emergency.
- Capital investment of £350,000 to address urgent health and safety improvements at our Depots, and a further £150,000 to explore the potential for consolidating depot

provision in the South of the County to provide efficiencies in provision and lower our overall Carbon footprint.

- Public spaces protection orders – £45,000 for signage in parks and other open spaces, in readiness for the implementation of the Council’s ‘Public Spaces Protection Order (PSPO) for dog control’.
- Solar Farm Development Costs - £150,000 to develop a business case and planning application to determine the potential revenue stream and viability of further development.

3.61 The additional capital investment has been assessed using the principles embedded within the Council’s capital strategy. This prioritises urgent Health & safety or meeting statutory obligations for the Council. The investment is therefore considered affordable, prudent and sustainable in that will prevent future additional cost burden falling upon the Council.

3.62 The further investment is funded by under spends identified in the 2023/24 capital budget of £815k; a one-year reduction in existing 2024/25 recurrent budgets of £210k; the permanent removal of the area management budget of £20k; the Solar farm reserve of £150k; and an increase in unsupported borrowing of £1,402k:

Year	Programme	Change	£000's
2023/24	Laptop replacement	Under spend	230
2023/24	Match funding budget	Under spend	400
2023/24	Safe routes to schools investment	Under spend	185
2024/25	County farms maintenance budget	Reduced from £300k to £250k	50
2024/25	Laptop replacement programme	Reduced from £260k to £150k	110
2024/25	Access for all budget	Reduced from £250k to £200k	50
2024/25 onwards	Area management budget	Removed from forward programme permanently	20
2024/25	Solar Farm reserve	Draw on reserve	150
2024/25	Balance to be met from borrowing	Increase in unsupported borrowing	1,402
		<b>Total</b>	<b>2,597</b>

3.63 The Summary Capital MTFP is shown in **Appendix I**. Whilst the core capital programme is being sustained, and sees planned investment in the Council’s infrastructure, there still remains a considerable number of backlog pressures that sit outside the core capital programme. This will continue to have varying levels of risk associated with it. Cabinet have acknowledged and accepted this risk given the affordability and funding constraints facing the Council at this time.

3.64 The capital receipts summary below shows the expected level of receipts and planned usage and highlights the balances available in the next few years. Future investment in capital schemes, is in part dependent on future success of achieving capital receipts and there remain risks attached to some receipts materialising over this period.

	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>
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	£000	£000	£000	£000	£000
Balance as at 1st April	12,446	8,785	7,004	6,700	5,835
Less: capital receipts used for financing	(2,778)	(1,815)	(460)	(460)	(460)
Less: capital receipts used to support capitalisation directive	(4,008)	(3,358)	(508)	(508)	(508)
Capital receipts Received	1,043	0	0	0	0
Capital receipts Forecast	2,092	3,393	663	103	103
<b>Forecast Balance as at 31st March</b>	<b>8,785</b>	<b>7,004</b>	<b>6,700</b>	<b>5,835</b>	<b>4,970</b>

- 3.65 The value of Capital receipts forecast after 2024/25 drops off quite considerably which is reflective of the replacement local development plan (RDLP) not proceeding as quickly as envisaged in the original delivery agreement. Whilst candidate sites have now been submitted, this will have an impact on the balance of receipts available to fund future capital investment demands in the near term.
- 3.66 It is therefore important that reliance on capital receipts used to support capitalisation direction (to fund one-off revenue costs eligible to be met from capital resources) is seen as a short-term measure only and is therefore currently modelled to reduce substantially from 2025/26 onwards.
- 3.67 Assets are only disposed of following options review and where there are alternative means of maintaining existing services or where disposals better enable policy objectives of the Council to be met.

#### THE PRUDENTIAL CODE

- 3.68 Under the Prudential Code, local authorities are required to publish Prudential Indicators produced to demonstrate that capital programmes are prudent, sustainable and affordable in the longer term. The indicators for 2024/25 to 2027/28 are contained at **Appendix J** to this report, assuming eventual Council approval of Cabinet's budget and Council Tax recommendations. The indicators have been subject to scrutiny via the Governance and Audit Committee at its meeting on 22nd February 2024.

#### 4. OPTIONS APPRAISAL:

- 4.1 Chief Officers and Directorates are required to consider and outline the options that have been considered for each of the budget savings proposals and pressures accommodated within the final budget proposals presented in this report.
- 4.2 The detail is contained in the original budget mandates that supported the drafted budget proposals. Where budget proposals have been amended or new changes introduced these are outlined in the report as part of the final budget proposals. These changes are summarised in **Appendix B and C**.

#### 5. EVALUATION CRITERIA:

- 5.1 The means of assessing whether the final budget proposals for 2024/25 have been successfully implemented is undertaken throughout the year via regular budget monitoring and periodic reports to Cabinet and then through Scrutiny committees. Given the financial risks facing the Council budget monitoring will continue to be strengthened in 2024/25, including the monitoring and evaluation of budget savings being implemented. This is being achieved through the ongoing review and assessment being undertaken by the Financial Management Board as well as periodic targeted review of service areas that carry budgetary risk.

- 5.2 The ongoing assessment and update of the Community and Corporate Plan will influence a full update of the Medium-Term Financial Strategy and Plan which will build the foundation for the 2025/26 budget process. This comprehensive update will include an ongoing assessment of pressures, risks and modelling assumptions. As well as savings proposals and options that together with a robust and updated capital receipts and reserves strategy will enable the Council's finances to remain on a sustainable footing.
- 5.3 Regular monitoring of the performance of the Council will take place against service business plans, and the Community and Corporate Plan. Taken together these arrangements enable the Council to evaluate its success and progress against its longer-term plans within the resources available.

## **6. REASONS:**

- 6.1 To make appropriate recommendations to Council on the revenue and capital budgets for 2024/25, and the resultant Council Tax recommended to be set for County purposes, taking into account the public consultation and scrutiny process in January and February.
- 6.2 As required by statute, to consider the Responsible Financial Officer's conclusions on the robustness on the budget process and the adequacy of reserves going forward.
- 6.3 To approve the Prudential Capital Indicators calculated by the Responsible Financial Officer.

## **7. RESOURCE IMPLICATIONS:**

As identified within the report and appendices.

## **8. WELLBEING OF FUTURE GENERATIONS IMPLICATIONS (INCORPORATING EQUALITIES, SUSTAINABILITY, SAFEGUARDING and CORPORATE PARENTING):**

- 8.1 Where a budget proposal could alter a service, or the way it is delivered an Integrated Impact Assessment needs to be completed. This identifies the potential impact on the national well-being goals and the ways of working enshrined in the Well-being of Future Generations Act. It also considers the people and groups who possess the protected characteristics specified in the Equality Act 2010. We also evaluate the potential impact on those experiencing socio-economic disadvantage as well as the effects on the Welsh language.
- 8.2 The Council built considerations of equality, diversity and sustainability into the planning and delivery of its 2024/25 budget. It has done this by:
- Requiring officers to undertake an Integrated Impact Assessment of individual savings proposals that could alter a service, or the way it is delivered. Where necessary this evaluation has been updated to reflect the final budget proposals.
  - Producing an overall impact assessment for the budget proposals. This was published as part of the budget consultation. The assessment has been updated following consultation to reflect recommended changes in service savings and pressures.
- 8.3 This has allowed us to assess the overall potential impact of the budget on people within the County. It is recognised that the proposals will affect different groups of people in different ways.



- 8.4 Given the scale of the budget challenge for 2024/25, it is inevitable that this has identified some negative impacts on some groups of people. The nature of the services the council provides means that almost any change to a council service will have a socio-economic impact. For example, disabled people will be more likely to use social services and people on lower incomes will be more affected by increased fees and charges. These are set out in more detail in **Appendix D**.
- 8.5 Conducting the assessment alongside the development of the budget has allowed us to identify actions that mitigate the potential negative effects of our proposals on vulnerable people and households on the lowest incomes. It also highlights the anticipated positive effects of increasing expenditure on certain groups. This helps to offset some of the negative effects. Changes to the impact assessment have also been made as a result of the consultation, for example with the effects on young people being lessened as a result of the recommendation being made not to proceed with proposed reductions in individual school budgets.
- 8.6 Once the final budget is agreed by Council in March, service areas will carry out work to mitigate, manage and monitor any impacts identified. Where proposals are subject of subsequent decisions, it is expected that further Integrated Impact Assessment will be undertaken at that time.

## 9. **CONSULTEES:**

Cabinet  
Strategic Leadership Team

## 10. **BACKGROUND PAPERS:**

- a) Directorate Budget builds, detailed capital programme and associated papers
- b) Draft revenue budget proposals, draft capital budget proposals – released on consultation by [Cabinet](#) on 17th January 2024
- c) Provisional Local Government Settlement
- d) The CIPFA Prudential Code for Capital Expenditure

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## **Appendices:**

- A Overview of Council budget consultation process and feedback
- B Changes in service savings and pressures between draft and final budget
- C Revenue budget summary
- D Cumulative impact assessment
- E Responsible Financial Officers Opinion

- F Use of reserves for budget purposes and forecast reserve balances
- G Provisional Settlement Data and Specific Grants 2024/25 (All Wales)
- H Revenue budget service groupings
- I Capital Budget Summary
- J Prudential Indicators
- K Capital and treasury management strategies 2024/25