

Report of:	Councillor Barrie Cooper - Executive Member for Environment and Finance & Governance Ian Wright - Director of Finance
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Submitted to:	Overview & Scrutiny Board - 22 February 2022
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Subject:	Revenue and Capital Budget - Projected Outturn position as at Quarter Three 2021/22
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Summary

Proposed decision(s)

- That OSB notes the 2021/22 revenue budget Quarter Three total projected outturn of £5.046m, representing a £3.225m (2.8%) overspend on non-Covid-19 elements, and the estimated financial effect of Covid-19 in 2021/22 of £1.821m, and the proposed actions to address this.
- That OSB notes the proposed use of the following Reserves to fund the total projected overspend of £5.046m in 2021/22 :
 - Social Care Demand Reserve (£0.5m)
 - Children’s Services Demand Reserve (£0.732m)
 - Covid Recovery Reserve (£3.814m)
- That OSB notes the implementation of the Flexible Use of Capital Receipts Strategy approved by Council on 20 October 2021, and that the projected amount of £4.9m arising from the implementation of the Strategy will be transferred to a Reserve at year-end.
- That OSB the revenue budget virements over £150,000 (Appendix 1), as approved by Executive on 14 February 2022.
- That OSB notes the 2021/22 capital budget Quarter Three predicted outturn of £59.035m against a budget of £64.814m, and the revised Investment Strategy to 2023/24 at Appendix 2, as approved by Executive on 14 February 2022.

Report for:	Key decision:	Confidential:	Is the report urgent?
Noting	NA	No	No

Contribution to delivery of the 2021-24 Strategic Plan		
People	Place	Business
Quarterly monitoring, review and action planning plays a central role in ensuring that the Strategic Plan is delivered effectively.		

Ward(s) affected
None.

What is the purpose of this report?

1. This report advises OSB of the Council's financial position at Quarter Three 2021/22, including the projected effect of Covid-19 on the Council's finances.

Why does this report require a member decision?

2. The Council's Scheme of Delegation gives OSB collective responsibility for monitoring corporate strategic performance and financial management / monitoring, together with associated action.
3. This report provides the necessary information to enable OSB to discharge its financial monitoring responsibilities, setting out:
 - projected revenue and capital budget outturns as at Quarter Three 2021/22;
 - position statements in relation to the Council's borrowing and prudential indicators, and its reserves and provisions; and
 - actions that the Council has taken and plans to address the issues raised.
4. Standing Orders and Financial Procedures require the Executive's approval of the revenue budget virements over £150,000. Those approved by the Executive on 14 February 2022 are detailed at Appendix 1.
5. A revised Investment Strategy for the period to 2023/24 is attached at Appendix 2, as approved by the Executive on 14 February 2022.

Report Background

Revenue Budget Quarter Three Projected Outturn 2021/22

6. As reported in previous reports, the Covid-19 pandemic is continuing to have a significant impact on the Council's financial position. This has made the management of the Council's finances more difficult due to the constantly evolving situation and also the level of uncertainty regarding the financial effects of Covid-19 in 2021/22 and future years. Covid-19 financial pressures are being monitored separately from the normal non-Covid-19 financial position, and these are reported separately in paragraphs 66 to 95 below.
7. The 2021/22 Revenue budget for the Council is £116,492,035. During Quarter One there were a number of transfers of services between Directorates due to managerial changes, and the financial position is reported against the new Directorate budgets. The Council's outturn position for 2021/22 for non-Covid-19 elements is projected to be an overspend of £3.225m (2.8%). The split by Directorate is shown in the table below, with the Quarter Two position also included for information :

Directorate	2021/22 Full Year Budget £'000s	2021/22 Q3 Projected Outturn (excluding £'000s)	2021/22 Q3 Projected Over / (under) spend (excluding Covid-19) £'000s	FOR INFORMATION Q2 Projected Over / (under) spend (excluding Covid-19) £'000s
Regeneration and Culture	3,464	2,566	(898)	(885)
Environment and Community Services	18,779	20,450	1,671	1,217
Public Health	(2,820)	(3,343)	(523)	(409)
Adult Social Care	41,336	41,271	(65)	107
Total - Adult Social Care and Health Integration	38,516	37,928	(588)	(302)
Education & Partnerships	480	(35)	(515)	94
Children's Care *	38,209	47,152	8,943	7,885
Total - Children's Services	38,688	47,116	8,428	7,979
Legal and Governance Services	9,423	9,472	49	147
Finance	33	(1,248)	(1,281)	(1,219)
Central Budgets **	7,588	3,432	(4,156)	(4,332)
Revenue Outturn	116,492	119,717	3,225	2,605

Note

* Children's Care includes an estimated £2.5m of transformation and improvement costs, which will be funded from Flexible Use of Capital Receipts at year-end (see paragraphs 10 and 96 to 98 for further details)

** Central Budgets includes an estimated £1.8m of transformation and improvement costs, which will be funded from Flexible Use of Capital Receipts at year-end (see paragraphs 10 and 96 to 98 for further details)

8. This when added to the estimated Covid-19 pressures of £1.821m detailed in paragraphs 66 to 95 results in a total projected outturn pressure at year-end 2021/22 of £5.046m, an increase of £0.891m from the position reported at Quarter Two.
9. It is proposed that the total projected overspend in 2021/22 will be covered by the full utilisation of the Social Care Demand Reserve of £0.5m and the Children's Services Demand Reserve of £0.732m, which were created at the end of 2020/21. It is proposed that the remaining £3.814m of the total projected outturn pressure is funded from the £4.512m Covid Recovery Reserve, which was created during 2020/21 to cover the potential costs arising from the Covid-19 recovery in 2021/22 and future years.
10. The financial position of the Council is further improved by the use of the Flexible Use of Capital Receipts Strategy, which was approved by Full Council on 20 October 2021. Full details are provided in paragraphs 96 to 98, with the impact of this being that the Council's financial position will potentially be improved by an estimated £4.9m at year-end. As the Covid and non-Covid pressures have already been funded by reserves as outlined above, it is proposed that this will be transferred to a Reserve at year-end to help support the significant and continued transformation work taking place within the Council, principally within Children's Services, which will deliver improvement and efficiencies. Currently no entries have been made in the Council's accounts for this, and therefore the projected outturns detailed in the table in paragraph 7 above have not been amended for these. Any adjustments to the

Council's accounts to comply with the Local Authority Accounting Code of Practice will be made at year-end when figures for each project are finalised. Further details of this are provided in the separate section of the report (paragraphs 96 to 98).

11. The level of Reserves remaining after the use and creation of these Reserves is shown in the Reserves and Provisions Section of this report (paragraphs 133 and 134) and in Appendix 3.

Progress against budget savings

12. £1.9m of additional budget efficiency savings were approved by Council on 24 February 2021 as part of the 2021/22 budget setting. There were also approximately £1m of savings approved in previous years relating to 2021/22.
13. As reported previously at Quarters One and Two it has not been possible to achieve one of the budget savings due to Covid-19 and this is detailed in paragraph 82 below.
14. In addition, as reported at Quarters One and Two there are £1,094,000 of planned Digital project savings and a £180,000 saving to reduce staff mileage rates across the Council, which are likely to not be fully achieved in 2021/22, due to delays in implementing the projects partly caused by the effects of Covid-19. These savings were approved in previous years and are part of the budget set for 2021/22. These savings have been allocated to Directorates. A total of £265,000 of the Digital project and mileage savings are projected to be achieved in 2021/22. The remaining £1,009,000 of the savings required will be fully covered by temporary one-off efficiency savings for 2021/22 that have been proposed by Directorates. These savings do not have a material effect on service delivery, and include the following main areas:
 - Keeping posts vacant / delaying recruitment to vacant posts
 - Further reducing the use of agency staff within Children's Care
 - Reducing discretionary supplies and services and exam and courses fees expenditure
 - Reviewing the amounts charged to grants in line with grant conditions
 - Maximising the amounts that are charged to corporate Ofsted Improvement Fund and Change Fund funding within Children's Services
 - Utilising surpluses held in joint arrangements budgets
 - Savings arising from predicted reduced demand for services during 2021/22 following further analysis
 - Deferring expenditure relating to Streetworks permit set up costs until 2022/23, where they can be covered by income to be received
 - Utilising up to £233,000 of the Adult Social Care Recovery Reserve, which was created at year end 2020/21 for the potential effects of increased service demand, as it is currently predicted that the full amount will no longer be required
15. The above temporary one-off efficiency savings for 2021/22 will mean that there is no financial effect on the projected outturns for Directorates in 2021/22 due to the unachieved Digital and mileage savings.
16. It should be noted that it is expected that the full amount of savings relating to Digital will be fully achieved from 1 April 2022 as per the original intended methods.

17. As reported in the MTFP Update Report to Council on 24 November 2021, in light of the recovery from Covid-19 and the potential effect on staff the £180,000 saving related to “reducing staff mileage rates across the Council” has been removed from the MTFP from 2022/23.

Directorate variances

18. The detail of the variances contained in the table in paragraph 7 are set out below. At Quarter Three, 24 areas are projected to be spent +/- £150,000 of the agreed budget. Where appropriate, the on-going effects of variances will be considered as part of future updates of the Council's Medium Term Financial Plan.

Regeneration and Culture

19. As reported at Quarters One and Two, car parking income is projected to be below budget in 2021/22 due to the effects of Covid-19 lockdown and the recovery period throughout the rest of the year following the removal of lockdown restrictions. The pressure arising from this in 2021/22 is shown in the Covid-19 Reduction of Income section of the report (paragraphs 78 to 81).
20. Grant income of £850,000 is predicted to be received from the Tees Valley Combined Authority (TVCA) in 2021/22 for the provision of 2 to 3 hour free parking across the Tees Valley. £68,000 of the TVCA grant relating to the Captain Cook Car Park, where the Council provides 3 hour free parking, has been used, as per the scheme guidance, to mitigate the effects of the lost income for the first quarter of 2021/22 reported under the Covid-19 Sales, Fees and Charges lost income scheme.

Environment and Community Services

- Property Services

21. The Property Services budget is currently projected to be overspent by £991,000 at year-end, an increase of £380,000 from the £611,000 projected overspend that was reported at Quarter Two.
22. Within this budget there is an anticipated pressure against the Running Costs budget of £455,000, primarily due to the rising costs of energy. This a significant increase of £305,000 from that reported at Quarter Two, due to a major rise in prices in November 2021. This is subject to further change and the final pressure at year-end will be funded from the Central Pay and Prices Contingency budget, and provision for this has built into the updated MTFP presented to Executive on 14 February 2022.
23. A pressure totalling £269,000 is projected on the Bereavement Services budget, mainly relating to a shortfall in income due to a decrease in the number of cremations following the opening of a crematorium in Stockton. This is an increase from the £200,000 reported at Quarter Two. The ongoing effects of this have been provided for in the updated MTFP presented to Executive on 14 February 2022.
24. The predicted overspend of £170,000 reported at Quarter Two against the Integrated Transport Unit budget has now decreased substantially to a current projected overspend of £50,000, due to the receipt of unbudgeted one-off grant income.

25. In addition, there are a number of budget areas within Property Services which have variances below £150,000, and these account for the overall £991,000 total projected overspend on the Property Services budget.

- *Environment Services*

26. The Environment Services budget is currently showing an anticipated pressure totalling £642,000, a minor decrease from that reported at Quarter Two.

27. The pressure is mainly as a result of the need to secure an alternative contractor to process kerbside recycling material following the previous contractor entering into administration. Currently, the increased cost is predicted to be £500,000 in this financial year. The final pressure at year-end will be funded from the Central Pay and Prices Contingency budget. Following the tender process a new contractor has been appointed effective from 1 April 2022, and this will mean that this pressure will no longer exist from 2022/23 onwards, and there will also be a projected saving of £180,000 on the current budget. The current MTFP has been updated accordingly to reflect this from 2022/23 onwards.

28. There are also a number of other pressures within the Environment Service below £150,000, including Catering (£30,000) due to the rising cost of food & drink supplies, Pest Control (£62,000) due to an income shortfall, and Waste Collection (£117,000) due mainly to an income shortfall following the temporary introduction of free junk jobs. These pressures have been partially offset by salary savings elsewhere within the Service.

- *Transport, Fleet & Highways Service*

29. The Transport, Fleet & Highways Service budget is expected to produce an overall pressure of £96,000 at year-end. This is primarily due to an anticipated overspend of £132,000 within Fleet Management as a result of the rising cost of fuel and materials associated with vehicle repairs.

Public Health

30. There are projected savings on Public Health budgets totalling £523,000, with £244,000 of the projected savings being due to reduced activity for some demand led services, such as Stop Smoking, NHS Healthcheck programme, rehabilitation, and prescribing costs as a result of Covid-19, and the remainder being due to staff and supplies and services savings.

Adult Social Care

31. There are projected staff savings across the Service totalling £600,000 mainly due to staff turnover and delayed recruitment to vacancies. Similar to Children's Care (as detailed in paragraph 49), there are emerging difficulties within Adult Social Care relating to the recruitment of permanent social work staff, and the Service are having to consider recruiting agency staff to fill vacant posts.

32. The first three quarters of 2021/22 have seen a net growth in purchased care costs (mainly residential care) of £1,333,000, with further growth of £150,000 forecast to the year-end. It should be noted that this forecast could vary significantly as Covid-19

restrictions ease and overdue reviews of care packages are undertaken during the remainder of the financial year. This pressure is offset by a corresponding increase in service user's contributions to care of £500,000 in excess of budgeted income. Other projected savings of £411,000, including additional health income and reductions in the cost of some care packages, are predicted to reduce the total overall pressure on the purchasing budget to £572,000.

33. In addition, there are a number of budget areas within Adult Social Care which have variances below £150,000, and these account for the overall £65,000 total projected underspend on the Adult Social Care budget.

Education & Partnerships

34. There is a projected overspend of £27,000 on the Education Services budget, mainly due to reduced income from lower take up of services at Children's Centres and Nurseries following the end of Covid-19 lockdown.
35. There is also a projected saving of £542,000 at year-end relating to school contributions to capital schemes, as contributions were funded from other sources, thereby creating a revenue saving.
36. For information, the Council received £160.3m (before deductions and recoupment) of Dedicated Schools Grant (DSG) for 2021/22. The funding comprises of a number of blocks - Schools Block, Central School Services Block, High Needs Block, and Early Years Block. A large proportion of the Schools Block is passported directly to academies (known as recoupment).
37. There was a £3.3m deficit on the DSG grant at the end of 2020/21, of which £3.9m was attributed to the High Needs Block. A total DSG deficit of £4.3m is currently projected for the end of 2021/22. The Council currently has to account for such DSG deficits separate from its own finances, and cannot use its General Fund to clear the deficit. However, this only lasts until the end of March 2023 and therefore there is uncertainty around this in the future and a risk that after March 2023 the Council may have to provide for the DSG deficit. This risk is accounted for in the determination of the General Fund Reserve included as part of the Revenue Budget, Council Tax, MTFP and Capital Strategy 2022/23 Report presented to Executive on 14 February 2022 and to be presented for approval by Council on 23 February 2022.
38. The increasing pressure in DSG and in particular the High Needs Block is due to the fact that alongside social care, the service is predicting an increase in more complex placements with a forecast increase in Education, Health and Care plans (EHCPs) in the future. The Government have partly recognised this by an increase in funding allocated in the latest finance settlement for 2022/23 for both Schools and High Needs Blocks.

Children's Care

39. The projected overspend on the Children's Care budget has increased by £1,058,000 from that reported at Quarter Two to a projected overspend of £8,943,000 as at Quarter Three. The split of the projected overspend between the individual budgets within Children's Care and the changes from the Quarter Two reported position are detailed in the paragraphs below.

40. A proportion of the projected overspend is linked to transformation and improvement within Children's Services which is part of as the Flexible Use of Capital Receipts Strategy detailed in paragraphs 96 to 98.
41. The external residential agency placements budget is currently projected to be £2,913,000 (30%) overspent at year-end. This is an increase of £431,000 from the Quarter Two projection, mainly due to price increases within the market generally and new placements initially being made at a higher cost whilst reduced cost long-term permanent placements are sought. The number of external residential placements has significantly reduced to 48 at the end of Quarter Three from 65 at the end of 2020/21, due to various initiatives introduced such as the Innovate Team, the Futures for Families Programme, and Daniel Court. It should be noted that whilst the number of placements has decreased significantly, there has however been increased costs for some of the remaining placements due to the complex nature of the remaining young people.
42. It should be noted that this increase should not affect the on-going plan to reduce Children's Care expenditure in future years, as a large proportion of the current increased cost is short-term in nature whilst reduced cost long-term permanent placements are being finalised, and also some of the young people involved will turn 18 years old soon and therefore should not result in any further cost to the Children's Care budget. The reduction in numbers of children in external placements is on track with that as per the action plan. In addition, Phase 2 of the Innovate programme has started, but it will take time to fully progress the placement moves of the complex young people and achieve further financial savings.
43. As mentioned at Quarter Two, further work led by the Directors within Children's Services has been undertaken to review all the young people in Residential Agency Placements and ensure that appropriate levels of funding are received from both the Clinical Commissioning Group (CCG) for Health and from Dedicated Schools Grant (DSG) for Education contributions. Due to the fact that the complexity of the Council's young people has increased along with the average placement costs, the Health and Education contributions should therefore also increase appropriately. The projected outturn for the external residential placements budget includes increased Education contributions to placements, some paid direct to providers, estimated at £760,000 for 2021/22. There is however a significant backlog of processing Education Health Care Plans and therefore this figure may increase further, and this could improve the position in the remainder of the year, and this will be reported as part of the 2021/22 Year-End Outturn report.
44. The above has however been partly offset by projected additional income from the CCG of £220,000 (18%) above the budget for the contribution from Health towards the increased cost of placements due to the complex needs of the young people. This is unchanged from that reported at Quarter Two.
45. The in-house fostering services budget is currently projected to be £1,002,000 (34%) overspent at year-end, broadly similar to the Quarter Two projection. There has been an increased number of placements/cases by 5 from the start of the year (from 164 to 169 currently). An increase in this budget should be positive as a whole as the cost per child is less expensive than other demand budgets, and the Service are working to further increase capacity over the next few years.

46. The Independent Fostering Agency (IFA) placements budget is projected to be £1,260,000 (24%) overspent at year-end, an increase of £70,000 from that reported at Quarter Two. The number of placements / cases has reduced to be currently at 153, but this is still significantly above the budget. Whilst capacity has been maximised within the internal in-house fostering service, an overspend will still exist on this budget to ensure that higher cost external residential placements are minimised. Without the increase in places in in-house fostering provision, the Independent Fostering Agency budget pressure would have increased significantly more than it has.
47. There is a projected overspend on the Family and Friends Allowances budget of £756,000 (33%), which is a slight increase from the projected overspend of £718,000 reported at Quarter Two, but still a significant reduction from that reported at Quarter One. It should be noted that demand on this budget is expected to continue to grow over the next few years as the Council continue to improve outcomes for Middlesbrough young people and make improvements to services. The costs associated with payments made under this budget are however significantly lower than those in other budgets, such as those in external residential agency placements or Independent Fostering Agency (IFA) placements. A working group is continuing to investigate processes and payments, and there is a plan to increase benefit claim checks in order to attempt to mitigate this pressure.
48. There is currently a predicted overspend of £1,815,000 (32%) on the Safeguarding, Care Planning and Referral and Assessment teams budget, which is a substantial total increase across these budgets of £403,000 from that reported at Quarter Two. This is predominantly due to increased Professional and Legal costs (including parenting assessments and substance testing) that have increased by £166,000 to support improved pre-court proceeding works to reduce the risk of young people going into care into higher cost placements. The Council have received significantly improved feedback from courts relating to this work and this has helped to support improving relations with courts. Section 17 payments, to support emergency support for young people and their families has increased by £78,000. The Service is working with Finance to analyse the costs further to evaluate value for money of these, and to determine if some of this cost is required to be included ongoing as part of longer term strategy to reduce/avoid higher Children Looked After costs.
49. As detailed at Quarter Two staff agency costs in 2021/22 to cover sickness and vacant posts are a major element of the pressure on the Safeguarding, Care Planning and Referral and Assessment teams budget, and there has been an increase in costs of £170,000 from that predicted at Quarter Two due to the fact that agency staff levels have not reduced by as much as previously projected. It remains a challenge to recruit and retain social workers, and a strategy for this is included within the Ofsted Improvement Plan, and supported by the Council's management team. The recruitment of permanent social work staff is a major challenge to the Council, with the continued reliance on the use of significant levels of agency staff being a significant risk to the long-term finances of the Council.
50. The projected overspend on the Review and Development budget is £324,000, similar to that reported at Quarter Two. The pressure on this budget is due to increased staffing costs to support the reduction in caseloads of social workers to more manageable levels, and the recruitment of agency staff to fill vacant posts due to challenges in recruiting to social worker positions across Children's Services.

51. Children Looked After teams are projecting a £445,000 (18%) overspend at year-end, a slight increase from that reported at Quarter Two. Similar to Safeguarding, Care Planning and Referral and Assessment teams budget, this is mainly due to agency staffing costs to fill vacancies and cover absences, and to support the Ofsted Improvement Plan. As stated in paragraph 49 the reliance on agency staff, is a significant risk to the Council in the medium to longer term.
52. There is a projected pressure of £388,000 (34%) on the Adoption Services budget. This is an increase of £244,000 from Quarter Two due to an increase in the projected costs from the Tees Valley Adoption Agency for inter-agency fee payments for 2021/22. This is however having a positive effect, as there have been 19 adoption orders completed in the year and there are also 38 other additional placement orders, of which 22 are awaiting adoption orders over the coming months.
53. The Internal Residential Services budget is currently projecting an overspend of £131,000 (5%) at year-end, a decrease of £167,000 from the £298,000 reported at Quarter Two, due to lower staffing costs than predicted at Quarter Two caused by delays in filling beds within internal provision. There have been pressures on staffing costs throughout the year as there has been a need to recruit agency staff due to challenges in recruiting permanent staff.
54. It should be noted that the pressures reported on the Directorate's management budgets in previous years have now been removed following senior staff moving from agency contracts to permanent contracts.

Legal and Governance Services

55. As reported at previous quarters there is an overspend expected against the budget for Middlesbrough's contribution to the Coroners Service, currently projected by £171,000. This is due to a rise in the number of cases, and also an increase in pathology and post-mortem costs. This overspend has been partially offset by savings within other areas of the Directorate.

Finance

56. As reported at Quarters One and Two continued successful lettings at Tees Advanced Manufacturing Park (TAMP) have resulted in unbudgeted net additional revenue income, currently estimated to be £339,000. This is reported under the Commercial Rents income budget which, following the inclusion of the additional income from TAMP, is projecting an overall surplus of £26,000 at year-end. There is also a predicted underspend on the Valuation budget of £115,000 due to an increase in valuation fees income from work undertaken.
57. There is additional unbudgeted income of £500,000 estimated to be received by year-end, due to rental income from the recent purchase of the Captain Cook Shopping Centre. This is unchanged from that reported at Quarter Two.
58. The Revenues and Benefits budget is currently projected to be underspent by £452,000 at year-end, an increase in underspend of £27,000 from that reported at Quarter Two. This underspend is mainly due to an increase in unbudgeted new burdens grant funding from the Government for additional work arising from the

distribution of Covid-19 grants to business and individuals. It should be noted that the Service is actively trying to recruit staff, however there is a lack of people with the available skills in the market. The underspend assumes the carry forward of £240,000 of resources into 2022/23 to help support the staffing requirements within the Service.

59. As reported at Quarter Two, there is a projected pressure of £100,000 on the Insurance budget for Middlesbrough's contribution to the potential cost of historic claims relating to Cleveland County Council.
60. In addition, there are a number of budget areas within Finance which have variances below £150,000, and these account for the overall £1,281,000 total projected underspend on the Finance budget.

Central Budgets

61. As part of the budget for 2021/22 approved by Council on 24 February 2021 a central contingency budget of £3m was created in 2021/22 only, to provide for the potential continuing effect of Covid-19 and recovery in 2021/22 above the funding provided by the Government. Pressures have been reported against individual Directorates and within the Covid-19 costs, and therefore the £3m is reported as a projected saving in Central Budgets.
62. The central contingency budget for Pay and Prices is currently projected to underspend by £931,000 at year-end based on the current expected calls on the budget during 2021/22. However, this may change dependant on the outcome of the final settlement of the local government pay award for 2021/22 for which 2% (equating to £1.8m) has been provided in 2021/22, and where negotiations between employers and the trade unions are still continuing, and also if any other calls on the budget come to light for the remainder of the year. It should also be noted that it is expected that the pressures currently reported within Environment and Community Services relating to Kerbside Recycling and Energy will be funded from the Pay & Prices budget by year-end. This budget will be closely monitored and updates will be provided in future reports.
63. The Capital Financing budget is currently projected to be overspent by £81,000 at year-end, which is a change of £171,000 from that reported at Quarter Two. The increase relates to a review of asset lives as part of the calculation of minimum revenue provision for the year, plus some amendments to long-term debtor repayments.
64. There is predicted rental income of £307,000 above the budget for Centre Square Buildings 1 and 2 following the successful lettings of these buildings, this is broadly similar to that reported at Quarter Two. However, there are non-rent pressures of £68,000 predicted in 2021/22 relating to business rates and service charges for Centre Square Buildings 1 and 2, which the Council will have to incur in 2021/22 whilst tenants are not in place. The total net excess rental income on Centre Square Buildings 1 and 2 is therefore currently projected to be £239,000 in 2021/22, based on confirmed tenants for the buildings. Tenants who have signed contracts but have not yet occupied the buildings will do so throughout the remainder of the financial year following fit out of the buildings.

65. There is a potential £183,000 saving on the remaining £322,000 ongoing contingency pressures budget in 2021/22, due to Legal Services not requiring all the available funding in 2021/22 allocated for increased childcare cases demand. This budget will be fully utilised in 2022/23.

Covid-19

66. As reported during 2020/21 in the quarterly budget monitoring and year-end reports and the Medium Term Financial Plan Update and Budget reports to Executive and Council and in the 2021/22 Quarters One and Two budget monitoring reports to Executive, the Covid-19 pandemic has had and will continue to have a significant impact on the financial position of all local authorities, including Middlesbrough. The ongoing pandemic has continued in Quarter Three and continues to pose a number of challenges and uncertainties for local authorities going forwards. Whilst the service and financial risk is not fully known and it could be potentially be severe for the country and local government sector, the Council is well prepared for these risks as part of its financial planning over the medium term.
67. The paragraphs below provide an update of the position as at Quarter Three 2021/22 detailing the current estimated costs of Covid-19 and the grant funding provided by the Government in 2021/22. The table contained in paragraph 92 summarises the overall projected financial position for 2021/22, along with a breakdown of the funding split between the Government grant funding and the Council. It should be noted that this is a constantly changing position and therefore estimates are subject to change, and are dependent on any potential further outbreaks and the impact of any potential further local and/or national lockdowns which currently are not expected to occur but will further increase the Covid-19 costs if they occur.

Government funding

68. As reported previously the financial impact of Covid-19 on local authorities has been recognised by the government and they have responded by making a number of announcements about supporting local authorities financially.
69. The Revenue Budget, Council Tax, Medium Term Financial Plan and Capital Strategy 2021/22 report to Council on 24 February 2021 detailed the funding likely to be available to Middlesbrough in 2021/22 relating to the Covid-19 pandemic. This is summarised below:
- Covid-19 Expenditure Pressure Grant, which provides general support funding totalling £5.310m for 2021/22.
 - Sales, fees and charges (SFC) – the SFC compensation scheme for lost income is to be continued for the first three months of 2021/22, using 2020/21 budgeted income as the baseline. It is currently estimated that Middlesbrough will receive funding of approximately £733,000 in 2021/22 from the scheme. It should be noted that the SFC scheme does not cover commercial income lost from investment activities and rental income.
 - A further allocation of Contain Outbreak Management Fund (COMF) funding of £1.370m in 2021/22 to provide funding to local authorities to support public health activities, such as local enforcement and contact tracing.

- Local Tax Income Guarantee – the Government also confirmed that Government funding would be provided to compensate councils for an element of the Collection Fund deficit, based on a methodology which was provided to councils that 75% of any losses below a pre-determined level would be funded. However, due to improved collection rates later in 2020/21, under the method of the calculation Middlesbrough Council will not qualify for any compensation funding from this in 2021/22.
- Local Council Tax Support Grant – The allocation for Middlesbrough is £2.592m in 2021/22. In the Revenue Budget, Council Tax, Medium Term Financial Plan and Capital Strategy 2021/22 report to Council on 24 February 2021 it was approved that this funding would be used over the MTFP period to mitigate pressures on the council tax base.

Costs

70. It is currently estimated that there will be approximately £4.7m of additional costs associated with Covid-19 in 2021/22 and these cover a wide range of areas and services. It should be noted that this is a constantly changing position and therefore estimates are subject to change, and are dependent on any potential further outbreaks and the impact of any potential further local and/or national lockdowns which currently are not expected to occur but will further increase the Covid-19 costs if they occur.
71. Adult Social Care – there are total projected additional costs of approximately £0.4m, mainly due to the additional staffing that is required in Social Care to deal with the effects of the Covid-19 recovery on services provided.
72. Children’s Social Care Costs – there are currently estimated to be approximately £1.9m of total additional costs within Children’s Social Care, mainly due to delays in placements of children (approximately £0.2m) and increased staffing and agency staffing costs (approximately £1.5m) to deal with an increased number of cases and case backlogs caused by Covid-19. There is also some emerging evidence that following the end of restrictions there may be further increases in numbers of children requiring support, but these are currently not known and will be updated in future reports.
73. Other expenditure relating to Children’s Services is predicted, in particular around Legal Childcare case backlogs (estimated to be £0.03m) and costs within Education & Partnerships (estimated to total £0.4m) which mainly relate to additional Education Psychologists that are required to provide additional capacity for mental health support to young people and various additional costs relating to early years support.
74. Environment and Community Services – there are projected total additional costs estimated to be approximately £0.4m for a wide range of areas, including estimated increased costs of £0.1m relating to increased costs of waste collection and disposal due to increased tonnages of waste.
75. Direct Covid-19 Costs - a number of direct costs associated with the current situation are predicted in 2021/22, such as the procurement of various expenditure within marketing and communications relating to additional signage and leaflets in order to provide messages to the public relating to the Covid-19 pandemic (currently

estimated to be £0.07m), and other costs of approximately £0.1m relating to the storage of Personal Protective Equipment (PPE). There has also been increased payments to providers of Bed & Breakfast accommodation, estimated to be £0.04m, due to the requirements to house people during the Covid-19 pandemic.

76. Other Covid-19 costs –Additional staff costs of approximately £0.12m are estimated within Legal Services due to the need to recruit agency staff to help with backlogs in cases and difficulties in recruiting permanent staff caused by the Covid-19 pandemic. Additional staff costs of approximately £0.11m are predicted within HR for additional counselling and Health and Wellbeing services for staff following the Covid-19 pandemic. There is also additional IT expenditure for additional equipment and licences, currently estimated to be approximately £0.075m.
77. SLM Leisure Trust – As detailed in 2020/21 in previous quarterly and year-end reports and in the Quarters One and Two budget monitoring reports, significant payments have been made to SLM, the Council's provider of leisure facilities. Following the reopening of leisure facilities SLM have not been able to operate to their normal subsidy, with the effects of a restricted operation following the end of lockdown restrictions and the post Covid-19 recovery period impacting on their current levels of income. It is currently estimated that payments to SLM will total approximately £901,000 in 2021/22. The Department of Culture, Media and Sport (DCMS) announced the "National Leisure Recovery Fund" to which the Council were awarded a grant of £305,542. £164,473 of the grant was utilised in 2020/21 and therefore £141,069 of grant is remaining for use in 2021/22 to offset any payments to be made to SLM, meaning that currently there is predicted to be a net pressure of approximately £760,000 in 2021/22. This is a slight increase of £29,000 on the position reported at Quarter Two following confirmation of estimated figures. Detailed discussions are currently taking place with SLM in order to reduce as far as possible the financial pressure to the Council in 2021/22 and any potential pressures in future years, and updates will be provided in future reports regarding this.

Reduction in income

78. The impact of the lockdown and closure of facilities and services and the recovery period following the end of restrictions has resulted in for the first three quarters of 2021/22 and will result in for the rest of 2021/22, a loss of income across a broad range of areas. The following list shows the main areas and the estimated loss for each main area in 2021/22:
- Car Parking (£1.2m)
 - Cultural activities (Town Hall, Middlesbrough Theatre, Museums, Newham Grange Country Park, Parks) (£0.4m)
 - Catering income from schools (£0.2m)
 - Adult Social Care - In house day centre care provision (£0.4m)
 - Libraries and Community Hubs – room hire, book sales, and fines (£0.1m)
 - Council run Nurseries (£0.2m)
 - Bus station – departure charges and loss of income from toilets (£0.1m)
 - Capital Finance – Rent and Interest (£0.1m)
 - SLM – expected loss of profit share in 2021/22 (£0.2m)

79. The overall pressure due to a reduction of income will be linked to the recovery of Council services, and in some areas economic activity, and it is currently estimated to total approximately £3.1m in 2021/22 which is an increase on the £2.9m reported at Quarter Two due to the further restrictions that occurred in Quarter Three.
80. As mentioned in paragraph 69 it is currently estimated that the Council will receive approximately £0.7m from the SFC scheme in 2021/22.
81. Provision has made in the updated MTFP presented to Executive on 14 February 2022 for the future potential ongoing effects of Covid-19 on income in a number of areas mentioned above.

Unachievable savings

82. It has not been possible to fully achieve a budget saving of £313,000 relating to a review of cleaning, caretaking, security and facilities management (ECS02), due to the inability to reduce cleaning hours and standards and additional cleaning required because of Covid-19. It is currently projected that £82,000 of the saving is at risk of not being achieved, and it is proposed that this be charged to Covid-19 costs in 2021/22.

Council Tax and Business Rates Income

83. Income from Council Tax and Business Rates (NNDR) is accounted for within the Collection Fund. Because of the way that this works in relation to the General Fund, the financial impact of any reduction in income does not immediately affect this year's financial position, it is effectively a shortfall to be resolved next year and will need to be reflected in an updated Budget and Medium Term Financial Plan (MTFP) at the appropriate time.
84. During 2020/21, there were a number of issues, which resulted in significant pressures on Council Tax and Business Rates income. Within the Revenue Budget, Council Tax, Medium Term Financial Plan and Capital Strategy 2021/22 report to Council on 24 February 2021 it was noted that the overall financial impact of Covid-19 on Council Tax and Business Rates income to the Council in 2020/21 was estimated to be £3.696m. It is normal practice that any arising deficit would need to be fully funded in 2021/22. However, the Government announced that this could be spread over the next three years meaning that it was estimated that there would be an effect of £1.232m p.a. in 2021/22, 2022/23, and 2023/24. The final outturn positions for Council Tax and Business Rates were much improved from the statutory amounts incorporated into the budget setting in February 2021 by approximately £0.4m per year over the 3-year spread period to 2023/24. The improved amounts have been incorporated into the latest refresh of the Council's Medium Term Financial Plan presented to Executive on 14 February 2022.
85. As mentioned in paragraph 69 Government funding was provided to compensate councils for an element of the 2020/21 deficit, based on a methodology that was provided to councils that 75% of any losses below a pre-determined level would be funded. However, due to improved collection rates later in 2020/21, under the method of the calculation Middlesbrough Council will not qualify for any compensation funding from this in 2021/22.

86. Whilst full final complete information is not yet available this financial year it is already clear that there are a number of issues which may result in pressures continuing on Council Tax and Business Rates income during 2021/22 and potentially in future years, and appropriate provision has been made in the updated MTFP for this.
87. The phasing out of the furloughing scheme from the start of July 2021 and the closing of it at the end of September 2021 may mean that there are a number of residents who will struggle to pay their Council Tax bills in the future. This may mean that there will be an increase in people claiming Local Council Tax Support (LCTS) as the economic impact of the pandemic increases the number of households eligible for LCTS support. This will lead to a reduction in the overall amount of Council Tax assessed/collected compared to the level budgeted. This will be closely monitored through 2021/22 and future years.
88. Our budgeted Council Tax base includes assumptions on housing growth. If there is reduced growth in housing numbers, this will impact on income levels.
89. The Government provided support for businesses through increased business rates reliefs and grants in 2020/21. These largely remained in place during the first quarter of 2021/22 but have reduced throughout the remainder of 2021/22. Following the reduction in the level of this support, businesses may struggle to pay their business rates, and therefore there is a risk that Business Rates revenue reduces if businesses fail or are unable to pay.
90. In addition, the level of outstanding Council Tax and Business Rates debt is likely to rise and the Council will need to review the potential to collect that debt.
91. The position relating to Council Tax and Business Rates income for 2021/22 and the effects on the Collection Fund are being closely monitored, and updates will be provided in future budget monitoring reports.

Summary of Covid-19 Financial Pressures

92. The projected financial impact of the Covid-19 pandemic in 2021/22, based on experience in the first nine months of the financial year, is summarised below along with a breakdown of the estimated funding split between the Government grant funding and the Council, based on assumptions made following the Government announcements detailed in paragraph 69:

<u>see also note on Other Covid Grants below</u>	<u>Grant Allocation</u> <u>2021/22</u> <u>£m</u>	<u>Projected</u> <u>2021/22</u> <u>£m</u>	<u>Projected Council Cost</u> <u>21/22</u> <u>£m</u>
Extraordinary costs incurred		4.662	
Commercial income losses		0.080	
Non-SFC income losses		0.172	
Unachievable Change Programme savings		0.082	
Total Covid-19 Main grant (2021/22)	5.310	4.996	-0.314
Sales, Fees and Charges (SFC) income loss grant (2021/22) (note only receive grant for 1st quarter of 2021/22)	0.733	2.868	2.135
DRAFT PROJECTED NET COST OF COVID TO COUNCIL 2021/22			1.821

NOTE - OTHER COVID GRANTS

	<u>Grant Allocation</u> <u>2021/22</u>	<u>Projected Spend</u> <u>2021/22</u>	<u>Projected Grant</u> <u>Remaining 2021/22</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Clinically Extremely Vulnerable (CEV) - see Note 1	0.198	0.198	0.000
Test And Trace - see Note 2	0.512	0.512	0.000
Contain Outbreak Management Fund (COMF) - see Note 3	1.157	1.157	0.000
Total Other Covid Grants	1.867	1.867	0.000

NOTE 1

For CEV Grant - no new allocation in 2021/22, but £198k of remaining grant from 2020/21 was carried forward for use in 2021/22.

NOTE 2

For Test & Trace - no new allocation for 2021/22 but £687k of remaining grant from 2020/21 was carried forward for use in 2021/22 (£512k) and 2022/23 (£175k).

NOTE 3

For COMF - the Council received £1.37m for 2021/22, however £180k of funding is likely to be required in 22/23 for the continuation of Public Protection schemes.

93. The overall financial position is being regularly reviewed to assess impact across all areas and it is likely that this will identify additional pressures and also some potential savings. It should also be noted that this is a constantly changing position and therefore estimates are subject to change, and are dependent on any potential further outbreaks and the impact of any potential further local and/or national lockdowns which currently are not expected to occur but will further increase the Covid-19 costs if they occur.
94. The above table indicates that there will be a potential financial pressure due to Covid-19 of £1.821m in 2021/22, which is an increase of £271,000 from the £1.550m pressure reported at Quarter Two, mainly due to the effects of the further restrictions during Quarter Three.
95. It is intended that this pressure will be funded from the Covid Recovery Reserve of £4.512m set aside for this.

Flexible Use of Capital Receipts

96. Full Council on 20 October 2021 approved a Flexible Use of Capital Receipts Strategy. The report to Council stated that the Strategy will be monitored throughout the financial year as part of regular budget monitoring arrangements and be reported accordingly as part of the current quarterly budget monitoring reports to Executive, and that the Strategy may be updated and replaced as proposals are developed and expenditure is incurred. The following table provides an update of the schedule of the projects to transform services that are proposed to be funded through flexible use of capital receipts for 2021/22 along with the current estimated projected costs, and the associated estimated annual revenue savings or future cost avoidance.

Project	Further Details	Estimated Projected Investment Required 2021/22 £000	Estimated annual savings by end of 2022/23 £000
Children's Services - Children's Care	Funding for transformation of service and Ofsted Improvement Plan to improve services and outcomes		
	Specialist agency teams in Referrals & Assessments to improve the "front door model"	1,179	Cost avoidance
	Specialist agency team examining placements in order to reduce high cost placements	565	1,040
	Workforce remodelling - experienced social worker recruitment and retention / agency worker reduction strategy	15	735
	Transformation costs associated with increasing internal residential provision	300	521
	One-off transformation costs associated with improvements in practice to reduce future numbers of children looked after (includes professional fees, legal costs, increased S17 payments)	200	Cost avoidance
	Transformation of Children with Disabilities long-term packages of support to prevent young people entering care	60	520
	Additional posts to drive improvement and transformation	170	Enabling
Central budgets - Ofsted Improvement	Ofsted Improvement Plan additional posts to drive improvement and transformation	1,811	Enabling
		4,300	2,816
Central budgets - Change Fund			
Digital Transformation	One-off implementation costs related to the Digital Transformation Project	236	1,094
Management and Staffing Review	Service reconfiguration, restructuring or rationalisation of management and staff, where this leads to ongoing efficiency savings or service transformation	249	404
Organisational Development	Organisational Development upskilling linked to the Council's values	23	Enabling
HR System	Development of the Council's HR system	34	Enabling
Project Support for Transformation Projects	Support for the transformation across the Council	67	Enabling
TOTAL		4,909	4,314

97. Currently no entries have been made in the Council's accounts for these and therefore the projected outturns detailed in the table in paragraph 7 have not been amended for these. This will effectively mean that the Council's financial position will be improved by approximately £4.9m and allow the Council to potentially increase the level of reserves that the Council holds by approximately £4.9m, at this time of high financial uncertainty with minimal impact on the Council Tax payer. This will help support the significant and continued transformation work taking place within the Council, principally within Children's Services, which will deliver improvement and efficiencies. Further details of the effect on the level of reserves are provided in paragraphs 133 and 134 of this report.

98. This will be finalised at year end when final figures are confirmed for each project and will have due regard to the Local Authority Accounting Code of Practice when determining and including the entries required from undertaking and funding the projects within the Council's Statement of Accounts. In order to help provide an indication of which budget areas will be potentially amended at year-end, the relevant budget areas are shown in the table above.

Revenue budget spending controls

99. As previously reported to the Executive, a number of controls were implemented from 2019/20 to minimise overspending across the Council in-year and these remain in place for 2021/22, specifically:

- a vacancy control process overseen by the Leadership Management Team;
- checks against proposed expenditure of over £5,000 by the procurement team; and
- strong controls over staff travel, the ordering of stationery and use of first class post.

100. The Council is continuing to minimise the use of agency staff where it is appropriate to do so, but it is acknowledged that currently there will be a need for the use of agency staff within Children's Care, principally to support the Ofsted Improvement Plan and also due to the impact of Covid-19. The use of additional recruitment and retention packages to support the reduction of use of agency staff in future years. Monthly reports on agency costs are reported to senior managers for consideration.

101. A number of plans have been put in place for 2021/22 to mitigate overspending within Children's Services. These are outlined below :

- Subjecting cases of children looked after by the Council to ongoing audit, consistent decision making processes and a solutions panel chaired by the Director of Children's Care.
- Development of Stronger Families teams within Early Help and Prevention to increase skills to support additional work and complexity at this level to prevent future young people entering care.
- Development of the Middlesbrough Multi Agency Children's Hub to secure the consistency of thresholds and increasing step-downs to early help and more timely support for children and young people.
- Utilising two specialist project teams to support referral and assessments at the front door of Children's Care.
- Continuing to keep internal residential places at a high occupancy level. Re-opening Rosecroft in late summer, once registered, will produce a further 5 places. Plans to increase Fir Tree by 1 place later in 2021/22. Other Internal Residential opportunities are to be reviewed as invest to save models when identified and assessed. Potential sale of any spare places that are not occupied with Middlesbrough young people to neighbouring Tees Valley Local Authorities.
- All external residential placements are being reviewed by a specialist project team set up by the Director of Children's Services to ensure that no children are in residential care who can be fostered or safely returned to their families or the care of relatives. In addition this team will look at all cases that are nearing

requirement for residential care with the aim of making sure that all alternative options for support are fully explored before residential provision is approved.

- Work continues to build on increasing the number of internal foster placements achieved over the past 2 years, allowing children to be placed in high quality, local authority foster care as an alternative to more expensive agency placements.
- An in depth review is taking place of the processes around the placement of children with friends and family to ensure that these are only made where necessary and that financial support represents value for money.
- Maximising, where appropriate, health contributions from Clinical Commissioning Group (CCG) and education contributions from the Dedicated Schools Grant (DSG).

102. While the mitigations above will be progressed, the experience in 2020/21 suggests that whilst efficiencies may have been made in placement methods these will not have a positive effect on the bottom line position unless the overall numbers of children in care are brought under control.

103. The position around our numbers of children in care has been specifically referenced by the DfE Commissioner, and it is clear that for both quality of practice and financial reasons the number needs to be safely reduced. This will entail improvement of edge of care provision to support families and prevent children needing to become looked after and crucially improving practice and care planning to allow those children who are able to return home, be placed with family or friends or be adopted in as timely a manner as possible. This work is interdependent on our overall improvement journey and will not be a short term fix, however prioritisation in these areas is crucial to ensuring that our resources, both human and financial, are sufficient to deliver improvement. The position is constantly monitored and in future MTFP reviews an informed and prudent view will be taken of the length of time that will need to be allowed for this work to deliver results as well as the monitoring arrangements required. The revised MTFP presented to Council on 24 November 2021 provided further detail of this.

104. As mentioned in the budget report to Council of 24 February 2021 the Council has set aside approximately £1.6m of Council funding for 2021/22, to support the Ofsted Improvement Plan. This will be combined with £188,000 of unspent funding carried forward from 2020/21, and funding from a separate Childrens Services Improvement Reserve of £175,000 created at the end of 2020/21 to further improve Childrens Services. Progress against the plan is being monitored by the Multi Agency Strategic Improvement Board, and any variances from the budgets contained in the Ofsted Improvement Plan will be detailed in future budget monitoring reports.

Capital budget Quarter Three Projected Outturn 2021/22

105. As part of the Quarter Two report to Executive on 9 November 2021, Executive approved a revised capital budget for 2021/22 of £64.814m. Following a further review and the inclusion of new additional schemes, increases to existing schemes, and the reductions to existing schemes (as detailed in paragraphs 107 to 109), it is currently predicted at Quarter Three that the Council will spend £59.035m at year-end.

106. The revised Investment Strategy to 2023/24 is included at Appendix 2 for noting. It should be noted that capital receipts assumptions have been re-evaluated in light of Covid-19 and the Revised Investment Strategy takes accounts of this.
107. No schemes are currently proposed to be removed from the Investment Strategy. Also, no schemes over the £150,000 threshold were transferred between Directorates.
108. The following transfer of funds occurred within schemes with the same Directorate :
- On 13 October 2021, the Executive Member for Regeneration approved the “Tackling Eyesore Sites” report. The report approves investment of up to £1,000,000 to tackle eyesore land and property within Middlesbrough, including the possible acquisition of sites if the approved business case recommends this. This scheme has been funded from the Indigenous Growth Fund grant, provided by Tees Valley Combined Authority (TVCA). The grant has been transferred from the surplus funds allocated within the Boho X scheme to Middlesbrough Development Company who will lead on the scheme.
109. The following scheme above £150,000 has been added to the revised Investment Strategy, set out at Appendix 2:
- On 9 November 2021, Executive approved :
 - In principle, the freehold acquisition and associated works, of the Cleveland Centre, to a maximum value of £15,000,000;
 - To delegate the completion of the acquisition to the Director of Regeneration and Culture and the Director of Finance, in consultation with the Executive Member of Regeneration and the Mayor, within the parameters of the report; and'
 - That subject to the satisfaction of the above point, approval for the interim appointment, via the relevant procurement process, of managing agent Praxis for the acquisition of the property.

The Council purchased the Cleveland Centre Shopping Centre on 7 January 2022 as per the delegated powers of the Director of Regeneration and Culture and the Director of Finance. It should be noted that currently no additional income (after paying capital financing costs) has currently been assumed in 2021/22 from the purchase. Further updates of this will be provided in the Year-End Outturn 2021/22 report to Executive.

- On 9 November 2021, Executive approved the Environment and Community Services Built Asset Capital Investment report. The report approved capital funding for the Town Hall, Municipal Buildings, Resolution House and Central Library, to ensure the ongoing condition of these assets for future operational and community use. The report approves a total allocation of approximately £5,196,000 which is allocated as follows:

- £4,500,000 to the Municipal Building and Town Hall for essential work to the slate tiled roof, associated lead flashing and stonework. In addition, works will be undertaken on the internal building elements, fire compartmentation and fire detection systems. £1,000,000 of these works will commence in 2024/25, as such this amount is not included within the revised Investment Strategy;
- £609,000 for the replacement of cladding and associated building works to the workshops, and the installation of a passenger lift at Resolution House. This is what is deemed as a custodian building which is in shared ownership with the Other Local Authorities (OLA's). The Council investment of £609,000 is contingent upon the OLA's providing match funding in order to fully fund the intended works;
- £87,000 for a ground floor accessible toilet and baby change facilities at the Central Library.

110. The split by Directorate is shown in the table below, which also shows the “real” projected outturn variance if all of the additional new schemes, increased schemes, reduced schemes, and transfers between directorates are excluded. Explanations for variances of +/- £150,000 across fifteen schemes are set out in the following paragraphs. These variances require movement within the Council’s four-year Investment Strategy, but do not affect the overall investment or cost of borrowing.

Directorate	2021/22	2021/22	2021/22	MEMO	
	Investment Strategy Budget (as per 21/22 Q2 report to Executive	Projected Investment Strategy Outturn	Projected Investment Strategy Outturn Variance	New, increased & reduced Schemes / transfers	Real outturn variance excluding new, increased, & reduced schemes / transfers
	£'000	£'000	£'000	£'000	£'000
Regeneration and Culture	43,820	40,672	(3,148)	12,800	(15,948)
Environment and Community Services	10,920	9,059	(1,861)	29	(1,890)
Public Health	0	0	0	0	0
Education & Partnerships	3,238	2,934	(304)	(38)	(266)
Children’s Care	690	728	38	114	(76)
Adult Social Care and Health Integration	3,517	3,033	(484)	0	(484)
Legal and Governance Services	2,288	2,297	9	0	9
Finance	341	312	(29)	(76)	47
Total	64,814	59,035	(5,779)	12,829	(18,608)

Regeneration

111. Future High Streets Fund – A total of £6,580,000 of grant funding requires re-profiling into 2022/23, primarily for the following reasons:

- £2,295,000 of funds were expected to be transferred to Middlesbrough Development Company in relation to the urban living element of the grant, specifically the construction of the apartment block at the old Cleveland Scientific Institute site (CSI). In order for the scheme to progress it requires

planning approval and confirmation of a grant from Homes England, both of which are now expected in 2022/23.

- £2,775,000 of funds relating to the conversion of retail units to leisure provisions at the Captain Cook Shopping Precinct. Significant progress has been achieved in this respect with leases already agreed for Lane 7, with the development expected to complete in May 2022, and the e-sports facility, alongside proactive discussions with other leisure providers. The Council's contribution to the schemes for landlord works will now be predominantly made in 2022/23.
- There were minor delays in the awarding of the contract relating to the public realm works at the Captain Cook Shopping Precinct, this has resulted in £1,260,000 of the public realm and associated network adaptations allocations being transferred into 2022/23.

112. Middlesbrough Development Company – £3,563,000 of funds anticipated to be transferred to the company in 2021/22 have been delayed and will now be made in 2022/23 for the following reasons:

- The Newbridge Court (formally Tollesby Shops) project is experiencing delays of approximately 15 weeks due to issues with regard to the required diversion of an underground electricity cable on the site. The timing of these works are outside of the company's control as they can only be done by Northern Powergrid. The delay is limiting the development to work on substructures resulting in re-profiling of £2,094,000 into 2022/23.
- The contractor for Boho Village provided the company with a cash-flow forecast which formed the basis of the assumed in year expenditure. The actual requirements have been less than anticipated and coupled with a slight delay due to inclement weather, £1,304,000 of expected expenditure being transferred into 2022/23.
- £285,000 of funds associated with the Empty Homes programme have been moved into 2022/23 due to the time required to undertake a competitive process in relation to the appointment of the preferred project partner.
- £120,000 has been transferred from 2022/23 to 2021/22 in relation to general company costs and preparatory work at the CSI development.

113. Brownfield Housing Fund – The potential developer of the wider Middlehaven housing site is in discussions with both the Highways and Planning departments to ensure that the plans for the site are compatible with all parties requirements prior to the submission of the detailed planning application. These discussions have taken longer than anticipated, resulting in £1,100,000 of assumed expenditure transferring into 2022/23. The tenders for works at Commercial Street have resulted in significant savings against budget expectations, this has freed up £530,000 of funds which will be transferred for use in 2022/23 and future years.

114. Towns Fund - £1,400,000 of grant funding has be re-assigned to 2022/23. This is predominantly with respect to the £1,000,000 allocated within the programme for Ward Initiatives. An extensive consultation exercise was conducted which included

all Councillors to ensure that these funds would be maximised in terms of benefitting the whole of the town. Due to the length of the consultation the physical works are now anticipated to be undertaken in 2022/23.

115. Llnthorpe Road Cycleway – An external contractor has been appointed to undertake the works associated with preparation of the tender documents. However, the issuing of the documents were delayed due to issues encountered with the appointment surrounding both data protection and the procurement process. This has consequently delayed the submission of the tenders by the contractors, which have now been received but has ultimately resulted in the scheme now being completed in 2022/23 with £1,000,000 of assumed expenditure being re-profiled accordingly.
116. Boho X – Slight delays with respect to starting on site have been experienced due to extended contractual negotiations. This has resulted in £900,000 of funds transferring into 2022/23. Whilst the start has been delayed, the expected completion date of the project remains at December 2022.
117. Housing Growth – Protracted negotiations continue with the developers in respect of the apportionment of costs relating to the new road and roundabout at Nunthorpe Grange. Works are anticipated to commence in March 2022 but these will be limited to earthworks until an agreement with the developers can be reached. The delays as a consequence of the negotiations have resulted in £319,000 of expected expenditure being re-profiled into 2022/23.
118. Local Authority Delivery 2 Green Homes Grant – Contractual negotiations with the schemes delivery partner have taken longer than anticipated. The negotiations have now concluded and works on eligible properties are underway, however, less properties will benefit from the scheme in 2021/22 than originally estimated with £300,000 of the grant being transferred to 2022/23 as a consequence. This has no detrimental impact on the number of households that will ultimately benefit from the scheme.
119. Town Centre Projects – Delays are being experienced in the High Streets Action Zone scheme due to longer than envisaged lead in times for obtaining materials required for the public realm aspect and planning approvals for the property grants. £237,000 of planned expenditure has been transferred to 2022/23 accordingly.

Environment and Community Services

120. Bridges and Structures (Non Local Transport Plan) – £500,000 of planned expenditure has been re-profiled into 2022/23 due to issues including a delay within the construction supply chain, meaning that the contractor now cannot commence works to the bridge deck at Newport Bridge. Delays on principal inspections resulted in a further £188,000 being transferred into 2022/23.
121. East Middlesbrough Community Hub - £651,000 of funds, which are part of the wider funding package for the construction of the new Community Hub, have been transferred into 2022/23.
122. Street Lighting Maintenance – Covid-19 related issues have impacted the evaluation of street lighting assets programme. The works have commenced but are now

expected to conclude in Spring 2022, resulting in £224,000 of expenditure now not being required until 2022/23.

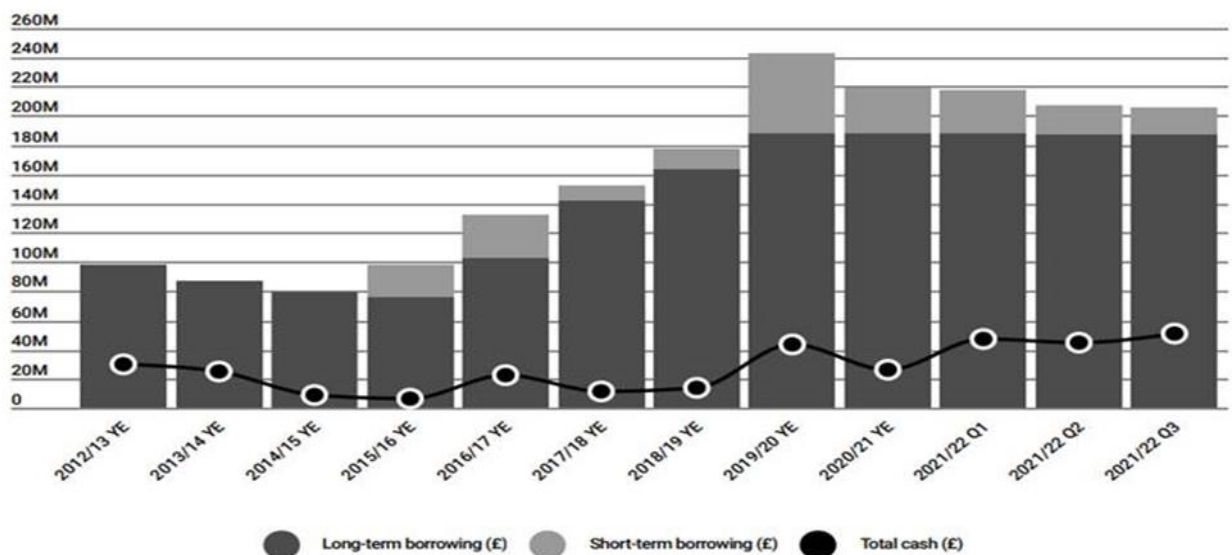
- 123. Urban Traffic Management Control – £150,000 of expenditure has been re-profiled into 2022/23 due to the fact that the level of installations upgrades were not as high as anticipated.
- 124. Property Asset Investment Strategy – £170,000 of expenditure has been brought into 2021/22 from future years in order to undertake urgent works at a commercial unit within Cannon Park, these works will enable a letting of the unit which will result in additional revenue income.

Adult Social Care and Health Integration

- 125. Disabled Facilities Grant – Delays are being experienced due to difficulties in acquiring contractors to undertake the backlog of work that has built up as a consequence of Covid-19. This has resulted in £261,000 of anticipated expenditure being re-profiled into 2022/23.

Borrowing and prudential indicators

- 126. The Council's total borrowing decreased from £206.2m at 30 September 2021 to £205.2m at 30 December 2021. This decrease of £1.0m reflects the repayment of principal amounts on existing annuity loans held by the Council. No external borrowing was required for the Investment Strategy or cash flow purposes during the quarter. This is due to cash balances still being healthy with residual Covid-19 funding available for use plus other income in advance balances yet to be spent during the financial year.
- 127. The ratio of short-term to long-term borrowing has remained stable during the quarter with no further borrowing required. It is expected this position will change somewhat during Quarter Four as a large borrowing requirement will be required, and with a background of possible increasing interest rates.



128. The affordability and sustainability of the Investment Strategy and its total level of external borrowing and capital financing costs is self-regulated by the Council through a set of prudential indicators. These thresholds are set as part of the integrated annual budget setting process in late February each year. CIPFA and Government view this approach as best practice in ensuring resources are allocated prudently to capital schemes.
129. The table below gives a summary comparison of the budget against the actual position as at Quarter Three 2021/22 on each of the prudential indicators adopted by the Council.

<u>Prudential Indicators - 2021/22 Quarter 3</u>		
	<u>Budget</u>	<u>Actual</u>
	<u>(£M)</u>	<u>(£M)</u>
Capital Expenditure	93.716	59.035
<u>Financing</u>		
External Sources	57.114	27.005
Own Resources	12.103	15.158
Debt	24.499	16.872
Capital Financing Requirement	255.164	257.747
External Debt	248.100	205.202
Investments	15.000	50.853
Capital Financing	9.518	9.599
Cost as a % of Revenue Budget	8.2%	8.3%

130. The total capital spend & level of financing has reduced by £34.7m since the original budget was set for 2021/22. This is explained in more detail in the Investment Strategy section of the report but essentially reflects reprofiling of scheme requirements to later years due to the ongoing impact of the pandemic, changing needs on individual schemes and low contractor availability. The reduction is a mix of borrowing and grant funding being deferred into future years.
131. The Council's total under borrowed position (external debt compared to the capital-financing requirement – or underlying need to borrow) is £52.5m at 30 December 2021. As cash balances reduce during the remainder of the financial year, with Covid-19 amounts and reserves planned to be spent, plus the borrowing requirements within the Investment Strategy, around £30m of this under borrowing will be required to ensure the Council has enough liquidity to meet its cash commitments over the last three months of the year.
132. The amount of external debt at £205.2m and the total underlying need to borrow of £257.7m are both well below the Council's authorised debt limit of £320m. This is the threshold above which any borrowing would be illegal. The cost of capital financing to the Council is slightly higher than set as part of the budget process due

to review of asset lives as part of the minimum revenue provision calculation for the year.

Reserves and Provisions

133. The table below sets out a summary of the balance of reserves and provisions at the start of 2021/22 and the projection as at year-end and further detail is provided in Appendix 3.

Reserves and Provisions	Opening Balance	Proposed Use in Year	Additional Contributions	Transfers between reserves	Transfers from General Fund	Proposed Transfers to fund projected outturn	Projected Balance at Year End
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
General Fund Reserve	10,500	0	695	0	0	0	11,195
Covid Recovery Reserve	4,512	0	0	0	0	(3,814)	698
Reserve created from Flexible Use of Capital Receipts Strategy	0	0	4,909	0	0	0	4,909
Earmarked Reserves	28,970	(11,946)	275	187	0	(1,232)	16,254
Earmarked Reserve - Dedicated Schools Grant (DSG)	(3,291)	(1,004)	0	0	0	0	(4,295)
School balances	4,864	0	0	0	0	0	4,864
Provisions	2,555	0	0	(187)	0	0	2,368
TOTAL	48,110	(12,950)	5,879	0	0	(5,046)	35,993

134. The projected year-end balance assumes the use of Reserves (as detailed in paragraphs 9 and 136) to cover the projected total 2021/22 revenue budget overspend, and the adoption of the Flexible Use of Capital Receipts Strategy as detailed in paragraphs 96 to 98.

What decisions are being asked for?

135. That OSB notes the 2021/22 revenue budget Quarter Three total projected outturn of £5.046m, representing a £3.225m (2.8%) overspend on non-Covid-19 elements, and the estimated financial effect of Covid-19 in 2021/22 of £1.821m, and the proposed actions to address this.
136. That OSB notes the proposed use of the following Reserves to fund the total projected overspend of £5.046m in 2021/22 :
- Social Care Demand Reserve (£0.5m)
 - Children's Services Demand Reserve (£0.732m)
 - Covid Recovery Reserve (£3.814m)
137. That OSB notes the implementation of the Flexible Use of Capital Receipts Strategy approved by Council on 20 October 2021, and that the projected amount of £4.9m arising from the implementation of the Strategy will be transferred to a Reserve at year-end.
138. That OSB notes the revenue budget virements over £150,000 (Appendix 1) approved by Executive on 14 February 2022.

139. That OSB notes the 2021/22 capital budget Quarter Three predicted outturn of £59.035m against a budget of £64.814m, and notes the revised Investment Strategy to 2023/24 at Appendix 2, as approved by Executive on 14 February 2022.

Why is this being recommended?

140. To enable the effective management of finances, in line with the Council's Local Code of Corporate Governance, the Scheme of Delegation and agreed corporate financial regulations.

Other potential decisions and why these have not been recommended

141. Not applicable.

Impact(s) of recommended decision(s)

Legal

142. The proposed recommendations are consistent with and will promote the achievement of the Council's legal duty to achieve Best Value.

Financial

143. The Council's revenue outturn position for 2021/22 for non-Covid-19 elements is projected to be an overspend of £3.225m (2.8%). This, when added to the estimated Covid-19 pressures of £1.821m, detailed in paragraphs 66 to 95 results in a total projected outturn pressure at year end 2021/22 of £5.046m. It is proposed that the total projected overspend in 2021/22 will be covered by the full utilisation of the Social Care Demand Reserve of £0.5m and the Children's Services Demand Reserve of £0.732m, which were created at the end of 2020/21. It is proposed that the remaining £3.814m of the total projected outturn pressure is funded from the £4.512m Covid Recovery Reserve, which was created during 2020/21 to cover the potential costs arising from the Covid-19 recovery in 2021/22 and future years.

144. It is estimated that the Council's financial position will potentially be improved by an estimated £4.9m at year-end due to the implementation of the Flexible Use of Capital Receipts Strategy approved by Council on 20 October 2021, and that the projected amount of £4.9m arising from the implementation of the Strategy will be transferred to a Reserve at year-end.

145. The predicted 2021/22 capital budget outturn at Quarter Three is £59.035m.

Policy framework

146. The revenue and capital budgets form part of the Council's Policy Framework.

Equality and diversity

147. As reported to Council on 24 February 2021, no negative differential impact on diverse groups and communities are anticipated from the Council's planned budgetary expenditure.

Risk

148. In line with the Council's Risk Management Policy, the corporate Strategic Risk Register was reported to Executive on 14 February 2022, as part of the Strategic Plan 2021-24 – Progress at Quarter Three 2021/22 report.

Actions to be taken to implement the decision(s)

149. Mitigating activity set out in the main body of the report will continue to be applied by Directorates as stated.

150. The actions outlined within the body of the report in relation to overspending within Children's Services will continue to be implemented.

151. The revised Investment Strategy included at Appendix 2 was approved by Executive on 14 February 2022 and will be adopted.

Appendices

- 1 Revenue budget virements over £150,000 at Quarter Three 2021/22
- 2 Revised Investment Strategy to 2023/24
- 3 Detail of projected reserves and provisions as at Quarter Three 2021/22

Background papers

24/02/21	Council	Strategic Plan 2021-24
24/02/21	Council	Revenue Budget, Council Tax, Medium Term Financial Plan and Capital Strategy 2021/22
7/09/21	Executive	Revenue and Capital Budget – Projected Outturn position as at Quarter One 2021/22
9/11/21	Executive	Revenue and Capital Budget – Projected Outturn position as at Quarter Two 2021/22
9/11/21	Executive	Medium Term Financial Plan Update
24/11/21	Council	Medium Term Financial Plan Update
14/2/22	Executive	Revenue Budget, Council Tax, Medium Term Financial Plan and Capital Strategy 2022/23
14/2/22	Executive	Revenue and Capital Budget - Projected Outturn position as at Quarter Three 2021/22

Contact: Andrew Humble, Head of Financial Planning & Support
Email: andrew_humble@middlesbrough.gov.uk