

<b>Report of:</b>	Executive Member for Finance and Governance Director of Finance
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<b>Submitted to:</b>	Executive
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<b>Date:</b>	14 June 2022
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<b>Title:</b>	Revenue and Capital Budget - Year-End Outturn position 2021/22
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<b>Report for:</b>	Decision
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<b>Status:</b>	Public
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<b>Strategic priority:</b>	All
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<b>Key decision:</b>	Yes
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<b>Why:</b>	Decision(s) will incur expenditure or savings above £150,000
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<b>Urgent:</b>	No
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<b>Why:</b>	
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### **Executive summary**

This report advises the Executive of the Council's financial position at Year-End 2021/22, including the effect of Covid-19 on the Council's finances.

The report provides the necessary information to enable the Executive to discharge its financial management responsibilities, setting out:

- final revenue and capital budget outturns at year-end 2021/22;
- position statements in relation to the Council's borrowing and its reserves; and
- actions that the Council has taken and plans to address the issues raised.

The report requests that the Executive :

- Notes the 2021/22 revenue budget initial year-end outturn of a £2.462m overspend on non-Covid-19 elements
- Notes the implementation of the Flexible Use of Capital Receipts Strategy totalling £5.017m in 2021/22, as approved by Council on 20 October 2021.

- Approves the transfer of £230,000 of the Public Health Directorate underspend relating to the sexual health service to the Public Health Reserve
- Notes the 2021/22 revenue budget final year-end outturn (following the Flexible Use of Capital Receipts and transfer to Public Health Reserve) of a £2.325m underspend on non-Covid-19 elements.
- Notes the financial effect of Covid-19 in 2021/22 of £390,000.
- Approves the following transfers to Reserves :
  - Covid -19 expenditure incurred during 2021/22 to the Covid Recovery Reserve (£390,000)
  - The remaining balance on the Covid Recovery Reserve to a new specific earmarked Car Parking Pressures Reserve (£782,000) and the General Fund Reserve (£3,340,000)
  - The final year-end underspend on non-Covid-19 expenditure to the General Fund Reserve (£2,325,000)
- Approves the creation of a new specific earmarked Social Care Transformation Reserve to help support the on-going effects of the significant and continued transformation work taking place within Children's Services, and also that which will take place within Adult Social Care regarding the Fair Cost of Care and Social Care Reforms, and approves the transfer of £5,665,000 to this Reserve from the General Fund Reserve.
- Approves the transfer of the following Reserves into the new specific earmarked Social Care Transformation Reserve, making a total of £7.072m available for the required transformation :
  - Children's Services Improvement Reserve (£175,000)
  - Children's Services Demand Reserve (£732,000)
  - Social Care Demand Reserve (£500,000)
- Notes the 2021/22 capital budget final year-end outturn of £56.899m against a revised capital budget of £59.035m, and approves the revised Investment Strategy to 2024/25 at Appendix 1.

## **Purpose**

1. This report advises the Executive of the Council's financial position at Year-End 2021/22, including the effect of Covid-19 on the Council's finances.

## **Background and relevant information**

2. The Council's Scheme of Delegation gives the Executive collective responsibility for corporate strategic performance and financial management / monitoring, together with associated action. Standing Orders and Financial Procedures require the Executive's approval for major virements between revenue budgets, and in-year changes to the Council's capital Investment Strategy.
3. This report provides the necessary information to enable the Executive to discharge its financial management responsibilities, setting out:
  - final revenue and capital budget outturns at year-end 2021/22;
  - position statements in relation to the Council's borrowing and its reserves; and
  - actions that the Council has taken and plans to address the issues raised.
4. A revised Investment Strategy for the period to 2024/25 is attached at Appendix 1 for the Executive's consideration and approval.

## **Revenue Budget Outturn 2021/22**

5. As reported in previous reports, the Covid-19 pandemic has had a significant impact on the Council's financial position during 2021/22 and will continue to in a number of areas in future years. 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 84 to 111 below.
6. The 2021/22 Revenue budget for the Council was £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 initial outturn position for 2021/22 for non-Covid-19 elements is an overspend of £2,462,000 (2.1%).
7. One of the major areas of increased expenditure during the latter part of 2021/22 was the level of inflation that existed in the economy. The Environment and Commercial Services Directorate outturn position was substantially affected by the hyper-inflationary increases that existed in areas such as fuel, energy, utilities, and food, and also an increase in waste recycling costs. As mentioned in previous quarterly budget monitoring reports it was proposed that at year-end these would be funded in 2021/22 only from the Central Pay and Prices Contingency budget, and the table in paragraph 10 assumes that the transfer totalling £1,363,000 is made. Provision for additional inflation was built into the updated Medium Term Financial Plan (MTFP) presented to Council in February 2022, however there will be a need to closely monitor this and determine whether sufficient funding has been provided in light of the current continuing increasing levels of

inflation. Further updates will be provided in future budget monitoring reports and the MTFP will be amended accordingly as appropriate.

8. It is proposed to transfer £230,000 of the Public Health Directorate underspend to the Public Health Reserve, in order to help to fund improvements in the sexual health service in future years, further details of this are provided in paragraph 38. Executive are requested to approve this transfer to the Public Health Reserve and the final revenue outturn position assumes this transfer is approved.
9. The financial position of the Council is improved by the implementation of the Flexible Use of Capital Receipts Strategy, which was approved by Full Council on 20 October 2021. Entries have been made in the Council's accounts for this having due regard to the Local Authority Accounting Code of Practice, and the initial outturns detailed in the table in paragraph 10 have been amended for these, with the impact of this being that the Council's financial position across a number of Directorates (mainly Children's Services) has been improved by a total of £5,017,000 at year-end. This will allow the Council to increase the level of reserves that the Council holds, 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. The financing costs associated with this have been provided in the MTFP presented to Council in February 2022. Further details of this are provided in the separate section of the report (paragraphs 112 and 113).
10. Assuming the above are approved, the overall final year-end revenue outturn position for 2021/22 for non-Covid19 expenditure is a £2,325,000 underspend. The details of this are shown below, including the split by Directorate :

Directorate	2021/22 Full Year Budget	2021/22 Initial Final Outturn (excluding Covid-19)	2021/22 INITIAL OVER / (UNDER) SPEND (excluding Covid-19)	2021/22 Proposed transfer to Pay & Prices budget	2021/22 Proposed transfer to Reserves	2021/22 Proposed Flexible Use of Capital Receipts	2021/22 FINAL OVER / (UNDER) SPEND (excluding Covid-19 and after proposed transfer to Pay & Prices budget, Reserves, and proposed Flexible Use of Capital Receipts)
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Regeneration and Culture	3,569	3,522	(47)	0	0	(11)	(58)
Environment and Community Services	19,385	21,368	1,983	(1,363)	0	(263)	357
Public Health	(2,820)	(3,870)	(1,050)	0	230	0	(820)
Adult Social Care	39,682	38,706	(976)	0	0	0	(976)
Total - Adult Social Care and Health Integration	36,862	34,836	(2,026)	0	230	0	(1,796)
Education & Partnerships	737	360	(377)	0	0	0	(377)
Children's Care	40,037	48,332	8,295	0	0	(4,217)	4,078
Total - Children's Services	40,774	48,692	7,918	0	0	(4,217)	3,701
Legal and Governance Services	10,121	10,638	517	0	0	(526)	(9)
Finance	818	(816)	(1,634)	0	0	0	(1,634)
Central Budgets	4,963	715	(4,248)	1,363	0	0	(2,885)
<b>Revenue Outturn</b>	<b>116,492</b>	<b>118,955</b>	<b>2,462</b>	<b>0</b>	<b>230</b>	<b>(5,017)</b>	<b>(2,325)</b>

11. It is proposed that the £2,325,000 underspend on non-Covid19 expenditure is initially transferred to the General Fund Reserve.
12. Covid-19 pressures of £390,000 at year-end 2021/22 are detailed in paragraphs 84 to 111. This is a reduction of £1,431,000 from the £1,821,000 total projected Covid-19 pressures reported at Quarter Three. It is proposed that this is funded from the £4,512,000 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.
13. In the MTFP update provided to Council in February 2022, provision was made for the continuing effect of Covid-19 in future years. This has been reviewed and in light of the current levels of car parking income, it is proposed that a new earmarked Car Parking Pressures Reserve of £782,000 is set up for the potential ongoing effects of Covid-19 on car parking income in future years. As provision was made in the MTFP for the continuing effect of Covid-19 in future years it is now proposed that the remaining balance of £3,340,000 on the Covid Recovery Reserve is transferred initially to the General Fund Reserve.
14. The above proposed transfers would mean that the General Fund Reserve would equal £16.860m at year-end 2021/22. In the MTFP update provided to Council in February 2021 the Director of Finance recommended that the minimum level for the General Fund Reserve for 2021/22 was £11m, this was subsequently increased to £12m for 2022/23 in the MTFP update provided to Council in February 2022. Due to the need to help support the significant and continued transformation work taking place within the Council, principally within Children's Services and that which will take place within Adult Social Care regarding the Fair Cost of Care and Social Care Reforms, it is proposed that a transfer of £5.665m is made to a new specific earmarked Social Care Transformation Reserve. It is also proposed that the remaining balances on the Children's Services Improvement Reserve (£175,000), Children's Services Demand Reserve (£732,000), and the Social Care Demand Reserve (£500,000), are transferred into the new specific earmarked Social Care Transformation Reserve and combined with the amount above to make a total of £7.072m available for the required transformation. The use of this Reserve will be managed by the Director of Finance, with reports being provided to Executive as part of the quarterly budget monitoring reports.
15. Executive are requested to approve these transfers to Reserves.
16. 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 158 to 163) and detailed in Appendix 2.

### ***Progress against budget savings***

17. £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.
18. As reported in previous quarters it has not been possible to achieve one of the budget savings due to Covid-19 and this is detailed in paragraph 100 below.
19. In addition, as reported in previous quarters 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 were 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 were achieved in 2021/22. The remaining £1,009,000 of the savings required were fully covered by temporary one-off efficiency savings for 2021/22 proposed by Directorates. These savings did not have a material effect on service delivery, and included 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 charged to corporate Ofsted Improvement Fund and Change Fund funding within Children's Services
- Utilising surpluses held in joint arrangements budgets
- Savings arising from 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 part of the Adult Social Care Recovery Reserve, which was created at year end 2020/21 for the potential effects of increased service demand, as the full amount was no longer required

20. The above temporary one-off efficiency savings for 2021/22 meant that there was no financial effect on the outturns for Directorates in 2021/22 due to the unachieved Digital and mileage savings.

21. It should be noted that in the MTFP presented to Council in February 2022 it was assumed that the full amount of savings relating to Digital will be fully achieved from 1 April 2022 as per the original intended methods.

22. As reported in the MTFP Update Report to Council on 24 November 2021 and the MTFP update presented to Council in February 2022, 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" was removed from the MTFP from 2022/23.

### ***Directorate variances***

23. The detail of the variances are set out below. At year-end, 38 areas had 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 MTFP.

### ***Regeneration and Culture***

24. As reported in previous quarters, car parking income was 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 in Income section of the report (paragraphs 96 to 99).

25. It should be noted that grant income of £850,000 was 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.

*Environment and Community Services*

26. As mentioned in paragraph 7 the Environment and Commercial Services Directorate has been substantially affected by hyper-inflationary increases in a number of areas. The effects of this are detailed in the following paragraphs and summarised in the table below. As mentioned earlier it is proposed that these would be funded in 2021/22 only from the Central Pay and Prices Contingency budget and that a transfer totalling £1,363,000 is made.

<b>Service Area</b>	<b>Description</b>	<b>£</b>
Property Running Costs	Inflation on Utilities	480,000
Waste Collection	Inflation on Fuel	21,000
Waste Disposal	Kerbside Recycling Contract	492,000
Catering	Inflation on Food & Utilities	146,000
Fleet Services	Inflation on Fuel	106,000
Street Lighting	Inflation on Electricity	118,000
<b>TOTAL DEMAND ON PAY &amp; PRICES CONTINGENCY BUDGET</b>		<b>1,363,000</b>

- *Property Services*

27. The Property Services budget is overspent by £1,176,000 at year-end, an increase of £185,000 from the £991,000 projected overspend that was reported at Quarter Three.

28. Within this budget there is an anticipated pressure against the Running Costs budget of £621,000. £480,000 of this is due to the rising costs of energy, and as noted in previous reports this will be funded from the Central Pay and Prices Contingency budget. Provision for this was built into the updated MTFP presented to Council in February 2022. The remaining overspend against Running Costs is an increase from Quarter Three and is mainly due to the Revenue's and Benefits service undertaking an exercise to re-charge a backlog of Business Rates for Council owned properties relating to previous years.

29. A shortfall in income due to a decrease in the number of cremations following the opening of a crematorium in Stockton has resulted in a pressure totalling £314,000 against the Bereavement Services budget. The ongoing effects of this have been provided for in the updated MTFP presented to Council in February 2022.

30. The closure of the Transporter Bridge and Visitors centre has contributed £157,000 towards the overall pressure. Due to the closure budgeted income was not achieved but salary expenditure was still incurred, as even though the staff were fully re-deployed to other areas within the Directorate no transfers of staff costs were made.

31. In addition, there are a number of budget areas within Property Services which have variances below £150,000, and these account for the overall £1,176,000 total overspend on the Property Services budget.

- *Environment Services*

32. The Environment Services budget is showing a pressure totalling £739,000 at year-end, an increase of £97,000 from that reported at Quarter Three. The majority of the pressure (£492,000) is as a result of the need to secure an alternative contractor to process kerbside recycling material following the previous contractor entering into administration early in 2021/22. As stated in previous quarters 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 saving of £180,000 on the current budget. The MTFP presented to Council in February 2022 reflected this from 2022/23 onwards.
33. There are also a number of other pressures within the Environment Service below £150,000, including Catering (£146,000) due to the rising cost of food & drink supplies and utilities costs, Pest Control (£63,000) due to an income shortfall, and Waste Collection (£122,000) due mainly to an income shortfall following the temporary introduction of free junk jobs, however £21,000 of the pressure was due to the rising cost of fuel. These pressures have been partially offset by salary savings elsewhere within the Service.

- *Transport, Fleet & Highways*

34. The Transport, Fleet & Highways Service budget has an overall pressure of £183,000 at year-end. This is primarily due to an overspend of £106,000 within Fleet Management as a result of the rising cost of fuel and materials associated with vehicle repairs, and £118,000 on electricity costs for Street Lighting. It is proposed that these pressures will be met from the Central Pay and Prices Contingency Budget.

- *Supported Communities*

35. The Supported Communities Service are reporting an overall saving of £129,000 at year-end. This is mainly due to a number of vacant posts within libraries and hubs following the Covid-19 pandemic.

*Public Health*

36. There are savings on Public Health budgets totalling £1,050,000 in 2021/22, with £454,000 of the 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, in addition to savings also being made due to a reduction in the unit cost of some prescribed drugs. The Service has also seen staffing savings of £596,000 as a result of vacancies and secondments of staff to other grant funded projects.
37. It should be noted that the above saving includes additional costs of £247,000 in 2021/22 relating to a 3 year increase to the Healthy Child programme which was agreed in 2020/21 as a result of the Covid-19 pandemic. Funding was originally agreed from the Covid main grant for this, however due to the underspend in Public Health budgets it has been agreed to fund this from the Public Health Grant in 2021/22.
38. It is proposed that £230,000 of the underspend on Public Health budgets relating to a rebate received from the Tees Valley arrangement for the sexual health contract is



transferred to a Public Health Reserve for improvements to the sexual health service throughout 2022/23 and 2023/24, following agreement by all Tees Valley local authorities.

### *Adult Social Care*

39. There are staff savings across the Service totalling £829,000 at year-end, which is a further increase from the £600,000 saving reported at Quarter Three, due to staff turnover and delayed recruitment to vacancies. Similar to Children's Care (as detailed in paragraph 61), 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 and introducing a recruitment and retention bonus scheme in 2022/23.
40. The net growth for purchased care costs (mainly residential care) in 2021/22 was £1,058,000, which is lower than the £1,483,000 forecast at Quarter Three. This pressure was offset by a corresponding increase in service user's contributions to care of £500,000 in excess of budgeted income. Other savings of £443,000, including additional health income and reductions in the cost of some care packages occurred during 2021/22. There were also additional direct payments surpluses in excess of the budget of £382,000, which were not forecast at Quarter Three, as a result of clearing legacy accounts in preparation to moving to prepaid cards during 2021/22. This has resulted in an overall £267,000 saving on the purchasing budget in 2021/22, a substantial variation from the overall £572,000 overspend on the purchasing budget reported at Quarter Three.
41. 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 £976,000 underspend on the Adult Social Care budget at year-end, which is a substantial increase from the £65,000 overall underspend reported at Quarter Three due to the reasons reported above.

### *Education & Partnerships*

42. There is an underspend of £30,000 on the Education Services budget at year-end, which is an improvement from the £27,000 projected overspend reported at Quarter Three. This is mainly due to an improvement during Quarter Four in the take up of services at Children's Centres and Nurseries following the end of Covid-19 lockdown.
43. There is also a saving of £347,000 at year-end relating to school contributions to capital schemes, as contributions were funded from other sources, thereby creating a revenue saving. This is lower than the £542,000 forecast at Quarter Three, due to delays in some schemes.
44. 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).
45. There was a £3.291m total cumulative deficit on the DSG grant at the end of 2020/21, of which £3.902m was attributed to the High Needs Block. The DSG deficit has

increased during 2021/22 and there is a total DSG deficit of £3.335m, including £4.933m relating to the High Needs Block, at the end of 2021/22.

46. 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 built up over the years. 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 Council on 23 February 2022.
47. The DSG conditions of grant require that any local authority with an overall deficit on its DSG account at the end of financial year 2021/22, or who's DSG surplus has substantially reduced, present a plan to the DfE for managing its DSG spend in 2022/23 and future years. There is also a requirement to provide information as and when requested by the DfE about pressures and potential savings on its high needs budget. DfE expect that the schools forum is regularly updated about the authority's DSG account and plans for handling it, including high needs pressures and potential savings.
48. 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*

49. The overspend on the Children's Care budget at year-end has decreased by £648,000 from that reported at Quarter Three to an overspend of £8,295,000 as at year-end 2021/22. The split of the overspend between the individual budgets within Children's Care and the changes from the Quarter Three reported position are detailed in the paragraphs below.
50. A proportion of the 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 112 and 113. As mentioned in paragraph 113 entries have been made in the Council's accounts for the effect of this, which will mean the Children's Care overspend will reduce to £4,078,000 at year-end. The figures in the paragraphs below are before the effect of this.
51. The external residential agency placements budget is £3,130,000 (32%) overspent at year-end. This is an increase of £217,000 from the Quarter Three 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.
52. The number of external residential placements at 31<sup>st</sup> March 2022 was 51, which is a slight increase from the 48 at the end of Quarter Three, but is still a significant reduction from the 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.

53. It should be noted that whilst the number of placements has decreased significantly the average cost per placement has increased significantly during 2021/22, due to demand across the country and increased costs for some of the remaining placements due to the complex nature of the remaining young people.
54. The target in the Council's MTFP is to further reduce the number of paid external residential placements to 35 by April 2024. Whilst the reduction in numbers of children in external placements is broadly on track with that as per the action plan this will require close monitoring and regular review, due to the fact that the March 2022 figures have shown the first increase in numbers for over a year despite a number of current young people turning 18 years old. The significant inflationary and market pressures on average placement costs also need to be closely monitored. Any significant variations from the targets currently set in the MTFP will require the MTFP to be adjusted.
55. As mentioned in previous quarters, 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 outturn for the external residential placements budget includes increased Education contributions to placements, some paid direct to providers, of £1,170,000 for 2021/22, which is a significant increase on the £760,000 forecast at Quarter Three. With a significant backlog of Education Health Care Plans this figure may well in the future increase percentage wise in regards to contributions against the total Children's Care expenditure.
56. The above pressure on the external residential agency placements budget has however been partly offset by additional income received from the CCG of £302,000 (24%) 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 an improvement of £82,000 from that reported at Quarter Three.
57. The in-house fostering services budget was £930,000 (32%) overspent at year-end, an improvement of £72,000 on the Quarter Three projection. There has been an increased number of placements/cases by 16 from the start of the year (from 164 to 180 at 31/3/22). 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.
58. The Independent Fostering Agency (IFA) placements budget is £893,000 (17%) overspent at year-end, a decrease of £367,000 from that reported at Quarter Three. The number of placements / cases has reduced to be currently at 145, 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. Reductions in expenditure within this area are part of the MTFP strategy for Children's Services and the target is to get down to 121 places by April 2024, however as with external

residential places close monitoring needs to take place with regard to inflationary pressures as well as reducing numbers.

59. There is a overspend on the Family and Friends Allowances budget of £662,000 (29%) at year-end, which is a decrease of £94,000 from the projected overspend of £756,000 reported at Quarter Three. 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 benefit claim checks are being increased in order to attempt to mitigate this pressure.
60. There is an overspend at year-end of £1,743,000 (30%) on the Safeguarding, Care Planning and Referral and Assessment teams budget, a reduction of £72,000 from that reported at Quarter Three. The overspend is due to significant spend on agency staffing, Section 17 payments and support packages for families to keep the young people out of care, and increased Professional and Legal costs (including parenting assessments and substance testing) 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. 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 the longer term strategy to reduce/avoid higher Children Looked After costs.
61. As detailed in previous quarters, staff agency costs in 2021/22 to cover sickness and vacant posts and transform the Service are a major element of the pressure on the Safeguarding, Care Planning and Referral and Assessment teams budget, 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.
62. The overspend at year-end on the Review and Development budget is £319,000, similar to that reported at Quarters Two and Three. 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.
63. Children Looked After teams have incurred an overall £587,000 (23%) overspend at year-end, a £143,000 increase from that reported at Quarter Three. Similar to that in the Safeguarding, Care Planning and Referral and Assessment teams budget, there was a pressure of £796,000 mainly due to agency staffing costs to fill vacancies and cover absences, and to support the Ofsted Improvement Plan. As stated in paragraph 61 the reliance on agency staff, is a significant risk to the Council in the medium to longer term. Part of his pressure was however offset by an improvement of £209,000 in income claimed for 2021/22 from the Unaccompanied Asylum Seekers Grant which was not predicted at Quarter Three.

64. There was a pressure of £368,000 (32%) on the Adoption Services budget, a slight reduction of £20,000 from that reported at Quarter Three. The overspend in 2021/22 is mainly due to an increase in the 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 24 adoption orders completed in the year.
65. The Prevention Service, which transferred to Children's Care from Education & Partnerships during 2021/22, are reporting a £239,000 saving. This is an improvement of £170,000 from projections at Quarter Three due to staff savings, carrying vacant posts whilst restructuring service, and maximising grant income (in particular from the Supporting Families Grant). This Service will require monitoring and support to meet efficiency targets and support longer term the Early Help Strategy.
66. In addition to the above, there are a number of budget areas within Children's Care which have variances below £150,000, and these account for the overall £8,295,000 overspend on the Children's Care budget at year-end.
67. 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*

68. As reported at previous quarters there is an overspend against the budget for Middlesbrough's contribution to the Coroners Service, resulting in a final overspend at year-end of £216,000, This overspend is £46,000 higher than reported at Quarter Three following a change to the basis of re-allocating the costs between the Local Authorities. This was agreed by the Tees Valley Directors of Finance group. Additional resource has been provided from the MTFP in 2022/23 to alleviate this pressure.
69. The Strategy Information and Governance service are reporting an overspend of £245,000 at year-end. £191,000 of the overspend is mainly due to unbudgeted posts and re-grades of existing posts, £104,000 relates to Mail & Print due to higher than expected usage of the Hybrid Mail system, and these are partially offset by vacant posts totally £50,000 within the Customer Experience Team. This is to be reviewed and mitigated where possible in 2022/23.
70. The budget for Local Elections is showing a pressure of £328,000 at year-end. This is due to a number of unforeseen elections and the need to increase the level of reserve set aside to fund local elections. The future level of reserve will be reviewed in 2022/23 in line with the forthcoming Elections Bill.
71. These pressures have been partially offset by savings elsewhere within the Directorate, resulting in a £517,000 total overspend on the Legal and Governance Services budget at year-end 2021/22.

#### *Finance*

72. As reported in previous quarters continued successful lettings at Tees Advanced Manufacturing Park (TAMP) have resulted in unbudgeted net additional revenue income of £333,000 in 2021/22. 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 £8,000 at year-end. There is also an underspend on the Valuation budget of £79,000 due to an increase in valuation fees income from work undertaken.

73. There is net additional unbudgeted income of £434,000 (after capital financing costs) received during 2021/22, due to rental income from the purchase of the Captain Cook Shopping Centre. This is a reduction from the £500,000 reported at Quarter Three. As mentioned in the report to Council in February 2022 additional unbudgeted income of £200,000 per annum from Captain Cook Square is assumed in the MTFP from 2022/23.
74. In paragraph 109 of the Quarter Three report it was outlined that the Council had 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 was also mentioned that at Quarter Three no additional income had been assumed in 2021/22 from the purchase. Following the purchase an amount of £508,000 was received in 2021/22. There will be a need to determine whether the income received will be ongoing at current levels in future years, and also allow for the payment of capital financing costs. Further updates of this will be provided in future budget monitoring reports to Executive and the MTFP will be updated accordingly.
75. The Revenues and Benefits budget was underspent by £498,000 at year-end, an increase in underspend of £46,000 from that reported at Quarter Three. This underspend was mainly due to an increase in unbudgeted new burdens grant funding received 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 £189,000 of resources into 2022/23 to help support the staffing requirements within the Service.
76. As reported in previous quarters, there is a pressure of £100,000 on the Insurance budget for Middlesbrough's contribution to the potential cost of historic claims relating to Cleveland County Council.
77. In addition, there are a number of budget areas within Finance which have variances below £150,000, and these account for the overall £1,760,000 total underspend on the Finance budget at year-end.

### *Central Budgets*

78. 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 saving in Central Budgets.
79. The central contingency budget for Pay and Prices underspent by £931,000 at year-end. There was also a saving of £441,000 in 2021/22 following the settlement of the local government pay award for 2021/22 in March 2022, as 2% had been provided for this in 2021/22 but the pay award was agreed at only 1.75%. It should be noted that in light of the current economic climate there is high level of uncertainty regarding future pay awards – currently 2% has been provided per annum in the MTFP for pay awards

in future years. As mentioned in paragraph 7 and shown in the table in paragraph 10 it is proposed that pressures totalling £1,363,000 currently reported within Environment and Community Services relating to Kerbside Recycling and other inflationary elements, such as energy, utilities, fuel and food, will be funded from the Central Pay & Prices budget. This will mean that this budget will therefore more or less break even in 2021/22. Whilst provision was made for inflationary pressures in the updated MTFP presented to Council in February 2022, there will be a need for this budget to be closely monitored and updates will be provided in future reports.

80. The Capital Financing budget overspent by £355,000 at year-end, which is an increase of £274,000 from that reported at Quarter Three. The overspend was due to lower than expected savings from a review of asset lives as part of the calculation of minimum revenue provision for the year (£175,000), lower than expected income from the Middlesbrough Development Corporation due to delays on capital schemes (£93,000), and also higher interest costs than budgeted for on the original capital programme (£87,000). The remaining £175,000 held within the Capital Refinancing Reserve will be used to reduce the overspend at year-end to £180,000.
81. There is net excess rental income of £244,000 (after accounting for business rates and service charges which the Council had to incur in 2021/22 whilst tenants were not in place) above the budget for Centre Square Buildings 1 and 2 following the successful lettings of these buildings, which is broadly similar to that reported at Quarter Three.
82. There was a £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.
83. There was a pressure of £369,000 on the Covid Grants budget due to no income being received from the Government under the Local Tax Income Guarantee which was provided to compensate councils for an element of the 2020/21 Collection Fund deficit. Full details of this are provided in paragraph 87 of the Covid-19 section of this report.

## **Covid-19**

84. As reported previously, 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 pandemic continued during Quarter Four 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.
85. The paragraphs below provide an update of the position as at year-end 2021/22, detailing the costs of Covid-19 and the grant funding provided by the Government in 2021/22. The table contained in paragraph 110 summarises the overall financial position for 2021/22, along with a breakdown of the funding split between the Government grant funding and the Council.

## *Government Funding*

86. 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.
87. 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. The main actual funding provided during 2021/22 is summarised below:
- Covid-19 Expenditure Pressure Grant, which provided general support funding totalling £5.310m for 2021/22.
  - Sales, fees and charges (SFC) – the SFC compensation scheme for lost income was continued for the first three months of 2021/22, using 2020/21 budgeted income as the baseline. Middlesbrough received a total of £801,000 funding in 2021/22 from the scheme. It should be noted that the SFC scheme did not cover commercial income lost from investment activities and rental income.
  - A further allocation of Contain Outbreak Management Fund (COMF) funding of £1.370m was provided during 2021/22 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 2020/21 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. The budget set for 2021/22 assumed income of £369,000 would be received in 2021/22 for this based on information available at the time. However full details of the compensation methodology were not provided until after setting the 2021/22 budget, and due to improved collection rates later in 2020/21, under the method of the calculation Middlesbrough Council did not qualify for any compensation funding from this in 2021/22.
  - Local Council Tax Support Grant – The allocation for Middlesbrough was £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.
  - The Government provided councils with Section 31 Grant Funding for the lost income caused by the Covid-19 Business Rates Reliefs provided by the Government to businesses. The accounting regulations require that local authorities carry forward to 2022/23 the lost income from Business Rates via a deficit on the Collection Fund and then carry forward to 2022/23, via a reserve, the Section 31 Grant Funding provided in order to mitigate the Collection Fund deficit carried forward. This means that there is a need to transfer £5.833m of Section 31 Grant to a Business Rates Deficit Reserve and this will be used to offset any deficit that accrues.



### *Additional costs*

88. There were approximately £4.5m of additional costs associated with Covid-19 in 2021/22 and these covered a wide range of areas and services. The table below shows the additional expenditure per Directorate and the following paragraphs below detail the key areas of costs :

<b>Directorate</b>	<b>2021/22 Covid-19 expenditure £'000s</b>
Regeneration and Culture	998
Environment and Community Services	482
Public Health	0
Education & Partnerships	390
Children's Care	1,838
Adult Social Care	230
Legal and Governance Services	274
Finance	261
<b>Total 2021/22 Covid-19 expenditure</b>	<b>4,473</b>

89. Adult Social Care – there were additional costs due to the additional staffing that was required in Social Care to deal with the effects of the Covid-19 recovery on services provided. There were also costs related to Rough Sleepers and Homelessness of £117,000 - it should be noted that this is in addition to £247,000 which was charged to the Covid-19 COMF grant in 2021/22 for this.
90. Children's Social Care Costs – the additional costs within Children's Social Care were mainly due to delays in placements of children (£208,000) 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.
91. Other expenditure relating to Children's Services was incurred, in particular around Legal Childcare case backlogs and costs within Education & Partnerships (£390,000) which included additional Education Psychologists that were required to provide additional capacity for mental health support to young people and various additional costs relating to early years support.
92. Environment and Community Services – there were additional costs for a wide range of areas, including £145,000 relating to increased costs of waste collection and disposal due to increased tonnages of waste, and £158,000 relating to Fleet Services due to outsourcing of work due to a Covid-19 outbreak in the workshop and additional vehicle hire required.
93. Direct Covid-19 Costs - a number of direct costs associated with the current situation occurred 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 (£55,000), and other costs of

approximately £116,000 relating to the storage of Personal Protective Equipment (PPE). There were also increased payments to providers of Bed & Breakfast accommodation of approximately £43,000, due to the requirements to house people during the Covid-19 pandemic.

94. Other Covid-19 costs –Additional staff costs of approximately £125,000 were incurred 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 £70,000 occurred within HR for additional counselling and Health and Wellbeing services for staff following the Covid-19 pandemic. There was also additional IT expenditure for additional equipment and licences, of approximately £40,000.
95. SLM Leisure Trust (shown under Regeneration and Culture) – As detailed in previous 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. SLM have provided the Council with all requests for funding and whilst the March 2022 claim is still to be verified the total amount of funding provided by the Council stands at £1,059,165 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 was remaining for use in 2021/22 to offset any payments made to SLM, meaning that there was a net pressure of £918,096 in 2021/22. This is an increase of £186,710 on the position reported at Quarter Three. The main reasons for the increase include urgent maintenance works at the Neptune Centre swimming pool, replacement CCTV at Middlesbrough Sports Village, and significant increases in utility costs. Detailed discussions are currently taking place with SLM in order to reduce as far as possible the financial pressure to the Council in future years, and updates will be provided in future reports regarding this.

*Reduction in income*

96. The impact of the lockdown and closure of facilities and services and the recovery period following the end of restrictions has resulted in a loss of income totalling approximately £2.0m across a broad range of areas during 2021/22. The table below shows the loss per Directorate :

<b>Directorate</b>	<b>2021/22 Covid-19 reduction in income £'000s</b>
Regeneration and Culture	701
Environment and Community Services	435
Public Health	0
Education & Partnerships	266
Children’s Care	0
Adult Social Care	406
Legal and Governance Services	45
Finance	120
<b>Total 2021/22 Covid-19 reduction in income</b>	<b>1,973</b>

97. The list below highlights the main reasons and the loss for each main area in 2021/22:

- Car Parking (£263,000 – after effects of TVCA £850,000 grant received)
- Cultural activities (Town Hall, Middlesbrough Theatre, Museums, Parks) (£198,000)
- Catering income from schools (£187,000)
- Adult Social Care - In house day centre care provision (£406,000)
- Libraries and Community Hubs – room hire, book sales, and fines (£85,000)
- Council run Nurseries and Children’s Centres (£221,000)
- Bus station – departure charges and loss of income from toilets (£91,000)
- Capital Finance – Rent and Interest (£80,000)
- SLM – loss of profit share in 2021/22 (£172,000)

98. As mentioned in paragraph 87 the Council received £801,000 from the SFC scheme in 2021/22.

99. Provision was made in the updated MTFP presented to Council in February 2022 for the future potential ongoing effects of Covid-19 on income in a number of the areas mentioned above. This has been reviewed and in light of the current levels of car parking income, it is proposed that a new earmarked Car Parking Pressures Reserve of £782,000 is set up for the potential ongoing effects of Covid-19 on car parking income in future years.

#### *Unachievable savings*

100. It was not 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, with £55,000 of the saving not being achieved and charged to Covid-19 costs in 2021/22.

#### *Council Tax and Business Rates income*

101. 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.

102. 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 for 2020/21 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 were incorporated

into the latest refresh of the Council's Medium Term Financial Plan presented to Council in February 2022.

103. As detailed in paragraph 87, Government funding was provided to compensate councils for an element of the 2020/21 Collection Fund 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 did not qualify for any compensation funding from this in 2021/22.
104. The MTFP presented to Council in February 2022 included the estimated effect of Council Tax and Business Rates income during 2021/22, but it is clear that there are a number of issues, including the current economic climate, which may potentially result in pressures continuing on Council Tax and Business Rates income in future years, and this will be closely monitored and the MTFP will be updated for this as appropriate.
105. The phasing out of the furloughing scheme from the start of July 2021 and the closing of it at the end of September 2021 and the current general economic climate may potentially 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 ongoing economic impact of the pandemic and the current general economic climate may increase the number of households eligible for LCTS support. This may potentially lead to a reduction in the overall amount of Council Tax assessed/collected compared to the level budgeted. This will be closely monitored through 2022/23 and future years.
106. Our budgeted Council Tax base includes assumptions on housing growth. If there is reduced growth in housing numbers, this will impact on income levels.
107. 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 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 in the future if businesses fail or are unable to pay.
108. 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.
109. The position relating to Council Tax and Business Rates income for 2022/23 and future years and the effects on the Collection Fund will be closely monitored, and updates will be provided in future budget monitoring reports

#### *Summary of Covid-19 pressures*

110. The financial impact of the Covid-19 pandemic in 2021/22 is summarised below, along with a breakdown of the funding split between the Government grant funding and the Council, based on funding provided by the Government as detailed in paragraph 87:

<u>see also note on Other Covid Grants below</u>			
	<u>Grant Allocation</u> <u>2021/22</u>	<u>Actual 2021/22</u>	<u>Council Cost 21/22</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Extraordinary costs incurred		4.473	
Commercial income losses		0.080	
Non-SFC income losses		0.172	
Unachievable Change Programme savings		0.055	
<b>Total Covid-19 Main grant (2021/22)</b>	<b>5.310</b>	<b>4.780</b>	<b>-0.530</b>
<b>Sales, Fees and Charges (SFC) income loss grant (2021/22)</b> (note only received grant for 1st quarter of 2021/22)	<b>0.801</b>	<b>1.721</b>	<b>0.920</b>
<b>NET COST OF COVID TO COUNCIL 2021/22</b>			<b>0.390</b>

<u>NOTE - OTHER COVID GRANTS</u>			
	<u>Grant Allocation</u> <u>2021/22</u>	<u>Actual Spend</u> <u>2021/22</u>	<u>Grant Remaining</u> <u>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	0.540	0.540	0.000
Contain Outbreak Management Fund (COMF) - see Note 3	1.059	1.059	0.000
<b>Total Other Covid Grants</b>	<b>1.797</b>	<b>1.797</b>	<b>0.000</b>

**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 (£540k) and 2022/23

**NOTE 3**  
For COMF - the Council received £1.37m for 2021/22, however £311k of funding is likely to be required in 22/23 for the continuation of Public Protection schemes.

111. The above table shows that there has been a financial pressure due to Covid-19 of £390,000 in 2021/22, which is an decrease of £1,431,000 from the £1,821,000 pressure reported at Quarter Three, At Quarter Three the effects of the Omicron variant were not fully known and forecasts of additional expenditure and reductions in income were made assuming a level of further restrictions during Quarter Four, these did not occur and therefore there were lower levels of additional expenditure and reductions in income than assumed at Quarter Three. It is proposed that the £0.390m pressure due to Covid-19 will be funded from the Covid Recovery Reserve of £4.512m set aside for this.

### **Flexible Use of Capital Receipts**

112. Full Council on 20 October 2021 approved a Flexible Use of Capital Receipts Strategy. The report to Council stated that the Strategy would 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 to be funded through flexible use of capital receipts for 2021/22 along with the final costs for 2021/22, and the associated estimated annual revenue savings or future cost avoidance.

Project	Further Details	Investment Required 2021/22 £000	Estimated annual savings £000
<b>Children's Services - Children's Care</b>	<b>Funding for transformation of service and Ofsted Improvement Plan to improve services and outcomes</b>		
	Specialist agency teams in Referrals & Assessments to improve the "front door model"	1,145	Cost avoidance
	Specialist agency team examining placements in order to reduce high cost placements	592	624
	Workforce remodelling - experienced social worker recruitment and retention / agency worker reduction strategy	427	200
	Transformation costs associated with increasing internal residential provision	26	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)	132	Cost avoidance
	Transformation of Children with Disabilities long-term packages of support to prevent young people entering care	0	0
	Additional posts to drive improvement and transformation	183	Enabling
<b>Central budgets - Ofsted Improvement</b>	Ofsted Improvement Plan additional posts to drive improvement and transformation	1,811	Enabling
		4,316	1,345
<b>Central budgets - Change Fund</b>			
<b>Digital Transformation</b>	One-off implementation costs related to the Digital Transformation Project	148	1,094
<b>Children's Services</b>	Additional posts to support changes in Senior Management and Programme Managers	140	Enabling
<b>Management and Staffing Review</b>	Service reconfiguration, restructuring or rationalisation of management and staff, where this leads to ongoing efficiency savings or service transformation	327	192
<b>Organisational Development</b>	Organisational Development upskilling linked to the Council's values	23	Enabling
<b>HR System</b>	Development of the Council's HR system	0	Enabling
<b>Project Support for Transformation Projects</b>	Support for the transformation across the Council	63	Enabling
<b>TOTAL</b>		<b>5,017</b>	<b>2,631</b>

113. Entries have been made in the Council's accounts for these having due regard to the Local Authority Accounting Code of Practice, including the effect on the Council's Investment Strategy (see paragraph 125), and the outturns detailed in the table in paragraph 10 have been amended for these. This will effectively mean that the Council's financial position will be improved by approximately £5m and will allow the Council to increase the level of reserves that the Council holds by this, 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 further improvement

and efficiencies. Further details of the effect on the level of reserves are provided in paragraphs 158 to 160 of this report.

### **Revenue budget spending controls**

114. 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 remained in place for 2020/21 and 2021/22, and it is proposed that they will continue in 2022/23, 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.

115. The Council is continuing to minimise the use of agency staff where it is appropriate to do so, but it was acknowledged that there was a need in 2021/22 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 agency staff is likely to continue in 2022/23, principally to support the continued ongoing transformation within Children's Services, however this will be minimised as far as possible. The Council is using 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.

116. A number of plans were 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).

117. While the mitigations above have been progressed, the experience in both 2020/21 and 2021/22 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.

118. 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 MTFPs presented to Council on 24 November 2021 and 23 February 2022 provided further detail of this.

119. As mentioned in the budget report to Council of 24 February 2021 the Council set aside approximately £1.6m of Council funding for 2021/22, to support the Ofsted Improvement Plan. This was combined with £188,000 of unspent funding carried forward from 2020/21. All of this available funding was spent in 2021/22, with progress against the plan being monitored by the Multi Agency Strategic Improvement Board. This funding finished at the end of 2021/22 and any further funding required for Children's Services Improvement will be detailed in future budget monitoring reports and the MTFP updated accordingly as appropriate.

### **Capital Budget Outturn 2021/22**

120. As part of the Quarter Three report to Executive on 14 February 2022, Executive approved a revised capital budget for 2021/22 of £59.035m. This was then reviewed, with a further year being added, and approved by Council as part of Revenue Budget, Council Tax, Medium Term Financial Plan and Capital Strategy 2022/23 report to Council on 23 February 2022.



121. Following a further review and the inclusion of new additional schemes (paragraph 125 and 126), increases to existing schemes, and the reductions to existing schemes (as detailed in paragraphs 123, the Council spent £56.899m at year-end. The reasons for the underspend to the revised capital budget for 2021/22 and any changes required to the Investment Strategy are provided in the paragraphs below.

122. The revised Investment Strategy to 2024/25 is included at Appendix 1 for approval. 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.

123. It is proposed that the following scheme within the Investment Strategy is reduced in value:

- £657,000 requires transferring to revenue budgets in order to fund staffing and other revenue costs during the course of the Towns Fund programme. This is in line with approvals provided by the Department for Levelling Up and Communities (DLUC).

124. It is proposed that the following 5 schemes transfer between directorates :

- £1,970,000 of the Acquisition of Town Centre Properties allocation for 2022/23 is transferred from Regeneration and Culture to Environment and Community Services. This is in relation to essential maintenance required at the Cleveland Centre. These works were identified prior to acquisition and stated as required within the Executive report of 9 November 2021.
- £778,000 of the Towns Fund Ward Initiatives project for 2022/23 is transferred from Regeneration and Culture to Environment and Community Services. The remaining £222,000 of this allocation will remain within Regeneration and Culture.
- £188,000 of the Towns Fund is transferred from Regeneration and Culture to Environment and Community Services in 2021/22 in relation to the building works at the Captain Cook Public House.
- £100,000 of the Towns Fund allocated for the Cargo Fleet Nature Reserve project is transferred from Regeneration and Culture to Environment and Community Services (£6,000 2021/22 and £94,000 2022/23).
- £776,000 relating to East Middlesbrough Community Hub is transferred from Environment and Community Services to Regeneration and Culture, to be joined up with other Towns Funds funding relating to this.

125. It is proposed to add the following schemes above £150,000, to the revised Investment Strategy, set out at Appendix 1 for consideration and approval :

- Capitalisation of Transformation Expenditure via Flexible Use of Capital Receipts Strategy - £5,017,000 of expenditure has been added to the Investment Strategy as part of the required correct accounting treatment for the adoption of this Strategy (see paragraph 113). The additional expenditure has been added to the following Directorates :

- £11,000 Regeneration
  - £263,000 Environment and Community Services
  - £4,217,000 Children's Care
  - £526,000 Legal and Governance Services
- On 10 May 2022, Executive approved the "Tees Advanced Manufacturing Park - Next Phase" report. The report approved funding of £8,820,000 (£1,500,000 2022/23 and £7,320,000 2023/24) for the development of the second phase of Teesside Advanced Manufacturing Park, which will result in approximately 90,000 square feet of additional manufacturing units. The report has highlighted that the scheme is only viable with additional funding from Tees Valley Combined Authority (TVCA). A funding agreement with TVCA is yet to be finalised. The report also approves £335,000 of funding to complete phase one of the park. Phase one has performed significantly better than the original business case, the site is now fully occupied, ahead of anticipated schedules and the rental income achieved is also significantly higher than envisaged. Of the £335,000, £253,000 is for fees associated with developer incentives. It requires noting that the Council's revenue income achieved on the site will exceed expectations by more than £1,000,000 over the period of five years.
  - £175,000 has been added to the Investment Strategy in respect of the costs required to relocate the Safe Haven facility from Albert Road to a unit within Middlesbrough Bus Station.

126. The following additions to schemes in the current Investment Strategy which have been recently approved by Executive are also to be included in the revised Investment Strategy, set out at Appendix 1 for consideration and approval :

- Affordable Housing Via Section 106 - £345,000 of Section 106 contributions received from housing developers have been added to the Investment Strategy.
- Highways Infrastructure Development Section 106 - £250,000 of Section 106 contributions received from housing developers have been added to the Investment Strategy.
- Traffic Signals – Tees Valley Combined Authority – On 18 November 2021 Tees Valley Combined Authority confirmed that £500,000 of funding via the Department for Transport has been provided for traffic signals. As the lead authority, this grant is provided to Middlesbrough Council but the funds will be expended on priorities throughout the wider Tees Valley.
- Waste Procurement Project – The Council has incurred costs of £176,000 in 2021/22 as its share in respect of the development of the new waste management site, which is being led by Stockton Borough Council.
- Transporter Bridge – On 22<sup>nd</sup> December 2020 Executive approved the "Transporter Bridge – Future Operation" report providing funding for the initial repair programme and the funding requirements to ensure the ongoing structural integrity of the Transporter Bridge. Whilst undertaking these works, issues in relation to the upper chords and angles were identified. A major health and safety incident may have occurred if these issues had not been resolved immediately. The cost of the works totalled £272,000, of which £136,000

requires additional Council funding and the remaining £136,000 being contributed by Stockton Borough Council.

- Maintained Primary Schools – The original scope of works at the Park End Primary School bungalow conversion has increased to include works on the main hall, an external stage, a new MUGA and improvements to the existing MUGA. The cost of the additional works is £275,000, all of which has been provided by the school.
- On 28 March 2022 the Department for Education provided the Council with confirmation of the continuation of and the 2022/23 grant funding allocations for the following :
  - £5,007,532 provided from the High Needs Capital Provision Allocation
  - £1,758,128 provided from the Basic Needs Allocation, of which £1,645,000 was already assumed within the Investment Strategy, making a real increase to the Investment Strategy of £113,128.
  - £622,550 provided from the School Condition Grant Allocation
- On 5 April 2022 Executive approved the “Schools Capital Programme 2022” report. Within the report £6,200,000 of grant funding was approved for the provision of 70 new places for Pupils with Severe Learning Difficulties (SLD). The preferred option is to extend the accommodation at Discovery Special Academy. The grants stated above will be part used to fund this extension along with pre-existing grants not fully expended.

127. The split by Directorate is shown in the table below, which also shows the “real” 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 23 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
	Investment Strategy Budget (as per Budget report to Council 23/2/22)	Final Investment Strategy Outturn	Final Investment Strategy Outturn Variance
	£'000	£'000	£'000
Regeneration and Culture	40,672	35,668	(5,004)
Environment and Community Services	9,059	10,140	1,081
Public Health	0	0	0
Education & Partnerships	2,934	1,363	(1,571)
Children's Care	728	4,745	4,017
Adult Social Care and Health Integration	3,033	2,501	(532)
Legal and Governance Services	2,297	2,238	(59)
Finance	312	244	(68)
<b>Total</b>	<b>59,035</b>	<b>56,899</b>	<b>(2,136)</b>

MEMO	
New, increased & reduced Schemes / transfers	Real outturn variance excluding new, increased, & reduced schemes / transfers
£'000	£'000
(527)	(4,477)
1,031	50
0	0
101	(1,672)
4,217	(200)
0	(532)
526	(585)
0	(68)
<b>5,348</b>	<b>(7,484)</b>

## *Regeneration*

128. Boho X – The contractor for the construction of Boho X has been providing the Council with a cash flow statement which when examined has been proven to be overstated. Whilst this has no effect on the cost of the project or the anticipated completion date it has resulted in £479,000 of planned expenditure being re-profiled into 2022/23.
129. Future High Streets Fund – Two of the schemes within the wider transformation of Captain Cook Shopping Precinct have spent significantly less than anticipated at Quarter Three. The public realm works have been delayed due to the contractor demanding certain assurances prior to commencing works on the site, these assurances were required as the actual contract has yet to be signed. Work has now commenced but the delay has resulted in £229,000 of anticipated expenditure being re-profiled into 2022/23. Lane 7 were required to provide their fit out plans to the Council in order for them to start drawing down the Council's contribution to the works, these plans were expected to be received during 2021/22 but were not provided until April 2022, consequently £581,000 of funds have been transferred into 2022/22. Other minor changes in expected spend have resulted in a total of £958,000 of grant being transferred into 2022/23.
130. Towns Fund - £494,000 of expected spend within the Towns Fund grant has been transferred into 2022/23. This is predominantly due to two of the schemes within the wider funding. Middlesbrough College has not finalised where its town centre provision should be situated, this is due to the Council recently acquiring the Cleveland Centre which provides the College with additional options for the location. There has also been a delay in the production of the windows for the Captain Cook pub which were expected to be acquired in 2021/22.
131. Housing Growth – Due to the uncertainty regarding the adoption of the Stainsby Masterplan and the consequential delay to the report that would seek Executive approval for the disposal of the associated greenfield sites the expected expenditure on infrastructure and the appointment of consultants have resulted in £214,000 of funds being transferred into 2022/23.
132. Brownfield Housing Fund – Delays associated with the delivery partner submitting a planning application for works on the site and general supply chain related issues have resulted in £167,000 of funds being re-profiled into 2022/23.
133. Middlesbrough Development Company – There has been significant delays in respect of Northern Power Grid undertaking a cable diversion at the Tollesby shops site. The diversion is now complete but the delay has hindered progress on other elements of the construction which has resulted in £317,000 of planned expenditure transferring into 2022/23.
134. Empty Homes 2015 To 2018 – The conditions of the grant have proven unattractive to home owners and despite Homes England extending the grant period for a number of years the full amount available has not been utilised. £192,000 has been re-allocated into 2022/23 to fund the works at the final applicants' properties. When all claims are settled the residual grant will be removed from the Investment Strategy.

135. North Ormesby Joint Venture – No further expenditure is anticipated in relation to the joint venture with Thirteen Group. £339,000 of Section 106 funds have been carried into 2022/23 as a final reconciliation is required. Upon reconciling, the unspent funds will be returned to the general Affordable Housing via Section 106 scheme for use as and when required.
136. New Civic Centre Campus – The original contractor was employed on a two stage design and build tender. During the phase one building strip out works the contractor provided the Council with a cost proposal for the specified phase two works, which was above the available budget. As such, the Council made the decision to re-tender the phase two works. An alternative contractor has been selected and the costs are within budget. The change in contract has caused a slight delay in works, resulting in £255,000 of funds being transferred into 2022/23.
137. Local Authority Delivery 2 Green Homes Grant - £583,000 of grant funding has been re-profiled into 2022/23 due to lack of take up of the offer of home improvements provided. This has been addressed through a marketing campaign associated with solar panels which has proven to be a more popular product. In addition, there has been some general issues with delays relating to the supply chain.
138. Linthorpe Road Cycleway – The scheme did not start on the expected date due to the contractor having issues in respect of the acquisition of materials and needing to seek an alternative sub-contractor due to the original one opting to take an alternative contract. The delays in acquiring both the materials and a secondary contractor have resulted in £351,000 of funds being transferred into 2022/23.
139. Local Transport Plan – There has been a general disruption to the wider programme due to issues relating to Covid-19 and problems with the supply chain. Consequently, £465,000 of grant funding has been re-profiled into 2022/23.

#### *Environment and Community Services*

140. Purchase Of Vehicles - £282,000 of funds originally assumed to be spent in 2021/22 have now transferred into 2022/23. This is due to significantly longer lead in times from the ordering to the delivery of vehicles than previously experienced. This is an issue relating to the Covid-19 pandemic, which is further exasperated with respect to specialist vehicles, with some deliveries not now expected until the end of 2022.
141. Bridges & Structures (Non Local Transport Plan) - Re-profiling of £311,000 of funds into 2022/23 is required due to a delay in consultants' reports and the revision of specifications for works on the bridges. Additionally works to a column on the A66 were paused until a decision was reached with regards to the demolition of the SLAM nightclub.
142. Street Lighting Maintenance – There has been an increase in the Lighting Up The Town programme. Furthermore, the number of column inspections carried out as part of the revaluation exercise was higher than expected. £412,000 of funds have been brought back into 2021/22 from future years allocations in order to fund these additional works.

143. Local Transport Plan – Highways Maintenance – £245,000 of grant funding has been re-profiled back to 2021/22 from 2022/23, this is due to the completion of works to the carriageways being higher than anticipated.

#### *Education and Partnerships*

144. Schemes In Secondary Academies – The expansion scheme at King's Academy is now due to commence in the summer of 2022, this has resulted in £321,000 of grant funding being re-profiled into 2022/23.

145. High Needs Provision Capital Allocation - £232,000 of grant funding has been carried into 2022/23 for use as and when individual improvement schemes are identified and approved.

146. School Condition Grant Allocation – £290,000 of grant funding has been re-profiled into 2022/23 owing to underspends on various schemes. The grant will be reallocated to individual schemes as and when required.

#### *Children's Care*

147. Contact Centre – Bus Station Unit 1 – The works on the unit did not start on the date envisaged, this has resulted in £158,000 of funds being transferred into 2022/23.

#### *Adult Social Care and Health Integration*

148. Disabled Facilities Grant – Both the shortage of available contractors and reduced access to properties due to shielding relating to Covid-19 have resulted in £423,000 of planned expenditure on home adaptations being reallocated to 2022/23.

#### *Legal and Governance Services*

149. Enterprise Agreements – £232,000 of previously planned expenditure has been re-profiled into 2022/23 predominantly due to the timetable for the rollout of Microsoft 365 being reviewed.

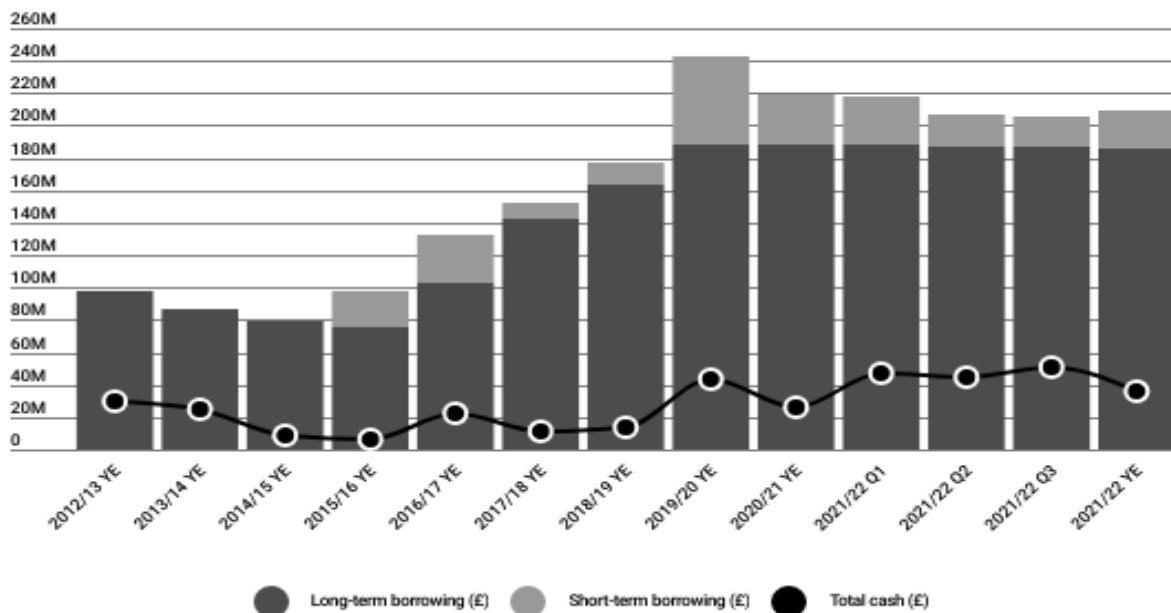
150. IT Refresh – Network Refresh – The block budget of £170,000 has been transferred to 2022/23 to part fund the rollout of Microsoft 365 and the replacement for the Council's document sharing software.

### **Borrowing & Prudential Indicators**

151. The Council's total borrowing increased from £205.2m at 30 December 2021 to £208.8m at 31 March 2022. This increase of £3.6m reflects the borrowing of £15m for new capital expenditure needs offset by maturing debt on short-term borrowing of £10m, less repayment of principal amounts on existing annuity loans held by the Council at £1.4m. Cash balances did dip in the early part of 2022 which required the new borrowing but slippage on capital schemes and the new funding paid in advance for the government's energy rebate scheme of £9m meant that cash recovered to a healthy level by the end of the financial year.

152. The ratio of short-term to long-term borrowing has remained fairly stable during the quarter given the borrowing decisions made which took into account the recent rise in

Public Works Loan Board rates and rising bank rates. It is expected this position will change somewhat during 2022/23 as a large borrowing requirement will be required, and cash balances are expected to reduce as reserves containing residual Covid monies are spent.



153. 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.

154. The table below gives a comparison of the budget against the actual position as at year-end 2021/22 on each of the prudential indicators adopted by the Council.

<b>Prudential Indicators - 2021/22 Outturn position</b>		
	<b>Budget</b>	<b>Actual</b>
	<b>(£m)</b>	<b>(£m)</b>
Capital Expenditure	93.716	56.899
<b>Financing</b>		
External Sources	57.114	20.800
Own Resources	12.103	13.503
Debt	24.499	22.596
Capital Financing Requirement	255.164	263.528
External Debt	248.100	208.880
Investments	15.000	32.500
Capital Financing	9.518	9.873
Cost as a % of revenue budget	8.2%	8.5%

155. The total capital spend & level of financing has reduced by £36.8m 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 re-profiling 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 mainly related to grant funding being deferred into the next financial year.
156. The Council's total under borrowed position (external debt compared to the capital-financing requirement – or underlying need to borrow) is £54.6m at 31 March 2022. As cash balances reduce during the 2022/23 financial year to more normal levels with the level of reserves planned to be spent, plus the borrowing requirements within the Investment Strategy, around £30m of this under-borrowing will be needed to maintain the Council's overall liquidity position.
157. The amount of external debt at £208.8m and the total underlying need to borrow of £263.5m are both well below the Council's authorised debt limit of £315m for the year. 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 and higher interest costs than budgeted for.

### **Reserves & Provisions**

158. As detailed in the report overall savings have been made in 2021/22, however there is a need to maximise reserves as far as possible in order to fund the potential pressures that will arise in future years due to the on-going effects of the significant and continued transformation work taking place within Children's Services, and also that which will take place within Adult Social Care regarding the Fair Cost of Care and Social Care Reforms.
159. Within the report a number of transfers to reserves have been detailed. These are summarised below and it is requested that Executive approve the transfers to the appropriate reserves.
- Public Health Directorate underspend relating to sexual health service to the Public Health Reserve (£230,000)
  - Covid -19 expenditure incurred during 2021/22 to the Covid Recovery Reserve (£390,000)
  - The remaining balance on the Covid-19 Recovery Reserve to a new specific earmarked Car Parking Pressures Reserve (£782,000) and the General Fund Reserve (£3,340,000)
  - Final year-end outturn underspend on non-Covid-19 elements (following Flexible Use of Capital Receipts and transfer to Public Health Reserve) to the General Fund Reserve (£2,325,000)
  - General Fund Reserve to a new specific earmarked Social Care Transformation Reserve (£5,665,000)
  - Transfer of the following Reserves into the new specific earmarked Social Care Transformation Reserve
    - Children's Services Improvement Reserve (£175,000)
    - Children's Services Demand Reserve (£732,000)
    - Social Care Demand Reserve (£500,000)



160. The table below sets out a summary of the balance of reserves and provisions at the start of 2021/22 and as at year-end and further detail is provided in Appendix 2. The year-end balances assume that the transfer to reserves as detailed in the report and summarised in paragraph 159 are approved by Executive.

Reserves and Provisions 2021/22	Opening Balance	Use in year	Additional Contributions	Transfers between reserves	Transfers to General Fund of final year-end underspend on non-Covid 19 expenditure	Transfers from General Fund to new earmarked Reserve	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	3,340	2,325	(5,665)	11,195
Covid Recovery Reserve	4,512	(390)	0	(4,122)	0	0	0
Earmarked Reserve - Social Care Transformation Reserve	0	0	0	1,407	0	5,665	7,072
Earmarked Reserves	28,970	(45,806)	42,859	(2,748)	0	0	23,275
Earmarked Reserve - Dedicated Schools Grant (DSG)	(3,291)	(44)	0	0	0	0	(3,335)
School balances	4,864	(4,864)	4,956	0	0	0	4,956
Provisions	2,555	(3,579)	4,548	2,123	0	0	5,647
<b>TOTAL</b>	<b>48,110</b>	<b>(54,683)</b>	<b>53,058</b>	<b>0</b>	<b>2,325</b>	<b>0</b>	<b>48,810</b>

161. It should be noted that the level of Earmarked Reserves is increased by £5.833m for the accounting treatment required for Section 31 Business Rates Relief Grant which is required to be carried forward to 2022/23 to fund the Collection Fund deficit (as detailed in paragraph 87).

162. It should also be noted that the year-end balances may be subject to further change due to further technical adjustments which may be required as part of the closure of the Council's accounts. These will be mainly relating to the closure of the Collection Fund accounts. There may also be potential changes required as part of the external audit of the Council's accounts. The final year-end balances will be reported in the Council's Statement of Accounts, and as part of the Quarter One 2022/23 budget monitoring report.

163. The use of Reserves will be managed by the Director of Finance, with reports being provided to Executive as part of the quarterly budget monitoring reports.

### **What decision(s) are being recommended?**

The report requests that the Executive:

- Notes the 2021/22 revenue budget initial year-end outturn of a £2.462m overspend on non-Covid-19 elements.
- Notes the implementation of the Flexible Use of Capital Receipts Strategy totalling £5.017m in 2021/22, as approved by Council on 20 October 2021.

- Approves the transfer of £230,000 of the Public Health Directorate underspend relating to the sexual health service to the Public Health Reserve.
- Notes the 2021/22 revenue budget final year-end outturn (following the Flexible Use of Capital Receipts and transfer to Public Health Reserve) of a £2.325m underspend on non-Covid-19 elements,
- Notes the financial effect of Covid-19 in 2021/22 of £390,000.
- Approves the following transfers to Reserves
  - Covid -19 expenditure incurred during 2021/22 to the Covid Recovery Reserve (£390,000)
  - The remaining balance on the Covid Recovery Reserve to a new specific earmarked Car Parking Pressures Reserve (£782,000) and the General Fund Reserve (£3,340,000)
  - The final year-end outturn underspend on non-Covid-19 expenditure to the General Fund Reserve (£2,325,000)
- Approves the creation of a new specific earmarked Social Care Transformation Reserve to help support the on-going effects of the significant and continued transformation work taking place within Children’s Services, and also that which will take place within Adult Social Care regarding the Fair Cost of Care and Social Care Reforms, and approves the transfer of £5,665,000 to this Reserve from the General Fund Reserve.
- Approves the transfer of the following Reserves into the new specific earmarked Social Care Transformation Reserve, making a total of £7.072m available for the required transformation :
  - Children’s Services Improvement Reserve (£175,000)
  - Children’s Services Demand Reserve (£732,000)
  - Social Care Demand Reserve (£500,000)
- Notes the 2021/22 capital budget final year-end outturn of £56.899m against a revised capital budget of £59.035m, and approves the revised Investment Strategy to 2024/25 at Appendix 1.

**Rationale for the recommended decision(s)**

164. 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 decision(s) and why these have not been recommended**

165. Not applicable.

## **Impact(s) of the recommended decision(s)**

### ***Legal***

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

### ***Strategic priorities and risks***

167. The revenue and capital budgets form part of the Council's Policy Framework. All proposed variations set out in this report are in line with authority delegated to the Executive.

168. In line with the Council's Risk Management Policy, the corporate Strategic Risk Register will be reported to this Executive as part of the Corporate Performance Update: 2021/22 Year End Results report.

### ***Human Rights, Equality and Data Protection***

169. 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.

### ***Financial***

170. The Council's initial revenue year-end outturn position for 2021/22 for non-Covid-19 elements is an overspend of £2,462,000. Assuming that the proposed transfers of £230,000 of the Public Health Directorate underspend to the Public Health Reserve, and the proposed Flexible Use of Capital Receipts of £5,017,000 are approved by Executive this will mean that there is a final year-end outturn of a £2,325,000 underspend on non-Covid-19 elements. The £2,325,000 underspend on non-Covid-19 elements is proposed to initially be transferred to the General Fund Reserve.

171. There has been a financial pressure due to Covid-19 of £390,000 in 2021/22. It is proposed that this is funded from the £4,512,000 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. In light of the current levels of car parking income, it is proposed that a new earmarked Car Parking Pressures Reserve of £782,000 is set up for the potential ongoing effects of Covid-19 on car parking income in future years. Due to provision now being made in the MTFP presented to Council in February 2022 for the continuing effect of Covid-19 in future years, it is now proposed that the remaining balance of £3,340,000 on the Covid Recovery Reserve is transferred to the General Fund Reserve initially.

172. It is then proposed that £5,665,000 is transferred from the General Fund Reserve to a new specific earmarked Social Care Transformation Reserve in order to help support the significant and continued transformation work taking place within the Council, principally within Children's Services and that which will take place within Adult Social Care regarding the Fair Cost of Care and Social Care Reforms.

173. It is also proposed that the remaining balances on the Children's Services Improvement Reserve (£175,000), Children's Services Demand Reserve (£732,000),

and the Social Care Demand Reserve (£500,000), are transferred into the new specific earmarked Social Care Transformation Reserve and combined with the amount above to make a total of £7.072m available within the Social Care Transformation Reserve for the required transformation. The use of this Reserve will be managed by the Director of Finance, with reports being provided to Executive as part of the quarterly budget monitoring reports.

174. The final 2021/22 capital budget outturn at year-end is £56.899m. An updated Investment Strategy for the period to the end of 2024/25 is attached in Appendix 1 of this report.

### **Actions to be taken to implement the recommended decision(s)**

<b>Action</b>	<b>Responsible Officer</b>	<b>Deadline</b>
Corporate revenue budget spending controls set out in the main body of the report will continue to be applied to Directorates as stated.	Director of Finance	31/3/23
Actions outlined within the body of the report in relation to overspending within Children's Care will continue to be implemented.	Director of Children's Services	31/3/23
If approved, adoption of the revised Investment Strategy included at Appendix 1.	Head of Financial Planning & Support	30/6/22

### **Appendices**

<b>1</b>	Proposed revised Investment Strategy to 2024/25
<b>2</b>	Detail of reserves and provisions as at 31/3/22

### **Background papers**

<b>Body</b>	<b>Report title</b>	<b>Date</b>
Council	Strategic Plan 2021-24	24/02/21
Council	Revenue Budget, Council Tax, Medium Term Financial Plan and Capital Strategy 2021/22	24/02/21
Executive	Revenue and Capital Budget – Projected Outturn position as at Quarter One 2021/22	7/09/21
Council	Flexible Use of Capital Receipts Strategy	20/10/21
Executive	Revenue and Capital Budget – Projected Outturn position as at Quarter Two 2021/22	9/11/21

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

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