

SUBJECT: FINANCIAL UPDATE REPORT
MEETING: PERFORMANCE & OVERVIEW SCRUTINY COMMITTEE
DATE: 16th July 2024
DIVISION/WARDS AFFECTED: ALL

1. PURPOSE:

- 1.1 To provide Committee with information on the Authority's final financial results for the 2023/24 financial year in respect of the revenue budget, capital programme, and associated reserves position.
- 1.2 To update Committee on the early indicative progress against the 2024/25 revenue budget.

RECOMMENDATIONS TO PERFORMANCE AND OVERVIEW SCRUTINY COMMITTEE

- i. That the Performance and Overview Scrutiny Committee scrutinise the budget outturn for the 2023/24 financial year, and the early indicative progress against the 2024/25 revenue budget.
- ii. That the Committee as part of their role assesses whether effective budget monitoring is in place; the extent to which budgets are spent within the agreed budget and policy framework, including the reasonableness of the explanation for variances and; consider the achievement of progress in meeting budget savings targets.

2. RECOMMENDATIONS (to Cabinet):

That Cabinet recognises:

- 2.1 A net revenue budget surplus at outturn of £1,701,000 (0.8% of budget) that results in less needing to be drawn from reserves to support the budget than budgeted.

- 2.2 That the surplus achieved at outturn represents a significant improvement of just over £2m from the position forecast at month 9. The improvement is primarily as a result of an improvement in service budget positions driven by the budget recovery action enacted by services during the year including staff vacancy restrictions, coupled with improvement in the costs of capital financing as areas of the capital programme have experienced delays.
- 2.3 There remain significant areas of cost pressure within Adult social care, Children’s additional learning needs, Waste, and Homelessness/Housing. These services recorded a cumulative over spend of £5m for the year, and whilst a significant aspect of these cost pressures were accommodated in the 2024/25 budget, this continues to present an ongoing area of financial risk for the Council in the new financial year.
- 2.4 Total capital expenditure for the year was £65,176,000, with no capital schemes reporting material over or under spends that require additional financing from the Council’s own resources. Capital slippage requests totalled £28,606,000.
- 2.5 The significant reduction in Schools balances during the year of £5,161,000 as outlined in **Appendix 1** and **Appendix 3**, that takes cumulative school balances into deficit by £905,000. Thirteen schools ended the year with a deficit balance, with several schools continuing to carry structural budget deficits that will need to be addressed by way of budget recovery action.
- 2.6 The early indicative cost pressures of £873,000 highlighted by services against the 2024/25 revenue budget that require prompt mitigating action by services in order to deliver at least a balanced outturn position by year end.

That Cabinet approves:

- The strategy to replenish reserves as noted within section 6 of this report, including the earmarking of £1m as budget contingency for the 2024/25 budget. Consideration of a further rationalisation of reserves will be incorporated into the next MTFP update and once the medium-term financial strategy is approved that outlines the financial framework and alignment to the Council’s approved Community & Corporate plan.
- The use of capital receipts totalling £3,621,000 to fund the eligible revenue expenditure as outlined in **Appendix 2** under the Welsh Government’s “flexible use of capital receipts” direction.
- The capital slippage requests of £28,606,000 as listed in **Appendix 4**, acknowledging the challenging operating conditions and external influences that have delayed schemes progressing during the year.

- The capital budget revisions as outlined in **Appendix 5**, which are required following finalisation of grant funding awards for the financial year.

KEY ISSUES

3 Context

- 3.1 Councils across the UK continue to face 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 The 2022/23 revenue budget culminated in an over spend of £3.5m which required funding from earmarked reserves to cover the additional expenditure incurred following acute pressures experienced within Adult's and Children's services, Homelessness, and 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 During the year financial headwinds have continued to impact the service operating environment through higher inflation and interest rates, a shortage in some 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 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. This was overseen by the formation of a financial management board who focussed on the key financial risk areas.
- 3.9 The budget recovery 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 At outturn, the Council has successfully mitigated the overall cost pressures through these targeted actions. This has culminated in a revenue budget surplus of £1,701,000 against a revised expenditure budget of £208,515,000, representing less than 1% variance.
- 3.11 There are however a number of significant service variances both positive and negative that sit within this, as follows:

Table 1: 2023/24 Revenue budget outturn

Directorate	Over / (Under) Spend (£,000s)	% Variance to budget	Over spend	Under spend
Social Care, Health & Safeguarding	2,945	4.6%	Children's services £181k (complexity of cases, reliance on independent providers & agency staff)	Support services £239k
			Adults services £2,999k (Provider fee inflation, increased demand & complexity of cases)	
Children & Young People	280	0.4%	ALN transport £732k (contract costs)	Support services £370k - grants, vacancies, and increased income
			ALN placements and recoupment costs £545k	ALN out of County and Independent £656k - reduced placements
Communities & Place	747	3%	Fleet Maintenance £396k (Inflation, supply chain impact)	Business Growth & Enterprise £194k (grant)
			Waste £1.129m (Recyclate contract volatility, polypropylene roll-out delay)	Highways & Flooding £196k (Income & staff vacancies)

Directorate	Over / (Under) Spend (£,000s)	% Variance to budget	Over spend	Under spend
			Housing £442k (B&B costs, maintenance increase for leased accommodation)	Highways Ops & Swtra £209k (income)
			Building Control £93k (fee income reduction, increase in regulatory requirements)	Grounds £93k (Income),
				Building cleaning £116k (income)
				Solar farm £92k (energy)
				Schools catering £251k (Grant)
				Passenger Transport £83k (income/grant)
				Regeneration £62k (grant)
				Community & Pship Development £61k (Grant)
Monlife	(209)	-2.5%	Borough Theatre £175k – reduced income	Leisure, Youth & Outdoor £265k – increased memberships and grants
			Attractions £67k – reduced income	Countryside and Culture £108k - grants
			Contact centres & Hubs £90k – staffing and inflation	Finance & business development £168k – staff vacancies & income
Chief Executive Unit	(186)	-6.1%		Corporate £25k (grant)
				Corporate Training £27k (income)
				Policy/Partnerships £127k (staff savings, grant & capitalisation directive)
Law & Governance	108	4.1%	Democratic services £136k (members remuneration, software cost)	Legal & Land Charges £28k (staff savings)
Resources	(380)	-4.5%	Newport leisure park £91k (service charge met centrally for vacant units)	Revenues £53k (grant)

Directorate	Over / (Under) Spend (£,000s)	% Variance to budget	Over spend	Under spend
			Castlegate £109k (Service charge met centrally for vacant units)	Finance/Audit £223k (staff vacancies)
			Property Services £69k (cleaning & maintenance increases)	Systems & Exchequer £46k (staff vacancy, income/grant)
				Cemeteries £42k (income)
				Asset management £261k (income/staff vacancies/Ukrainian funding)
Corporate costs	(478)	-1.7%	Coroner service £104k – additional staffing & premises costs	Business rate refunds £233k
				Pension costs £331k - covered by capitalisation direction
Capital financing costs	(1,591)	-19.5%		Lower net borrowing costs reflective of higher than anticipated cash balances, and significant capital slippage at the end of 2022/23
Council tax	(196)	-0.1%		Council tax reduction scheme cases have tracked slightly lower than budgeted for the year
Inflation contingency budget	(2,741)	N/A		Unallocated reserve funded budgets that are mitigating cost pressures within the Authority
Year-end surplus	1,701	0.8%		

3.12 The final budget outturn position is a significant improvement of £2,013,000 since the forecast at month 9 where a budget deficit of £314,000 was anticipated.

3.13 The improvement has been experienced across all service areas and is due to five main factors:

- Additional grant funding being secured, or services maximising core revenue costs being met from both revenue and capital grant funding;
- Staff vacancies continuing to be held as part of budget recovery action;
- Increased external income from rents, fees and memberships;
- Identifying additional costs eligible to be met from capitalisation direction to maximise its use;
- Net borrowing costs remained lower than expected as cash balances remained higher for longer than expected, and interest rates peaked at slightly lower rates than anticipated.

3.14 Service savings of £10,150,000 were required as part of the original revenue budget for 2023/24. A further £2,146,000 were required as a result of the in-year budget recovery action. 83.3% of these have been met during the year.

Table 2: Service savings delivered

Directorate	Total Saving / Budget recovery	Achieved	Variance to Budget	% met
		£000	£000	
Social Care & Health	(3,495)	(2,440)	1,055	69.8%
Children & Young People	(2,241)	(2,081)	160	92.9%
Communities & Place	(3,396)	(3,013)	383	88.7%
Monlife	(1,292)	(1,201)	91	93.0%
Chief Executives Unit	(104)	(104)	0	99.7%
Law & Governance	(157)	(137)	20	87.3%
Resources	(1,178)	(837)	341	71.0%
Corporate Costs & Levies	(433)	(433)	0	100.0%
Totals	(12,296)	(10,430)	2,050	83.3%

3.15 Eligible revenue costs of £3,621,000 have been met from capital receipts reserve funding through capitalisation direction. These costs are principally in the areas of service change and reform, digital approach to service delivery, and collaboration with other public sector bodies. A summary of these costs is shown at **Appendix 2**.

3.16 The 2024/25 budget includes the further use of capitalisation direction of £3,744,000, with the current medium term financial plan modelling a tapering down of this support which is budgeted to end in 2028/29.

3.17 **Robustness of budget forecasting during the year:**

Table 3: Budget forecasting at formal reporting periods

2023/24 Budget forecast in £000's	Total Deficit / (Surplus)	SCH	CYP	C&P	Monlife	RES	CEO	L&G	Other
Month 2	2,617	3,001	687	1,513	0	85	105	16	(2,790)
Month 4	124	2,830	331	959	(18)	(196)	(52)	120	(3,850)
Month 6	284	3,190	340	896	8	(178)	(49)	120	(4,043)
Month 9	314	3,631	411	1,001	8	(144)	(47)	151	(4,698)
Outturn	(1,701)	2,945	280	747	(209)	(380)	(186)	108	(5,006)

There has been far less variation in forecasting during 2023/24 compared to 2022/23, but there has still seen notable improvement in service positions during the year in all but one service. It has however been another difficult year to obtain any budget forecasting certainty:

- Unbudgeted grant notifications continue, but not to the same levels as previous years;
- £10.1m of budget savings being delivered upon;
- Services asked to engage in additional budget recovery action part way through the year;
- High inflationary environment prevalent throughout the year;
- Pay awards significantly above budget

4 School Balances

- 4.1 The 2023/24 financial year has culminated in a £5,161,000 draw on school's balances, resulting in the return to a cumulative deficit balance of £905,000 and with thirteen of thirty-three schools now holding deficit balances.
- 4.2 Schools continue to face significant budget pressures, 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 the overall costs of provision. Higher than budgeted pay awards have also impacted upon budgets.
- 4.3 The Authority continues to work closely with those schools of concern to aid in the return to a more sustainable budget plan over the medium term without impacting on educational standards. This will be informed by a wider review of school's budgets which will focus on the key financial issues impacting individual schools, and that will be considered as part of the next review and update of the MTFP.
- 4.4 Budget recovery plans are required to be put in place by all schools that move into deficit, and these will be closely monitored by officers and Cabinet.

Table 4: Movement in Schools balances

School Balances (Surplus) / Deficit	1 st April 2023	Draw upon Reserves	31 st March 2024
	£000's	£000's	£000's
Comprehensives	(1,259)	2,235	976
Middle	0	329	329
Primaries	(3,027)	1,885	(1,142)
Pupil referral service	31	711	742
Total	(4,256)	5,161	905

5 Capital budget

- 5.1 Capital expenditure totalled £65,176,000 for the year, with a net over spend of £485,000 reported. This is primarily due to calling upon the full in-built contingency within the revenue budget of £1,000,000 whereby additional eligible costs have been met under capitalisation direction. This has been offset by a lower than anticipated volume of vehicle replacement of £500,000.

- 5.2 All other variances totalled an under spend of £15,000.
- 5.3 **Capital slippage** – Capital schemes by nature are usually multi-year, and some slippage is to be expected as expenditure profiles change based on flex in project circumstances. A total of 107 capital schemes require slippage into 2024/25 totalling £28,605,000, representing 30% of the total budget for the year.
- 5.4 The economic environment during 2023/24 continued to have a significant impact on the overall capital programme with cost inflation and supply chain issues continuing to present a challenge to project delivery. The large number of schemes requiring slippage does however still point to more underlying issues in project planning, unrealistic profiling of budgets, and a lack of resourcing to manage the volume of schemes being planned.
- 5.5 Finance teams will need to continue to work with budget holders to assess if any further amendment to project delivery plans are required given the impact that capital expenditure progress can have on the profiling of capital financing costs.
- 5.6 **Capital receipts** – The table below outlines the latest forecast of capital receipts balances available to meet future capital commitments. Whilst the current balance is healthy, there remains a need for caution over committing any further receipts to either capital investment or increasing the level of capitalisation direction given the level of currently unbanked receipts contained within the forward projections.

Table 5: Capital receipts balances

Capital receipt balances	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	£000's	£000's	£000's	£000's	£000's	£000's
Balance as at 1st April	12,446	9,984	7,840	5,034	2,669	1,304
Capital receipts used for financing	(2,851)	(1,792)	(460)	(460)	(460)	(460)
Capital receipts used to support capitalisation direction	(3,008)	(3,358)	(3,008)	(2,008)	(1,008)	0
Capital receipts to meet redundancy costs	(613)	(387)				
Capital receipts Received	4,010					
Capital receipts Forecast	0	3,393	663	103	103	103
Forecast Balance as at 31st March	9,984	7,840	5,034	2,669	1,304	947

5.7 **Appendix 1** provides the detailed explanation of the reasons for the variance to budget, alongside a full assessment of the movement in School balances, and details of the progress of the Authority’s Capital programme during the year.

6 RESERVES POSITION

6.1 Key considerations

6.2 The original budget for 2023/24 was supported by £3,000,000 of reserve funding to mitigate the inflationary pressures being experienced, coupled with the related risk that pay awards would be higher than budgeted.

6.3 During the financial year Cabinet approved the use of a further £2,500,000 of reserves to mitigate the further unbudgeted cost pressures that were developing within services during the financial year.

6.4 The final outturn position has resulted in a reduced draw of £1,701,000 on this additional in-year approval, and can therefore be used to replenish reserves.

6.5 Proposed reserves replenishment:

- That £466,000 is added to the Council Fund to maintain the level at 5% of net revenue budget.
- That the remaining £1,235,000 is added to the invest to redesign reserve, of which £1,000,000 will be set aside as budget contingency for the 2024/25 budget.
- That any further reallocation of reserves is deferred until the medium-term financial strategy is adopted and that will outline the future financial framework and alignment to the Council’s Community & Corporate plan.

Table 6: Summary Reserves projection based on 2023/24 outturn and the latest financial modelling

Date	Earmarked Reserves £000’s	Council fund £000’s	Total £000’s
01-Apr-23	11,549	11,104	22,653
01-Apr-24	9,360	10,388	19,748
01-Apr-25	7,631	10,643	18,274
01-Apr-26	8,051	10,911	18,962

01-Apr-27	8,335	11,191	19,526
01-Apr-28	8,835	11,471	20,306

7 2024/25 revenue budget – early update

7.1 The first three months of 2024/25 has seen continuation of some of the financial headwinds which are having an impact upon the service operating environment:

- The cost of living challenges continue to have an impact on our communities, with a consequential need for additional Council services, and impact upon income generating services;
- Whilst headline inflation has fallen, some discrete areas of Council services continue to experience cost pressures on supplies and services, alongside supply chain issues.
- In continuing efforts to combat inflation, interest rates remain resolutely high, with revised forecasts suggesting that they will remain higher for longer than anticipated at the time of setting the budget;
- The Council continues to deal with a shortage of staff resources in some areas;
- The wider and longer lasting impact of the pandemic, both economically and socially, continues to impact the Council, particularly in the areas of Homelessness, Children’s services, Adult social care and Children’s additional learning needs.

7.2 Services are reporting early cost pressures of £873,000 in the following areas:

Service Area	Early budget pressure £000's	Explanation of variance
Waste	335	The 24/25 budget was based on the assumption that our polypropylene service would be fully operational from April. Due to the delays in vehicle delivery this has been put back until the early Autumn so our early year disposal costs will be higher than originally projected.
Homelessness	100	Shortfall in meeting the budget saving expected to be generated by using Severn View as homeless accommodation due to part year delay in occupation.

Decarbonisation	100	Corporate Mileage – Amendments are required to the current corporate travel and disbursement policy before savings plans can be fully implemented. Until these are made then there will be delays in the roll-out of the Pool car scheme and other initiatives.
Adults social care	338	The budget for 2024/25 was set at the number of care home placements as at the end of December 2023. We have since seen an increase of 10. This forecast comes with a high degree of uncertainty at this stage with numbers and the complexity of need regularly changing, however the general trend is currently upward.
Total	873	

7.3 Alongside the above early indications, there remain key specific budgetary risks that have the ability to further impact upon the revenue budget during 2024/25:

- **Pay award** – The current national employers pay offer of a flat rate increase of £1,290 would be largely in line with the budgeted increase for 2024/25. However the offer is currently under consultation with unions with the risk that any consequential increase in offer takes the award over budgeted levels.
- **Teacher’s pension** - 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, or allocation of funding does not meet full costs, presents a current budget risk.
- The **deliverability risk** of budget savings, especially where these involve the income generation, changes to structures, alternative delivery models or have implications for service design involving community or other partners. If the long-term average delivery rate of 85% is repeated, this would represent a further pressure of £1.4m.
- The trend of **reducing debt recovery**, particularly within Council tax where there is a significant increase in the number of discounts and exemptions awarded which has a negative impact on overall income. There is also a slowing down in collection rates as households continue to struggle with the cost of living crisis.
- **Schools reserves** – schools have budgeted for a further draw on reserves for 2024/25 of £5m. If this materialises it will take further number of schools into deficit and increase the cumulative schools reserve deficit being carried on the Council’s balance sheet. This consequently impacts upon the Council’s financial resilience and increases its risk exposure by reducing available balance sheet resources.

7.4 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, of which the Council's reserves are a key component. As a consequence, the final revenue budget proposals for 2024/25 did not include any use of reserves to meet recurrent revenue expenditure.

- 7.5 The delivery of a balanced budget position for 2024/25, alongside substantial budget recovery action within schools will be fundamental in maintaining financial stability. It is therefore essential that services maintain the same financial discipline that saw significant budget recovery in the second half of 2023/24.

8 RESOURCE IMPLICATIONS:

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

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

- 9.1 This report provides Members with information on the revenue and capital outturn position of the Authority and carries no decisions. There are therefore no equality of future generations' implications directly arising from this report.
- 9.2 Any such impacts will be fully considered subsequently when Council receives further budget proposals.

CONSULTEES:

Senior Leadership Team
Performance & Overview Scrutiny Committee
Cabinet

BACKGROUND PAPERS:

Appendix 1 – Revenue and capital outturn report including school budgets
Appendix 2 – Capitalisation directive schedule
Appendix 3 – Movement in individual school balances
Appendix 4 – Capital slippage schedule

Appendix 5 – Capital budget revisions requiring Cabinet approval

AUTHORS:

Jonathan Davies, Head of Finance (Deputy S151 officer)

CONTACT DETAILS:

Tel: (01633) 644114

E-mail: jonathandavies2@monmouthshire.gov.uk