

Report of:	Executive Member for Finance and Governance Director of Finance
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Submitted to:	Overview & Scrutiny Board
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Date:	21 September 2022
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Title:	Revenue and Capital Budget – Projected Outturn position as at Quarter One 2022/23
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Report for:	Information
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Status:	Public
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Strategic priority:	All
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Key decision:	Not applicable
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Why:	Report is for information only
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Urgent:	No
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Why:	N/A
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Executive summary

This report advises the Overview and Scrutiny Board of the Council's financial position as at Quarter One 2022/23.

The report provides the necessary information to enable the Overview and Scrutiny Board to discharge its financial management responsibilities, setting out:

- projected revenue and capital budget year-end outturns as at Quarter One 2022/23;
- position statements in relation to the Council's borrowing and prudential indicators, and its reserves and provisions; and
- actions that the Council has taken and plans to address the issues raised.

The report requests that the Overview and Scrutiny Board:

- Notes the transfer of £5.665m of additional temporary budget to Children's Care in 2022/23 only to correspond with the current MTFP 3-year plan, funded by £3.702m

from centrally held contingency budgets and £1.963m from the Social Care Transformation Reserve.

- Notes that following the approval of the above proposed transfer, there is a projected 2022/23 revenue budget year-end outturn as at Quarter One of a £9.012m overspend.
- Notes the management action being taken to address the shortfall and recover the position to a balanced budget.
- Notes the proposed potential implementation of a Flexible Use of Capital Receipts Strategy for 2022/23 to fund transformation costs, in particular in Children's Services, which will be submitted for approval by Full Council on 7 September 2022.
- Notes that the current projected outturn will have a negative impact on the Council's current Medium Term Financial Plan and that the ongoing financial challenges will continue into 2023/24 and future years. The position is currently being assessed and will be reported to Members in due course as part of future Medium Term Financial Plan updates and as part of the budget strategy for 2023/24 to Executive and Council. It should be noted that there is currently a great deal of uncertainty in forecasting created by the pay award, inflationary pressures and the impact on demand for services.
- Notes the proposed revenue budget virements over £150,000 as detailed in Appendix 1.
- Notes the 2022/23 capital budget predicted year-end outturn of £90.614m as at Quarter One against a revised capital budget of £104.675m, and approves the revised Investment Strategy to 2024/25 at Appendix 2.

Purpose

1. This report advises the Overview and Scrutiny Board of the Council's financial position as at Quarter One 2022/23.

Background and relevant information

2. The Council's Scheme of Delegation gives the Overview and Scrutiny Board collective responsibility for the monitoring of corporate strategic performance and financial management, together with recommending associated action.
3. This report provides the necessary information to enable the Overview and Scrutiny Board to discharge its overview responsibilities, setting out:
 - projected revenue and capital budget year-end outturns as at Quarter One 2022/23;
 - position statements in relation to the Council's borrowing and prudential indicators, and its reserves and provisions; and
 - actions that the Council has taken and plans to address the issues raised.
4. As per Standing Orders and Financial Procedures and Regulations, Executive on 6 September 2021 approved the revenue budget virements over £150,000 attached at Appendix 1.
5. A revised Investment Strategy for the period to 2024/25, as approved by Executive on 6 September 2021, is attached at Appendix 2.

Revenue Budget Projected Year-End Outturn as at Quarter One 2022/23

6. The 2022/23 Revenue budget for the Council is £118,328,934 as set out in the Revenue Budget, Council Tax, Medium Term Financial Plan (MTFP) and Capital Strategy 2022/23 Report presented to Council on 23 February 2022.
7. As mentioned in previous reports and in the Revenue Budget, Council Tax, MTFP and Capital Strategy 2022/23 Report presented to Council on 23 February 2022, Children's Social Care remains the biggest area of financial concern and a three-year plan was drawn up in July 2021 for the potential MTFP impact. As part of this plan, Children's Care will receive a further £3m p.a. of permanent additional funding from 2024/25 and this is currently built in the Council's MTFP. Until the additional funding is built into the MTFP, it was proposed to fund the amounts requested in the July 2021 plan for 2022/23 and 2023/24 (totalling approximately £9.2m) from Reserves and Centrally Held Budgets. The amount requested by Children's Care for 2022/23 in the three-year plan drawn up in July 2021 was £5.665m. It is intended that the budget for Children's Care in 2022/23 will be temporarily increased for 2022/23 only by £5.665m, by transferring £3.702m from centrally held contingency budgets which are now not required (£2.334m relating to the Covid-19 Scarring in the Care Sector Contingency budget and £1.368m relating to the Covid-19 Impact on Council Tax & NNDR Contingency), and utilising £1.963m from the Social Care Transformation Reserve created at the end of 2021/22.
8. The Council's projected year-end outturn position for 2022/23 as at Quarter One is an overspend of £9.012m (7.6%). The split per Directorate is shown in the table below.

Directorate	2022/23 Full Year Budget	2022/23 Q1 Projected Outturn at year end	2022/23 Q1 INITIAL PROJECTED OVER / (UNDER) SPEND AT YEAR END	2022/23 Projected transfer to central additional inflation contingency (to be actioned at year end when finalised)	2022/23 Q1 PROJECTED OVER / (UNDER) SPEND AT YEAR END (after projected transfer to central additional inflation contingency at year end)
	£'000s	£'000s	£'000s	£'000s	£'000s
Regeneration and Culture	3,474	2,945	(529)	0	(529)
Environment and Community Services	19,608	22,115	2,507	(2,112)	395
Public Health	(2,827)	(3,369)	(542)	0	(542)
Adult Social Care	43,281	46,476	3,195	(1,600)	1,595
Total - Adult Social Care and Health Integration	40,454	43,107	2,653	(1,600)	1,053
Education & Partnerships	989	821	(168)	0	(168)
Children's Care	44,113	51,755	7,642	(617)	7,025
Total - Children's Services	45,102	52,576	7,474	(617)	6,857
Legal and Governance Services	9,604	9,641	37	0	37
Finance	200	(956)	(1,156)	(20)	(1,176)
Central Budgets	(113)	(2,087)	(1,974)	4,349	2,375
TOTAL	118,329	127,341	9,012	0	9,012

9. 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 and this has continued in the start of 2022/23 and is expected to continue for the remainder of 2022/23. As shown in the table above a number of Directorates have been substantially affected by the hyper-inflationary increases that existed in areas such as fuel, energy, utilities, food, and also increased costs from providers for services such as Waste Disposal, transport provision for children and adults, and Adults and Children's Care providers due to the inflationary increases they have suffered. Further detail is provided within the Directorate variances section of the report. An additional inflation contingency of approximately £4.6m recurring funding was built into the updated Medium Term Financial Plan (MTFP) presented to Council in February 2022 and this is held centrally. In light of the uncertainty of the cost of these pressures, it is proposed that this additional inflation will be reported against the individual Directorates during 2022/23 and transfers from the centrally held budget will be made at year-end when the financial effects in 2022/23 are confirmed. There will be a need to closely monitor this and further updates will be provided in future budget monitoring reports and the MTFP will be amended accordingly as appropriate.
10. Another area where there are additional potential pressures is the pay award for 2022/23 for Local Government Services employees effective from 1 April 2022. Currently no agreement has been reached between the National Employers and the NJC Trade Unions. The NJC Trade Unions have put a claim in for a substantial increase with a minimum of £2,000 or the current rate of RPI (whichever is greater) on all pay points, alongside other requests such as for a reduced working week, an additional days leave, and various reviews of working arrangements and allowances. The National Employers have offered that with effect from 1 April 2022, an increase of £1,925 on all NJC pay

points 1 and above, and an increase of 4.04% on some allowances. Currently the Trade Unions have not agreed to the National Employers offer.

11. The MTFP presented to Council in February 2022 assumed a 2% pay award for 2022/23, and this along with 1% provided for within the centrally held Inflation Contingency and a further amount equating to approximately 1% remaining in the centrally held Pay and Prices Contingency budget, means that there is currently approximately £3.5m held in Central budgets for the 2022/23 pay award which equates approximately to a provision for a 4% pay award for 2022/23.
12. At this stage in the absence of any formal agreement, it has been assumed in the Quarter One projection that the National Employers offer will be implemented. The pay award offered is currently estimated to cost approximately £6.1m, which equates to approximately an average 6.5% pay award. The budget pressure caused by the effect of the 2022/23 pay award is currently estimated to be £2.6m, however this has been mitigated by savings of approximately £0.5m on the amount provided for the pay award for 2021/22 and £0.3m on the money set aside for the Employers NI increase implemented from April 2022. The resulting estimated pressure of £1.8m is included within Central Budgets as shown in the table in paragraph 8 and detailed in paragraph 79.
13. 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. Also in the 2021/22 outturn report to Executive on 14 June 2022, a new earmarked Car Parking Pressures Reserve of £782,000 was set up for the potential ongoing effects of Covid-19 on car parking income in future years. The Government have confirmed that no further Government funding will be provided for 2022/23 for the further continuing effects for Covid-19. The effects of Covid-19 are therefore no longer shown separately in these quarterly budget monitoring reports with any continuing effects included within the Directorate totals, and consideration will be made as to updating the MTFP as appropriate for any such effect which is not currently provided for in future years.
14. The financial position of the Council may be improved by the implementation of a Flexible Use of Capital Receipts Strategy for 2022/23 to fund transformation costs across the Council, principally within Children's Services, similar to that implemented for 2021/22. This was formally approved by a report to Council on 7 September 2022. In order to satisfy the legislation relating to this, confirmation will be required that the capital receipts are available in 2022/23 and that the transformation expenditure will provide future ongoing savings.
15. A number of revenue budget spending controls and measures are proposed in order to reduce the current projected year-end total overspend, and in particular that which exists in Children's Care, and these are detailed in paragraphs 88 to 91.
16. It is proposed that the final overspend at year-end resulting after the revenue spending controls have been implemented will be covered by Reserves. The current level of Reserves is shown in the Reserves and Provisions Section of this report (paragraphs 121 to 123) and detailed in Appendix 3.
17. The ongoing continuing financial effect of any pressures or underspends to budget will be built into future updates of the Council's MTFP.

Progress against budget savings

18. The Revenue Budget, Council Tax, MTFP and Capital Strategy 2022/23 Report presented to Council on 23 February 2022 included no further additional budget savings for 2022/23.

Directorate variances

19. The detail of the variances are set out below. At year-end, 31 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

£529,000 underspend

20. The annual negotiations with the bus service operators for the concessionary travel scheme have resulted in a saving to budget of £471,000. In addition to this saving, the bus service operators were in receipt of Government grants in 2021/22. Following reconciliation of grants paid and Local Authority contributions made in 2021/22, the Council has received a one-off refund of £240,000, which will be deducted from payments to be made in this financial year. The total savings to budget for 2022/23 in relation to the bus service operator payments therefore stands at £711,000. It was agreed by Executive on 6 September 2022 that this saving be transferred to the centrally held Pay and Prices provision, and a budget virement for this is included in Appendix 1.

21. Car parking income continues to be significantly lower than that achieved pre the Covid-19 pandemic. Year-end projections are currently showing a combined net loss of £266,000, broken down as follows:

- On Street Parking £406,000 pressure (includes £3,000 expenditure savings)
- Off Street Parking £118,000 saving (includes £56,000 expenditure overspend)
- Decriminalised Parking £22,000 saving (includes £19,000 expenditure savings)

22. The outturn projection for Off Street Parking includes a grant of £850,000 provided to the Council from Tees Valley Combined Authority in 2022/23 for the provision of 2 to 3 hour free parking across the Tees Valley.

23. At the end of financial year 2021/22 the Council created a Car Parking Pressures Reserve of £782,000, and it is intended that the projected £266,000 overspend within 2022/23 will be met from this Reserve and this will be actioned at year-end when the final year-end position is known.

Environment and Community Services

£2,507,000 overspend

24. There is a projected pressure of £360,000 due to an increase in the number of children eligible for home to school transport. This pressure could increase or decrease once the demand for the 2022/23 academic year has been established. A more accurate projection will be provided at Quarter Two.

25. As mentioned in paragraph 9 the Environment and Community Services Directorate has been substantially affected by hyper-inflationary increases in a number of areas. The current estimated effects of this are summarised in the table below. These are likely to

be subject to further change and as mentioned in paragraph 9, it is proposed that the final pressures at year-end will be funded from the £4.6m additional inflation contingency within Central budgets provided for this as part of the 2022/23 budget setting.

Service Area	Description	£
Property Running Costs	Inflation on Utilities	783,500
Building Maintenance	Inflation of Materials & Contractors Pricing	100,000
Integrated Transport Unit	Inflation on Fuel & Contractors Pricing	90,000
Waste Collection	Inflation on Fuel	100,000
Waste Disposal	Main Contract Disposal (increase of £7.36 per tonne)	292,000
Catering	Inflation on Food & Utilities	200,000
Fleet Services	Inflation on Fuel	153,300
Street Lighting	Inflation on Electricity	393,000
TOTAL DEMAND ON ADDITIONAL INFLATION CONTINGENCY BUDGET		2,111,800

26. In addition, there are a number of budget areas within Environment and Community Services which have variances below £150,000, and these account for the overall £2,507,000 total overspend on the budget.

Public Health

£542,000 underspend

27. There are projected savings on Public Health budgets totalling £542,000 in 2022/23, with £427,000 of the projected savings being due to staffing savings as a result of delayed recruitment to vacant posts and other pay related savings with the Service.

Adult Social Care

£3,195,000 overspend

28. There are projected staff savings across the Service totalling £164,000 mainly due to staff turnover and delayed recruitment to vacancies. Similar to Children's Care (as detailed in paragraph 57), 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. The Service are also currently in the process of introducing a recruitment and retention bonus scheme to attract and retain staff.

29. In the first quarter of 2022/23, there has been net growth of £825,000 in purchased care costs (mainly residential care) against the budget set at the start of 2022/23. Further growth of £542,000 is forecast to the year-end. As in previous years, this is subject to substantial change throughout 2022/23 depending on numbers of clients, and therefore this budget will be closely monitored and updates will be provided in future quarterly budget monitoring reports.

30. As mentioned in paragraph 9 the Adult Social Care Directorate has been substantially affected by hyper-inflationary increases mainly from providers of services. This is currently forecast at £1.6m for 2022/23. This amount was provided for as part of the £4.6m additional inflation contingency within Central budgets provided for this as part of the 2022/23 budget setting. This amount is likely to be subject to further change and as

mentioned earlier it is proposed that the final pressure at year-end will be funded from the centrally held budget.

31. The above pressure is offset by the recovery of an additional £155,000 of direct payments surpluses in excess of the budgeted target.
32. The Bed and Breakfast budget for providing temporary accommodation for the homeless within the town is forecast to be overspent by £224,000 (after maximising homelessness grants).
33. Day care income is forecast to be lower than budget by £196,000 due to the lack of availability in transport, and other local authority / health funded individuals that have either left the Service or reduced their attendance during the Covid-19 pandemic and since restrictions were lifted. There will be a need for the Service to establish if this is an ongoing trend, and if so they will be a need to conduct a review of the Service in order to ensure it remains within the budget provided in the future.
34. 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 projected £3,195,000 overspend on the Adult Social Care budget at year-end

Education & Partnerships

£168,000 underspend

35. This is mainly due to a projected unbudgeted income of £440,000 for 2022/23 relating to school contributions to capital schemes, as contributions are to be funded from other sources, thereby creating a revenue saving. This saving is partly offset by projected overspends on the Children's Centres and Nurseries budgets totalling £136,000, due to reduced income from lower take up of services than expected.
36. It is also offset by a projected pressure of £192,000 arising from an efficiencies target relating to Prevention Services. This target currently sits within the Education & Partnerships budget, but it is proposed that this is transferred to Children's Care where the budgets relating to this were transferred to at 2022/23 budget setting. This should provide opportunities to reduce this pressure. A budget virement was approved by Executive on 6 September 2022 and is detailed in Appendix 1.
37. For information, the Council received £168.6 m (before deductions and recoupment) of Dedicated Schools Grant (DSG) for 2022/23. 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).
38. It is projected that there will be a £5.3m total cumulative deficit on the DSG grant at the end of 2022/23, mainly attributed to the High Needs Block. This is an increase from the £3.756m total DSG deficit at the end of 2021/22, which included £5.062m attributed to the High Needs Block. This figure can fluctuate, both ways, and a more accurate forecast will be provided at Quarter Two once the young people from the start of the academic year in September 2022 are known.
39. 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.

40. 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.
41. The Council complete regular DSG management recovery plans to outline forecasts over the next 5 years, and are also working with the DfE and have received a grant from "Delivering Better Value" (DBV) that is supporting work to bring this deficit down in future years using best practice and benchmarking across the country. DBV is a long-term programme and 55 other local authorities as well as Middlesbrough Council are on the DBV programme. It should be noted that Middlesbrough Council are not in the "Safety Valve" programme, which is for those local authorities with the greatest DSG deficits.
42. DfE also expect that the schools forum be regularly updated about the authority's DSG account and plans for handling it, including high needs pressures and potential savings.
43. 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. In Middlesbrough, the number of EHCPs have increased from 1,370 in 2021 to a predicted level of 1,698 in 2022, a 24% increase. There has also been a 63% increase in requests for EHCP assessment. This is a national issue affecting many local authorities. 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

£7,642,000 overspend

44. As detailed in paragraph 7 the budget for Children's Care for 2022/23 has been temporarily increased for 2022/23 only by £5.665m as part of the current 3-year MTFP plan. The variances below report against the revised budget for Children's Care in 2022/23 following the £5.665m temporary budget increase for 2022/23.
45. There is a projected overspend on the total Children's Care budget at year-end of £7,642,000 as at Quarter One. The table below shows the split of the additional £5.665m budget provided between the individual budgets within Children's Care, and summarises the variances against the individual revised budgets, with further detail being provided in the paragraphs below.

Service Area:	2022/23 Original Budget	MTFP Temporary Increase in Budget for 2022/23	2022/23 Revised Budget	2022/23 Q1 Projected Outturn at year end	2022/23 Q1 PROJECTED OVER / (UNDER) SPEND AT YEAR END
	£000s	£000s	£000s	£000s	£000s
External Residential Agency Placements	9,008	(276)	8,732	13,616	4,884
Education Contributions to External Residential Agency Placements	(750)	0	(750)	(625)	125
CCG Contributions to External Residential Agency Placements	(1,253)	120	(1,133)	(1,888)	(755)
In-House Fostering	3,322	671	3,993	3,956	(37)
Independent Fostering Agency (IFA)	5,395	262	5,657	6,032	375
Adoption Services	1,282	0	1,282	1,298	16
Family & Friends Allowances	2,368	1,244	3,612	3,502	(110)
Safeguarding and Care Planning	2,909	727	3,636	4,540	904
Review and Development Unit	861	203	1,064	1,249	184
Referrals & Assessments	2,487	116	2,603	2,569	(34)
Children Looked After Teams	1,937	606	2,543	2,655	112
Internal Residential Service	3,793	0	3,793	4,087	293
Children with Disabilities service	1,499	0	1,499	1,859	359
Management and Administration	1,606	160	1,766	2,190	424
Improvement	0	1,832	1,832	2,964	1,132
Prevention Services	1,980	0	1,980	1,782	(198)
Other Resource Services	2,003	0	2,003	1,971	(32)
TOTAL	38,448	5,665	44,113	51,755	7,642

46. A proportion of the overspend is linked to transformation and improvement within Children's Services and as detailed in paragraph 14 it is proposed that a Flexible Use of Capital Receipts Strategy is implemented in 2022/23. It should be noted that as the amount was only confirmed and approved by Full Council on 7 September 2022, the figures for Children's Care have not yet been amended for the effect of this.
47. The external residential agency placements budget is currently projected to be £4,884,000 overspent at year-end, 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. This is based on the 50 external residential placements at the end of Quarter One (at 31st March 2022 there were 51) and currently known movements in or out throughout the remainder of 2022/23.
48. The average cost per placement has increased significantly over the past 24 months due to demand across the country and a national lack of placements. Requests for placements are being made multiple times with no interest being received from providers. This had led to increased costs and is a national challenge / pressure and not necessarily specific to Middlesbrough. Also there have been increased costs for some of the remaining placements due to the complex nature of the remaining young people. The Children's Care MTFP plan has a challenging target for getting the average number of external residential placements throughout 2022/23 to 42, with a year-end position for 2022/23 at 37 places. This will require a lot of work around place planning and movement in order to achieve this.
49. 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. 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.

50. As mentioned previously, 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 contributions 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 £625,000 for 2022/23, which is a £125,000 pressure on the £750,000 budget set for 2022/23. There is however a significant backlog of Education Health Care Plans and this figure may well in the future increase percentage wise in regards to contributions against the total Children's Care expenditure.
51. The above pressure on the external residential agency placements budget has however been partly offset by projected additional income received from the CCG of £755,000 above the revised budget for the contribution from Health towards the increased cost of placements due to the complex needs of the young people. Dedicated capacity has been provided to liaise with health commissioners in order to maximise health contributions.
52. The in-house fostering services budget is currently projected to be £37,000 underspent at year-end. There are currently 176 placements and this is creating a budget pressure of £483,000, and in addition there is a £152,000 pressure arising from agency and staffing costs above budget. This is however offset by an increased additional temporary budget increase of £671,000 for 2022/23. 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.
53. The Independent Fostering Agency (IFA) placements budget is currently projected to be £375,000 overspent at year-end. This is after an increased additional temporary budget increase of £262,000 for 2022/23. The number of placements / cases has reduced slightly to be currently at 143 (from 145 at 31/3/22), but this is still significantly above the figure allowed for in the 2022/23 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.
54. There are currently 33 children and young people in the adoption process and it is currently projected that there will be 25 Adoption Orders finalised in 2022/23, which is

very positive, and if they materialise into full adoption in 2022/23 this may help to reduce the expenditure in Children's Care later in 2022/23.

55. The Family and Friends Allowances budget is currently projected to be £110,000 underspent at year-end, after the provision of additional temporary budget for 2022/23 of £1,244,000. This is based on an increased number of 451 placements/cases. 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. The service, alongside Legal services, are reviewing the policy in order to attempt to mitigate this pressure. This area is seen as a challenge across the country.
56. There is a projected overspend at year-end of £904,000 on the Safeguarding and Care Planning teams revised budget for 2022/23, after the provision of additional temporary budget for 2022/23 of £727,000 relating to agency costs, which is area where there is significant expenditure on. There are also forecast pressures relating to Section 17 payments and support packages for families to keep the young people out of care, and due to the fact that appropriate placements cannot be found and support packages are having to be put in place, which generally cost more than the placements themselves would cost. There have also been 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.
57. As with previous quarters, staff agency costs to cover sickness and vacant posts and transform the Service are a continuing major element of expenditure within the Safeguarding and Care Planning teams budget. It remains a challenge to recruit and retain social workers and this is a significant regional and national challenge as well. 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. Agency staffing has been put forward as a reduction in spend by Directorate for the MTFP work alongside the recruitment and retention strategy, which includes the Council's own academy where newly qualified staff are now coming through and will replace agency staff over the coming next 12 to 24 months and onwards.
58. There is a projected overspend at year-end on the Review and Development budget of £184,000 after the provision of additional temporary budget for 2022/23 of £203,000 relating to agency costs, which is area where there is significant expenditure on. Agency staff to fill vacant posts due to challenges in recruiting are creating a pressure of £218,000 in 2022/23 but as mentioned above these have largely been offset by the additional budget provided on a temporary basis in 2022/23. There is also a forecast pressure of £169,000 relating to the academy and front line costs, which is part of the

recruitment and retention strategy, to improve training and retain staff and build up our own social workers within, which supports the reduction of agency pressure in line with MTFP projections.

59. The Children Looked After teams budget is projecting an overall £112,000 overspend at year-end, after the provision of additional temporary budget for 2022/23 of £606,000 relating to agency staff costs. Similar to that in the Safeguarding and Care Planning teams budget, there is significant expenditure on agency staffing costs to fill vacancies and cover absences, and to support the Improvement Plan. The agency costs in 2022/23 have largely been covered by the temporary additional budget provided for 2022/23 for this area of £606,000, but in the longer term this remains an area of concern. As stated in paragraph 57, the reliance on agency staff is a significant risk to the Council in the medium to longer term. The other key pressure in this service area is from Section 17 costs.
60. The Internal Residential Service budget is projecting a pressure of £293,000 due to challenges around recruitment, which is requiring the use of agency staff and additional overtime across the Service. There are also costs to support the transition to independence that are required to reduce costs in Adult Social Care services. These pressures have been partly offset by income generated from charging a place to another Local Authority.
61. The Children with Disabilities Service is projecting an overall £359,000 pressure on its budget, mainly due to a number of expensive care packages of support required for young people in the Service.
62. The Management and Administration budget is projecting a £424,000 pressure, even after the provision of additional temporary budget for 2022/23 of £160,000 relating to agency staff costs. There is a £266,000 projected net pressure arising from two very high cost agency payments for vacant Heads of Services posts which is offset partly by the additional budget provided of £160,000. Middlesbrough has now been invited to bid for DfE improvement money to offset the cost of one of these Head of Service posts, as was the case in 2021/22. There was an expectation that we would have been able to bid at the beginning of Quarter One 2022/23, but surprisingly this was not the case. There are also £272,000 of previous years savings not predicted to be fully achieved, and a £46,000 projected pressure within a variety of Strategic Services budgets.
63. The Improvement journey continues in Children's Services, and it is currently projected that there will be £2,964,000 of expenditure relating to this in 2022/23. £1,832,000 of additional temporary budget was provided for this in 2022/23 as per the current MTFP 3-year plan, comprising of £1,154,000 specially provided for Improvement posts and £678,000 from the amount provided for agency costs which is to be shown against this budget. After the provision of the additional funding for 2022/23, there is a projected pressure of £1,132,000 on this budget. A reduction in this budget is required in future years in order to achieve the planned level of ongoing budget of £1,154,000 from 2024/25 for this area as per the current MTFP plan.
64. Prevention Services are reporting a £198,000 forecast saving on their budgets, due mainly to a projected over achievement of grant income for the Payments by Results element of the Supporting Families Grant, along with continuing to achieve efficiencies whilst delivering this service.

65. As mentioned in paragraph 9 the Children's Care Directorate has been affected by hyper-inflationary increases from providers. These are currently forecast to be approx. £617,000 for 2022/23, comprising of £408,000 for External Residential Placements and £209,000 for Independent Fostering Agency (IFA) payments. This amount was provided for as part of the £4.6m additional inflation contingency within Central budgets as part of the 2022/23 budget setting. This amount is likely to be subject to further change, and as mentioned earlier it is proposed that the final pressures at year-end will be funded from the centrally held budget.

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 £7,642,000 current projected overspend on the Children's Care budget at year-end.

Legal and Governance Services

£37,000 overspend

67. There are no budget areas within Legal and Governance Services which have projected variances above £150,000.

Finance

£1,156,000 underspend

68. Teesside Advanced Manufacturing Park (TAMP) is now fully occupied. This has increased the amount of rent achievable on the site and decreased any financial liabilities to the Council such as business rates and service charges on voids. The projected outturn position at year-end is therefore significantly better than the budget, with an overachievement of income projected to be £233,000.

69. A net surplus of £336,000 is projected relating to excess rental income above budget from tenants renting space in Centre Square Buildings 1 & 2.

70. 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. It is projected that there will be additional income of £122,000 (after capital financing costs) above that budgeted for in 2022/23.

71. The Council purchased the Cleveland Centre Shopping Centre on 7 January 2022, however no income target was assigned to the Cleveland Centre at the 2022/23 budget setting, and therefore there is projected unbudgeted income for the Centre of £1,231,000. This is after capital financing costs for the acquisition of the Centre have been transferred to the Capital Financing budget. Further updates of this will be provided in future budget monitoring reports to Executive, and the MTFP will be updated accordingly.

72. There is however a pressure of £111,000 projected in 2022/23 relating to the House of Fraser building (owned by the Council) following the departure of the previous tenant, due to maintenance and other costs until new tenants are secured for the building.

73. The Commercial Property Income budget is projecting a pressure of £448,000 across the portfolio. This is due to a combination of vacancies, Council departments taking units preventing external rent income being achieved, and a small proportion of units being let to charitable and community organisations without charging. Additionally, the charge to tenants has not increased for a period of time, this is due to the quality of the units not being maintained. An exercise is planned to assess what capital would be

required to update the units and whether the rent could be increased to such a point that there would be a return on the investment.

74. There is currently a pressure of £30,000 on the costs of CIPFA providing independent support to review internal governance processes. These costs will be monitored throughout 2022/23 and reported in future quarterly budget monitoring reports.

75. In addition, there are a number of budget areas within Finance which have variances below £150,000, and these account for the overall £1,156,000 projected total underspend on the Finance budget at year-end.

Central Budgets

£1,974,000 underspend

76. The Capital Financing budget is projected to overspend by £120,000 due to rising interest rate costs.

77. As stated in paragraph 9 an additional inflation contingency of £4,644,000 recurring funding was built into the updated Medium Term Financial Plan (MTFP) presented to Council in February 2022 and this is held centrally under Central Budgets. As detailed in paragraph 9, it is proposed that the additional inflation will be reported against the individual Directorates during 2022/23 and transfers from the centrally held budget will be made at year-end when the financial effects in 2022/23 are confirmed. £900,000 of the additional inflation contingency provided relates to the Pay Award for 2022/23, which will be utilised in 2022/23 as shown in paragraph 12, and therefore currently the Central Budgets have a budget of £3,744,000 with no expenditure against it as the additional inflationary costs are held within Directorates.

78. It can be seen from the table in paragraph 8 that there are currently total projected costs of £4,349,000 in 2022/23 for additional inflation costs within Service Directorates. Therefore there is a projected pressure of £605,000 relating to additional non-pay inflation pressures across all Directorates against the total amount provided for in 2022/23. Whilst this is currently reported against the Directorates, the final amount will be reported at year-end against Central Budgets as the inflation contingencies are held centrally. This is based on best estimates, due to current hyper-inflationary increases the situation will continue to be monitored closely and updates provided in future reports. The anticipated ongoing inflationary requirement is also being considered as part of the updates of the MTFP.

79. As detailed in paragraph 12, the proposed pay award for 2022/23 is currently forecast to be higher than that provided for and there is a resulting pressure of approximately £1.8m due to this. This projected pressure will be shown against Central Budgets.

80. 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 £1,974,000 current projected underspend on the Central Budgets at year-end.

Council Tax and Business Rates income

81. 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.

82. 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.
83. Our budgeted Council Tax base includes assumptions on housing growth. If there is reduced growth in housing numbers, this will impact on income levels.
84. 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 and the start of 2022/23. 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.
85. 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.
86. The Government has also provided grant funding to the Council through the Council Tax Energy Rebate Scheme to support households with increasing energy costs for 2022/23. This should help improve the level of Council Tax income collected in 2022/23, as where applications are not received from Council Tax payers for the Council Tax Energy Rebate Scheme, the income can be allocated to individual council taxpayers accounts reducing any amounts of council tax owed.
87. 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

Revenue budget spending controls

88. 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.
89. For 2022/23 the Council is continuing to minimise the use of agency staff where it is appropriate to do so, but it is acknowledged that there will be a need in 2022/23 for the use of agency staff within Children's Care, principally to cover vacant posts due to recruitment issues and also to support the continued 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 will be provided to senior managers in order to provide information to enable them to monitor and control costs relating to this.

90. The new Director of Finance is working urgently in conjunction with Leadership Management Team, in line with their delegated authority to manage budgets, to identify areas for recovery to improve the financial position in 2022/23. Directors have been requested to curtail any discretionary expenditure wherever possible. Whilst this falls short of a spending freeze, further measures may be required if the position cannot be stabilised and improved. As an urgent measure a regular Member led meeting to discuss the key areas of spending and address the financial issues facing Children's Social Care will be implemented.
91. Clearly the ongoing financial challenges will continue into 2023/24 and future years, and the position is currently being assessed and will be reported to Members in due course as part of future Medium Term Financial Plan updates and as part of the budget strategy for 2023/24 to Executive and Council. There is currently a great deal of uncertainty in forecasting created by the pay award, inflationary pressures and the impact on demand for services.

Capital Budget Projected Year-End Outturn 2022/23 as at Quarter One

92. As part of the Revenue Budget, Council Tax, Medium Term Financial Plan and Capital Strategy 2022/23 report to Full Council on 23 February 2022, Council approved a capital budget for 2022/23 of £124,825,000 (the original 2022/23 capital budget). In the Revenue and Capital Budget – Year End Outturn Position 2021/22 report of 14 June 2022, Executive approved a revised capital budget for 2022/23 of £104,675,000. Following a further review and the inclusion of new additional schemes, increases to existing schemes, and reductions to existing schemes (as detailed in paragraphs 95 to 97), it is currently predicted at Quarter One that the Council will spend £90,614,000 at year-end.
93. The revised Investment Strategy to 2024/25 is included at Appendix 2 and was approved by Executive on 6 September 2022. .
94. No schemes over £150,000 are proposed to be removed from the Investment Strategy
95. It was agreed to add the following scheme above £150,000, to the revised Investment Strategy, as set out at Appendix 2 :
- On 10 May 2022, Executive approved the report titled “Cultural Capital Investment Prospectus”. The report detailed the Council’s successful bid for grant funding to the Department of Culture, Media and Sport (DCMS) Cultural Development Fund. The successful bid was a collaboration between the Council and three other cultural organisations within the town. The total value of the grant is £4,250,000, of which £4,108,000 is capital funding. The Council’s element of the grant funding will be utilised within the Central Library, refurbishing all of the library spaces and meeting rooms, creation of a new flexible event space, the provision of a new fully accessible lift, a new toilet / baby change facility and an external stage. The Council has provided match funding using £90,000 of its own resources and £250,000 of the Future High Streets Fund grant.

96. The following additions to schemes in the current Investment Strategy which have been recently approved by Executive are also included in the revised Investment Strategy, set out at Appendix 2 :

- On 12 July 2022, Executive approved the report titled “Centre Square – Future Office Provision”. The report approved £305,000 of Council resources to fit-out the remaining untenanted space at Centre Square 1 to category A standard. This will enhance the Councils opportunity to let the space which when done so will provide a return on this investment.
- £800,000 of Council resources have been added to the Investment Strategy for investment in equipment within the leisure facilities. This investment is as per the agreement with the Council’s external leisure provider (SLM). Whilst the provider manages the facilities, the equipment remains within the Councils ownership.
- As part of the “Developing a New Community Centre at Southlands” report of 14 June 2022, Executive approved £900,000 of additional Council resources towards the project. This funding, coupled with pre-existing funds and Towns Fund grant will deliver the Councils aim for an exciting and transformational new Community and Sport Centre which will help regenerate East Middlesbrough and greatly improve the lives of local people. The total investment stands at £3,100,000 with an additional £600,000 expected to be provided by a grant from the Football Foundation.
- The Executive report of 29 September 2020 titled “Land North of Marton Avenue – Preferred Bidder for Site Disposal” approved, along with the sale of the land, certain capital contributions from the capital receipt. Payment for the land has now been received and as such the contributions can be added to the Investment Strategy as follows:
 - £472,500 for the provision of off-site affordable housing.
 - £142,000 for the provision of a strategic road
 - £22,500 refund to the Environment Agency for culvert diversion works.
- On 10 May 2022 the Department for Levelling Up, Housing and Communities wrote to Councils to provide official confirmation of the 2022/23 Disabled Facilities Grant allocations, to which Middlesbrough Council has been awarded £2,268,123. This has been allocated within the Investment Strategy over financial years 2022/23 and 2023/24, as grant carried forward from previous years will be used to meet in-year demand for the service in the first instance.
- On 10 May 2022, Executive approved the “Improving our Highways” report, providing £15,000,000 of Council resources to be spent on the highways network. The report identified that the condition of Middlesbrough’s road network is in decline with 15% of the total carriageway network categorised as Red / Amber. Executive approved the prioritisation of immediate works for 2022/23 on the premise that during which time a re-evaluation exercise would be undertaken to Red / Amber carriageway defects; developing a longer term strategy for maintenance and improvements, in-line with the MTFP.

97. There were no schemes within the current investment strategy that were reduced by over £150,000.
98. The split by Directorate is shown in the table below, which also shows the “real” projected outturn variance if all of the additional new schemes, increased schemes, reduced schemes, and transfers between directorates are excluded. Explanations for variances of +/- £150,000 across fifteen schemes are set out in the following paragraphs. These variances require movement within the Council's four-year Investment Strategy, but do not affect the overall investment or cost of borrowing.

Directorate	2022/23	2022/23	2022/23	MEMO	
	Investment Strategy Budget (as per 21/22 outturn)	Investment Strategy Projected Outturn at Q1	Investment Strategy Projected Outturn Variance at Q1	New, increased & reduced Schemes / transfers	Real outturn variance excluding new, increased, & reduced schemes / transfers
	£'000	£'000	£'000	£'000	£'000
Regeneration and Culture	74,388	60,612	(13,776)	691	(14,467)
Environment and Community Services	12,649	11,704	(945)	1,944	(2,889)
Public Health	896	140	(756)	0	(756)
Education & Partnerships	9,132	9,308	176	(40)	216
Children's Care	326	366	40	40	0
Adult Social Care and Health Integration	2,713	3,593	880	819	61
Legal and Governance Services	4,158	4,478	320	0	320
Finance	413	413	0	0	0
Total	104,675	90,614	(14,061)	3,454	(17,515)

Regeneration

99. Town Centre Related Projects - £428,000 of funds relating to the Heritage Action Zone scheme require re-profiling into 2023/24. This is due to two factors; building works associated with three of the property grants provided are at tender stage with works now anticipated to complete in 2023/24 and the public realm Zetland Road improvements have been paused until all works at the rail station are complete.
100. Housing Growth – Discussions between the Council and the housing developers are on hold until one of the developers planning application in respect of Nunthorpe Grange is approved by the Planning Committee. The application is expected to be tabled at the September committee. If successful, the Council will restart negotiations with regard to how the associated works are funded. The scheme also requires to be fully designed, costed and tendered. Consequently, the works are now not expected to commence in 2022/23, resulting in £1,758,000 of resources being transferred into 2023/24.
101. Brownfield Housing Fund – Natural England have raised significant concerns with regard to nutrient pollution within the waterways caused by house building. These concerns are currently preventing Planning Authorities from approving new schemes. This is directly impacting the Councils remediation works at Middlehaven. Whilst solutions are being sought with regard to the nutrient pollution issue, the significant delays in respect of the remediation works are expected to result in £4,361,000 of planned grant expenditure no longer being required within this financial year and therefore being re-profiled into 2023/24.
102. Towns Fund – A total of £3,861,000 requires re-directing into 2023/24 predominantly due to the following sub-projects;

- £1,076,000 relating to Urban Living and Place Making – Expenditure in relation to this element of the grant is predicated upon the Council agreeing to the provision of funding to developers regarding housing development. Whilst there are interested parties, there are currently no firm proposals. As such, the funding has been re-profiled into 2023/24.
- £574,000 relating to the Old Town Hall has been deferred until 2023/24. This is due to discussions that the Council is undertaking with Heritage Lottery Fund with regard to submitting a grant application associated which will potentially increase the resources available, resulting in a significantly greater improved scheme.
- £750,000 relating to Nunthorpe Community Hub has been transferred into 2023/24. Following a review by the Section 151 Officer, the development of the centre will be taken forward through direct Council process in consultation with the community, rather than being led by a community group. As a result, there is a delay in the project timeframe to ensure the location of the centre meets the community's needs.
- £1,461,000 relating to East Middlesbrough Community Hub. The plans for the hub are still to be finalised, this has resulted in a proportion of the expected expenditure now being re-profiled into 2023/24.

103. Future High Streets Fund - £1,282,000 of grant funding has been transferred into 2023/24 predominantly due to the following;

- £1,000,000 relating to Urban Living. The Council will enter into a grant agreement with a developer in respect to the creation of urban living units within the town centre. The formulation of the agreement has taken longer than anticipated with the grant no longer being expected to be provided within 2022/23.
- £320,000 relating to Retail Conversions. Whilst significant progress has been made in respect of the transformation of the Captain Cook Precinct into a leisure destination, with two tenants confirmed and a further two at heads of terms, the remaining provision for aiding tenants to decant from the site is deemed to be unrequired within this financial year and has been re-profiled into 2023/24.

104. Middlesbrough Development Company (MDC) – £975,000 of assumed expenditure has been transferred into 2023/24. This is by agreement with Council officers and the Managing Director of MDC following a review of all active acquisitions / projects associated with the Empty Homes and Eyesore Site schemes. Should any further opportunities arise within either scheme during this financial year the necessary funds will be transferred back into 2022/23.

105. Teesside Advanced Manufacturing Park Phase 2 – The Executive report of 10 May 2022 “Tees Advanced Manufacturing Park Next Phase” set out the required funding for the construction of the park, which included an assumption that TVCA would provide a grant to the Council of £1,550,000. TVCA has subsequently stated that they cannot provide the grant but have presented a solution, being that the Council can effectively retain all of the business rates on the site. This solution is effectively cost neutral to the

Council, however, as it is a departure from the original Executive approval, a subsequent report which further outlines the proposal is proposed to be tabled at a future Executive meeting. The change in the funding mechanism has caused a delay of approximately four months to the originally stated milestones, resulting in re-profiling of £1,250,000 into 2023/24.

106. Local Transport Plan – A total of £322,000 of grant funded expenditure associated with a number of small value schemes has been transferred into 2023/24.

Environment & Community Services

107. Cleveland Centre – An action plan and spending profile in respect of the required capital works to the centre has now been determined with major works to the car park, asbestos encapsulation, and fire protection, now being expected to conclude in 2023/24, with £1,344,000 of assumed expenditure transferring accordingly.
108. Municipal Buildings Refurbishment - £1,500,000 has been re-profiled into 2023/24. This is due to the time required to clear out the attics and basements and find alternative storage facilities taking longer than originally anticipated, resulting in the refurbishment works not being able to commence within the originally assumed timeframe.
109. Resolution House – Planned works cannot commence until an agreement has been reached with the other custodian local authorities concerning the future of the site. Discussions with the other local authorities are ongoing but these are taking longer than anticipated. This has caused a delay to the commencement of the scheme with £500,000 of funds now being redirected into 2023/24.
110. Town Hall Roof – Due to the complexity and nature of the works associated with the roof, the tender process has been delayed, resulting in £500,000 of planned expenditure being re-profiled into 2023/24.

111. Property Asset Investment Programme – £957,000 of Council funds earmarked for expenditure in 2023/24 and future years has been brought forward to 2022/23 in order to fund urgently required works in respect of boiler replacements and roof replacements at several Council properties.

Public Health

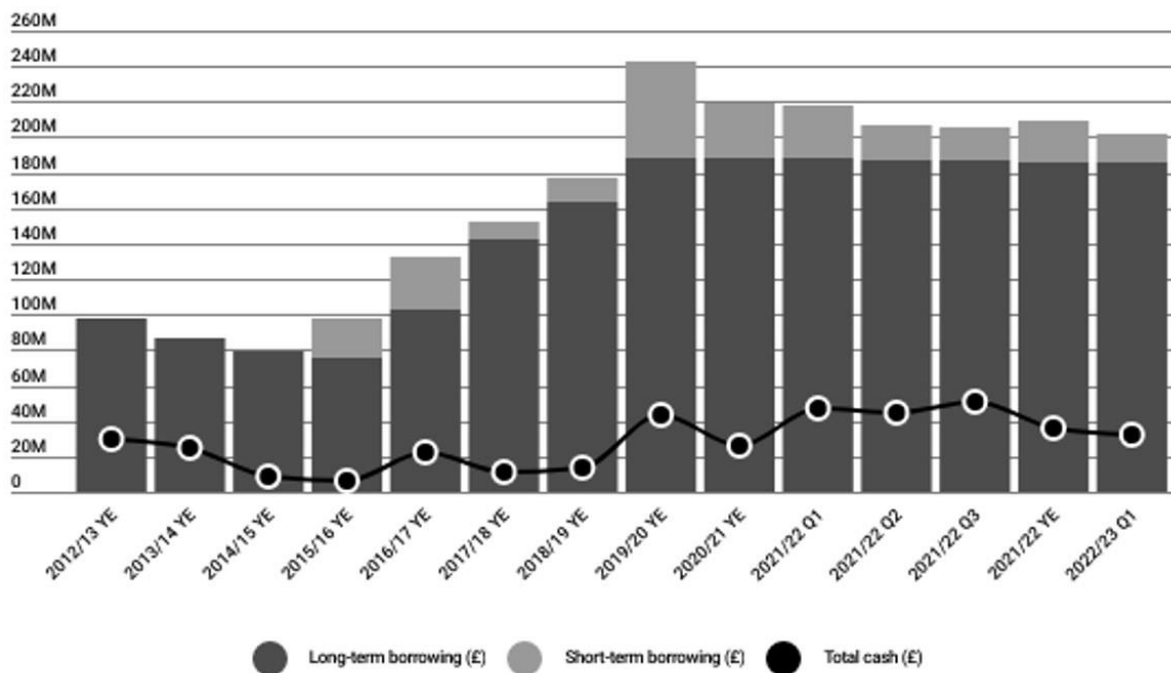
112. Health and Wellbeing Hub – As part of the wider accommodation strategy the Council has deferred the decision to expand the Live Well Centre. Should the expansion go ahead it would not do so within this financial year, resulting in £756,000 being re-profiled into 2023/24.

Legal & Governance Services

113. ICT - Essential Refresh & Licensing - £320,000 of funds have been brought into 2022/23 from 2023/24 and future years in order to fund the implementation of Microsoft 365 and the Councils new electronic storage facility, SharePoint, within the agreed project timeframe.

Borrowing & Prudential Indicators

114. The Council's total borrowing decreased from £208.8m at 31 March 2022 to £202.1m at 30 June 2022. This decrease of £6.7m reflects maturing debt on short-term borrowing of £6.5m, and repayment of principal amounts on existing annuity loans held by the Council at £0.2m. Cash balances remained robust during the first quarter of 2022/23 and were at £32.5m at 30 June 2022. As this level remained well above the Council's trigger level for borrowing of £15m (mainly due to grants being paid in advance of need by central government), no amounts were needed to be drawn down to finance the Investment Strategy.
115. The ratio of short-term to long-term borrowing has decreased during the quarter given the repayment of some of the short-term loan portfolio. The recent rises in both bank rate and longer-term interest rates mean that deferring borrowing decisions where possible and until cash levels reduce, will result in marginal savings to the capital financing budget. The overall strategy for borrowing in the current inflationary climate is being discussed with our external treasury management advisers.



116. 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.
117. The table below gives a comparison of the original budget against the actual position as at Quarter 1 for 2022/23 on each of the prudential indicators adopted by the Council.

<u>Prudential Indicators - 2022/23 Quarter 1</u>		
	<u>Original Budget</u>	<u>Actual</u>
	<u>(£M)</u>	<u>(£M)</u>
Capital Expenditure	124.825	90.614
<u>Financing</u>		
External Sources	74.344	49.815
Own Resources	6.296	3.179
Debt	44.185	37.620
Capital Financing Requirement	295.865	295.375
External Debt	268.350	202.123
Investments	15.630	32.530
Capital Financing	10.466	10.587
Cost as a % of Revenue Budget	8.8%	8.9%

118. The total capital spend & level of financing has reduced by £34.2m since the original budget was set for this financial year. 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 changing needs on individual schemes, and low contractor availability. The reduction is mainly related to grant funding being deferred into the next financial year, but there is also some reduction in the debt levels required due to similar reasons.

119. The Council's total under borrowed position (external debt compared to the capital-financing requirement – or underlying need to borrow) is £93.3m, or 31.5%, at 30 June 2022. As cash balances reduce during the 2022/23 financial year to relatively normal levels, with the level of reserves planned to be spent, plus the borrowing requirements within the Investment Strategy, around £50m - £60m of this under-borrowing will be needed to maintain the Council's overall liquidity position.

120. The amount of external debt at £202.1m and the total underlying need to borrow of £295.4m are both well below the Council's authorised debt limit of £356m 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 recent increases in interest rates available for both short and long-term borrowing.

Reserves and Provisions

121. The table below sets out a summary of the balance of reserves and provisions at the start of 2022/23 and the current projection as at year-end, and further detail is provided in Appendix 3.

Reserves and Provisions 2022/23	Opening Balance	Proposed Use in Year	Additional Contributions	Transfers between reserves	Transfers from / (to) General Fund	Projected Balance at Year End
	£000's	£000's	£000's	£000's	£000's	£000's
General Fund Reserve	11,183	0	858	0	0	12,041
Earmarked Reserve - Social Care Transformation Reserve	7,072	(1,963)	0	0	0	5,109
Earmarked Reserves	25,750	(1,470)	230	0	0	24,510
Earmarked Reserve - Dedicated Schools Grant (DSG)	(3,756)	(1,544)	0	0	0	(5,300)
School balances	4,802	0	0	0	0	4,802
Provisions	1,921	0	0	0	0	1,921
TOTAL	46,972	(4,977)	1,088	0	0	43,083

122. As can be seen from the table above, a large proportion of the Reserves are earmarked for special purposes and cannot be used generally or to balance the budget.

123. It should be noted that the projected year-end balances do not currently include how the final revenue outturn at year-end 2022/23 will be funded, as it hoped that the implementation of the revenue budget controls outlined in paragraphs 88 to 91 will reduce the current projected overspend by the end of 2022/23. The final revenue outturn at year-end 2022/23 will be funded from Reserves, with the remaining £5.109m Social Care Transformation Reserve initially being used. As noted earlier, this will have a negative effect on the current MTFP and the position is currently being assessed and will be reported to Members in due course as part of future Medium Term Financial Plan updates and as part of the budget strategy for 2023/24 to Executive and Council.

124. 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 Overview and Scrutiny Board:

- Notes the transfer of £5.665m of additional temporary budget to Children's Care in 2022/23 only to correspond with the current MTFP 3-year plan, funded by £3.702m from centrally held contingency budgets and £1.963m from the Social Care Transformation Reserve.

- Notes that following the approval of the above proposed transfer, there is a projected 2022/23 revenue budget year-end outturn as at Quarter One of a £9.012m overspend.
- Notes the management action being taken to address the shortfall and recover the position to a balanced budget.
- Notes the proposed potential implementation of a Flexible Use of Capital Receipts Strategy for 2022/23 to fund transformation costs, in particular in Children's Services, which was approved by Full Council on 7 September 2022.
- Notes that the current projected outturn will have a negative impact on the Council's current Medium Term Financial Plan and that the ongoing financial challenges will continue into 2023/24 and future years. The position is currently being assessed and will be reported to Members in due course as part of future Medium Term Financial Plan updates and as part of the budget strategy for 2023/24 to Executive and Council. It should be noted that there is currently a great deal of uncertainty in forecasting created by the pay award, inflationary pressures and the impact on demand for services.
- Notes the agreed revenue budget virements over £150,000 as detailed in Appendix 1.
- Notes the 2022/23 capital budget predicted year-end outturn of £90.614m as at Quarter One against a revised capital budget of £104.675m, and notes the revised Investment Strategy to 2024/25 at Appendix 2.

Rationale for the recommended decision(s)

125. 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

126. Not applicable.

Impact(s) of the recommended decision(s)

Legal

127. Not applicable.

Strategic priorities and risks

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

129. In line with the Council's Risk Management Policy, the corporate Strategic Risk Register will be reported to Overview and Scrutiny Board as part of the Corporate Performance Update: Quarter One 2022/23

Human Rights, Equality and Data Protection

130. As reported to Council on 23 February 2022, no negative differential impact on diverse groups and communities are anticipated from the Council's planned budgetary expenditure.

Financial

131. It was agreed by Executive on 6 September 2022 that there would be a transfer of £5.665m additional temporary budget to the Children's Care budget in 2022/23 only, to correspond with the current MTFP 3-year plan. This was funded by £3.702m from centrally held contingency budgets and £1.963m from the Social Care Transformation Reserve.

132. Following the approval of the transfer, the Council's revenue year-end outturn position for 2022/23 is currently projected to be an overspend of £9.012m.

133. The Council's financial position will potentially be improved by the proposed potential implementation of a Flexible Use of Capital Receipts Strategy in 2022/23 to fund transformation costs across the Council, particularly within Children's Services. This was approved by Full Council on 7 September 2022.

134. It should be noted that the current projected outturn position will have a negative impact on the Council's current Medium Term Financial Plan and that the ongoing financial challenges will continue into 2023/24 and future years. The position is currently being assessed and will be reported to Members in due course as part of future Medium Term Financial Plan updates and as part of the budget strategy for 2023/24 to Executive and Council. It should be noted that there is currently a great deal of uncertainty in forecasting created by the pay award, inflationary pressures and the impact on demand for services.

135. The 2022/23 capital budget predicted year-end outturn as at Quarter One is £90.614m. Following approval by Executive on 6 September 2022 it has become the revised Investment Strategy budget for 2022/23 as shown in Appendix 2.

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

Action	Responsible Officer	Deadline
Mitigation in the form of 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 2.	Head of Financial Planning & Support	30/9/22

Appendices

1	Proposed revenue budget virements above £150,000 at Quarter One 2022/23
2	Proposed revised Investment Strategy to 2024/25
3	Detail of projected reserves and provisions as at Quarter One 2022/23

Background papers

Body	Report title	Date
Council	Flexible Use of Capital Receipts Strategy	20/10/21
Council	Revenue Budget, Council Tax, Medium Term Financial Plan and Capital Strategy 2022/23	23/2/22
Council	Refreshing the Strategic Plan workplan for the 2022-24 period	5/4/22

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