

<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>	8 November 2022
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<b>Title:</b>	Revenue and Capital Budget – Projected Outturn position as at Quarter Two 2022/23
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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 as at Quarter Two 2022/23.

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

- projected revenue and capital budget year-end outturns as at Quarter Two 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 Executive:

- Notes that there is a projected 2022/23 revenue budget year-end outturn as at Quarter Two of a £9.429m overspend.

- Notes that if the Financial Recovery Plan 2022/23 as approved by Executive on 18 October 2022 is fully implemented, then the forecast overspend can potentially be reduced to approximately £2.1m.
- Notes the management action being taken to address the shortfall and to improve this position further, wherever possible, in order to mitigate the risk on reserves.
- Notes the proposed implementation of a Flexible Use of Capital Receipts Strategy for 2022/23 to fund transformation costs, in particular in Children's Services, as approved by Full Council on 7 September 2022.
- Notes that the current projected outturn and any non-implementation of the approved Financial Recovery Plan 2022/23 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 in a separate report to this Executive and then to Council as part of the Medium Term Financial Plan Update, and then 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.
- Approves the proposed revenue budget virements over £150,000 as detailed in Appendix 1.
- Notes the 2022/23 capital budget predicted year-end outturn of £69.241m as at Quarter Two against a revised capital budget of £90.614m, and approves the revised Investment Strategy to 2024/25 at Appendix 2.

## **Purpose**

1. This report advises the Executive of the Council's financial position as at Quarter Two 2022/23.

## **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:
  - projected revenue and capital budget year-end outturns as at Quarter Two 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. Standing Orders and Financial Procedures and Regulations require the Executive's approval of the proposed revenue budget virements over £150,000 (Appendix 1)
5. A revised Investment Strategy for the period to 2024/25 is attached at Appendix 2 for the Executive's consideration and approval.

## **Revenue Budget Projected Year-End Outturn as at Quarter Two 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 previously in the Revenue Budget, Council Tax, MTFP and Capital Strategy 2022/23 Report presented to Council on 23 February 2022 and in the Quarter One report, 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, Executive approved at Quarter One that the budget for Children's Care in 2022/23 would be temporarily increased for 2022/23 only by £5.665m, which is the amount requested by Children's Care for 2022/23 in the three-year plan drawn up in July 2021.
8. At Quarter One a projected year-end outturn position for 2022/23 of £9.012m was reported. This was mainly due to pressures relating to additional inflation, the increased pay award, and increased demand, placement, and agency costs within Children's Services, all of which were largely unknown at the start of the financial year and are national issues. In light of the projected overspend reported at Quarter One, Executive on 18 October 2022 approved a Financial Recovery Plan 2022/23 which was intended to reduce the projected outturn for 2022/23. This included certain discretionary expenditure being curtailed, the early implementation of fees and charges increases, additional controls around vacancy and agency staff, the setting up of a Children's

Focus Group, and the implementation of the approved Flexible Use of Capital Receipts Strategy. Full details of the actions approved and the impact on each Directorate were included in the Financial Recovery Plan 2022/23 report presented to Executive. The report indicated that the forecast overspend could be substantially reduced to approximately £1.6m.

9. The Council's projected year-end outturn position for 2022/23 as at Quarter Two is an overspend of £9.429m (8%) before the implementation of the Financial Recovery Plan. The split per Directorate is shown in the table below along with a comparison of the position as at Quarter One. Details of the Directorate variances are included in paragraphs 23 to 90.

Directorate	2022/23 Revised Full Year Budget  £'000s	2022/23 Q2 Projected Outturn at Year End  £'000s	2022/23 Projected transfer to central additional inflation contingency (to be actioned at year end when finalised)  £'000s	2022/23 Q2 PROJECTED OVER (UNDER) SPEND AT YEAR END (after projected transfer to central additional inflation contingency)  £'000s	2022/23 Q1 PROJECTED OVER (UNDER) SPEND AT YEAR END (after projected transfer to central additional inflation contingency)  £'000s
Regeneration and Culture	2,890	3,162	0	272	182
Environment and Community Services	20,033	23,206	(2,500)	673	395
Public Health	(2,827)	(3,485)	0	(658)	(542)
Adult Social Care	43,468	46,291	(1,180)	1,643	1,595
Total - Adult Social Care and Health Integration	40,641	42,806	(1,180)	985	1,053
Education & Partnerships	1,842	1,487	0	(355)	(168)
Children's Care	44,297	52,936	(617)	8,022	7,025
Total - Children's Services	46,139	54,423	(617)	7,667	6,857
Legal and Governance Services	9,787	9,874	0	87	37
Finance	(13)	(1,166)	(24)	(1,177)	(1,176)
Central Budgets	(1,148)	(4,547)	4,321	922	1,664
<b>Revenue Outturn</b>	<b>118,329</b>	<b>127,758</b>	<b>0</b>	<b>9,429</b>	<b>9,012</b>

Note – the Q1 variances for Regeneration and Culture and Central budgets have been adjusted from that reported at Quarter One to account for the transfer of savings on the Concessionary Fares budget approved as a virement at Quarter One (£711,000), in order to provide better comparisons of the variances between Quarter One and Two (see paragraph 84 for more details).

10. The table below shows by Directorate the potential effect if the Financial Recovery plan is fully implemented as per the Executive report, and shows a revised forecast variance position for 2022/23.

Directorate	2022/23 Revised Full Year Budget	2022/23 Q2 Forecast Variance	2022/23 Recovery Plan	2022/23 Fees & charges increases from 1 November 2022	2022/23 Revised Forecast Variance
	£'000s	£'000s	£'000s	£'000s	£'000s
Regeneration and Culture	2,890	272	648	129	(505)
Environment and Community Services	20,033	673	419	132	122
Public Health	(2,827)	(658)	165	0	(823)
Adult Social Care	43,468	1,643	1,229	53	361
Education & Partnerships	1,842	(355)	0	29	(384)
Children's Care	44,297	8,022	811	1	7,210
Legal and Governance Services	9,787	87	156	23	(92)
Finance	(13)	(1,177)	225	96	(1,498)
Central Budgets *	(1,148)	922	3,240	0	(2,318)
<b>TOTAL</b>	<b>118,329</b>	<b>9,429</b>	<b>6,893</b>	<b>463</b>	<b>2,073</b>

**NOTE**

\* Recovery Plan for Central Budgets includes £2.7m for adoption of the Flexible Use of Capital Receipts Strategy and £0.5m for vacancy and agency control which are currently shown centrally within Central Budgets, however these may at year-end be shown within Directorate budgets.

11. The above table shows that if the recovery plan is fully implemented then the projected outturn position of £9.429m as shown in the table in paragraph 9 can be reduced to approximately £2.1m. It is proposed that Directorate budgets are adjusted for the planned savings and fees and charges increases included in the Financial Recovery Plan 2022/23, and for the remainder of 2022/23 the revised budgets are used to show the revised forecast variance per Directorate in future quarterly budget monitoring reports. Virements for this have been included in Appendix One. There will be a requirement for close monitoring of progress against the Financial Recovery Plan, as any non-achievement of this will lead to increased drawdown on reserves and affect the Council's MTFP.
12. The Financial Recovery Plan 2022/23 includes 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, as approved by Full 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.
13. It is proposed that the final overspend at year-end resulting after the revenue spending controls have been implemented will be covered by Reserves, principally the Social Care Transformation Reserve. The current level of Reserves are shown in the Reserves and Provisions Section of this report (paragraphs 140 to 144) and detailed in Appendix 3.
14. The ongoing continuing financial effect of any pressures or underspends to budget will be built into future updates of the Council's MTFP.

## ***General issues***

15. 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 in paragraph 9 several 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 final 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.
16. As mentioned at Quarter One 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. No formal agreement has still yet 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.
17. 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.
18. At this stage in the absence of any formal agreement, it has been assumed in the Quarter Two 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.
19. The budget pressure caused by the effect of the 2022/23 pay award has been mitigated by savings on the amount provided for the pay award for 2021/22, and also on the money set aside for the Employers National Insurance contributions increase following the Government's decision to reverse the increased employers National Insurance contributions from November 2022. The resulting estimated pressure of approximately £1.4m is included within Central Budgets as shown in the table in paragraph 9 and in paragraph 88.

20. 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.

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

21. 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.

22. As mentioned in paragraph 11 close monitoring will take place of the in-year 2022/23 budget savings proposed as part of the Financial Recovery Plan 2022/23 approved by Executive on 18 October 2022. Updates on progress against these in-year savings will be included in future quarterly budget monitoring reports.

### ***Directorate variances***

23. The detail of the variances above or below £150,000 of the agreed budget are set out below. 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. 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 £98,000 at year end (after increasing car parking charges in November 2022 as part of the Financial Recovery Plan) which is a marked improvement from the £266,000 net loss reported at Quarter One, and can be attributed to a significant increase in income achieved from off-street parking.

25. 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.

26. 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 final overspend for car parking in 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***

27. As mentioned in paragraph 15 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 15, 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.

<b>Service Area</b>	<b>Description</b>	<b>£</b>
Property Running Costs	Inflation on Utilities	817,900
Building Maintenance	Inflation of Materials & Contractors Pricing	100,000
Integrated Transport Unit	Inflation on Fuel & Contractors Pricing	250,000
Area Care & Central Operations	Inflation on Fuel & Materials	117,100
Waste Collection	Inflation on Fuel	113,000
Waste Disposal	Main Contract Disposal (increase of £7.36 per tonne)	292,000
Catering	Inflation on Food & Utilities	250,000
Fleet Services	Inflation on Fuel and Materials	185,000
Street Lighting	Inflation on Electricity	375,000
<b>TOTAL DEMAND ON ADDITIONAL INFLATION CONTINGENCY BUDGET</b>		<b>2,500,000</b>

28. There is a projected pressure of £467,000 (after the effects of inflation as outlined above) due to a greater number of children eligible for home to school transport and an increase in costs to transport children out of the area. This overspend has increased from the £360,000 reported at Quarter One as the demand on the service for the new academic school year has now been established. The ongoing effects of this will be considered as part of the MTFP update.
29. A shortfall in income and an overspend on expenditure within Bereavement Services is expected to result in a £263,000 pressure. As part of the Financial Recovery Plan, fees and charges have been increased by 10% as from 1<sup>st</sup> November 2022 and this should reduce the pressure to £103,000 by year end. However, even with the revised pricing structure it is not expected that the revised income target for 2022/23 will be achieved. A comprehensive review of the service will be undertaken in order to get this back on track.
30. The Supported Communities Service is expecting to produce an overall underspend totalling £175,000, mainly due to vacant posts. Further savings, including the freezing of currently vacant Street Warden posts (£85,000) and the delay in the introduction of the subsidised residents Pest Control service (£90,000) are intended to be made as part of the Council's Financial Recovery Plan 2022/23.
31. 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 total overspend on the budget.

#### *Public Health*

32. There are projected savings on Public Health budgets totalling £658,000 in 2022/23, with the majority 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.



33. As part of the Financial Recovery Plan following the Quarter One report, the Service has deleted several vacant posts, which will save approximately £150,000 by year end.

#### *Adult Social Care*

34. There are projected staff savings across the Service totalling £663,000 mainly due to staff turnover and delayed recruitment to vacancies. Similar to Children's Care (as detailed in paragraph 62 below), 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 change to how Social Workers progress through the career structure grades as a staff retention incentive. Further consideration may however need to be given to a further recruitment and retention bonus scheme to attract and retain staff.

35. In Quarters One and Two of 2022/23, there has been net growth of £1,480,000 in purchased care costs (mainly residential care) against the budget set at the start of 2022/23. Further growth of £290,000 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.

36. As mentioned in paragraph 15 the Adult Social Care Directorate has been substantially affected by hyper-inflationary increases mainly from providers of services. This is currently forecast at approximately £1.2m for 2022/23. This is lower than the £1.6m provided for as part of the £4.6m additional inflation contingency within Central budgets provided 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. It should be noted that the £1.6m will be required in full ongoing in future years.

37. The above pressure is offset by the recovery of an additional £155,000 of direct payments surpluses in excess of the budgeted target.

38. The Bed and Breakfast budget for providing temporary accommodation for the homeless within the town is forecast to be overspent by £177,000 (after maximising homelessness grants).

39. 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 overspend £1,643,000 on the Adult Social Care budget. It is predicted that this overspend will be reduced to £361,000 by year-end following the implementation of the Financial Recovery Plan.

#### *Education & Partnerships*

40. This is mainly due to a projected unbudgeted income of £498,000 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 £75,000 due to reduced income from lower take up of services than expected.

41. 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).
42. It is projected that there will be a £5.1m 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 updates will be provided in future budget monitoring reports.
43. 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.
44. 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.
45. 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.
46. DfE also expect that schools be regularly updated via the Schools Management Forum about the authority's DSG account and plans for handling it, including high needs pressures and potential savings.
47. 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 1,272 in 2021 to a predicted level of 1,659 in 2022, a 30% increase, and this is predicted to increase further in the future. This is a national issue affecting a large number of 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

48. 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 in the table in paragraph 50 report against the revised budget for Children's Care in 2022/23 following the £5.665m temporary budget increase for 2022/23.
49. As mentioned in paragraph 15 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. The variances in the table in paragraph 50 below assume the inflation will be provided for from central budgets in order to provide a real variance against budget.
50. There is a projected overspend on the total Children's Care budget at year-end of £8,022,000 as at Quarter Two (before any mitigations as part of the Financial Recovery Plan), an increase of approximately £1m from that reported 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 and a comparison to Quarter One, 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 Q2 Projected Outturn at year end (after additional inflation funding)	2022/23 Q2 PROJECTED OVER / (UNDER) SPEND AT YEAR END (after additional inflation funding)	2022/23 Q2 Variance from Q1 Position	2022/23 Q1 Projected Outturn at year end (after additional inflation funding)
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
External Residential Agency Placements	8,968	(276)	8,692	12,850	4,157	(318)	4,476
Education Contributions to External Residential Agency Placements	(750)	0	(750)	(625)	125	0	125
ICB Health Contributions to External Residential Agency Placements	(1,252)	120	(1,132)	(1,392)	(260)	495	(755)
In-House Fostering	3,346	671	4,017	3,777	(240)	(203)	(37)
Independent Fostering Agency (IFA)	5,395	262	5,657	6,156	499	333	166
Adoption Services	1,282	0	1,282	1,285	2	(14)	16
Family & Friends Allowances	2,368	1,244	3,612	3,563	(49)	61	(110)
Safeguarding and Care Planning	2,969	727	3,696	5,203	1,508	604	904
Review and Development Unit	882	203	1,085	1,499	414	229	184
Referrals & Assessments	2,542	116	2,658	2,456	(201)	(167)	(34)
Children Looked After Teams	1,974	606	2,580	2,714	134	22	112
Internal Residential Service	3,861	0	3,861	4,074	213	(81)	293
Children with Disabilities service	1,516	0	1,516	1,971	455	96	359
Management and Administration	1,643	160	1,803	2,195	392	(32)	424
Improvement	0	1,832	1,832	2,856	1,024	(108)	1,132
Prevention Services	1,847	0	1,847	1,687	(159)	38	(198)
Other Resource Services	2,042	0	2,042	2,049	8	40	(32)
<b>TOTAL</b>	<b>38,632</b>	<b>5,665</b>	<b>44,297</b>	<b>52,319</b>	<b>8,022</b>	<b>997</b>	<b>7,025</b>

51. A proportion of the overspend is linked to transformation and improvement within Children's Services and as detailed in paragraph 12 it is proposed that a Flexible Use of Capital Receipts Strategy is implemented in 2022/23. It should be noted that as the amount has not yet been confirmed, the figures for Children's Care have not yet been amended for the effect of this.
52. The external residential agency placements budget is currently projected to be £4,157,000 overspent at year-end before the implementation of the Financial Recovery Plan 2022/23 savings (a decrease of £318,000 from Quarter One), mainly due to price increases within the market generally and a national shortage of available placements. Also there has been some delays in available placements which has led to placements initially being made at a higher cost whilst reduced cost long-term permanent placements are sought. The use of external residential placements is monitored on a weekly basis and if possible young people are moved to lower cost placements if it is in line with their care plan to do so. This is based on the 50 external residential placements at the end of Quarter Two (similar to Quarter One) and currently known movements in or out throughout the remainder of 2022/23.
53. The average cost per placement has increased significantly over the past 24 months due to demand across the country and a national lack of suitable placements. Requests for placements are being made multiple times with no interest being received from providers. This has led to increased costs and is a national challenge / pressure and not specific to Middlesbrough, despite Middlesbrough having one of the highest levels of demand for social care in the country. 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, which may not result in a proportional level of cost avoidance.
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. 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 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 Integrated Care Board (ICB) 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. However, the fewer placements Middlesbrough has the lower the Education and Health contributions. 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 regard 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 projected additional income received from the ICB of £260,000 above the revised budget for the contribution from Health towards the increased cost of placements due to the complex needs of the young people. This is however a decrease from Quarter One of £495,000, due to a complex young person moving out of residential services which has helped to reduce the overall costs of external residential care as mentioned above. Dedicated capacity has been provided to liaise with health commissioners in order to maximise health contributions.
57. The in-house fostering services budget is currently projected to be £240,000 underspent at year-end, an increase in underspend of £203,000 from that reported at Quarter One. This is due to a reduction in carers during Quarter Two, there are currently 161 placements, which is a reduction from 176 at Quarter One. The reduction is due to a concerning number of carers opting to transfer to Independent Fostering Agency (IFA) due to higher fees paid. A report is currently being prepared by the Service to propose an increase in payments to internal foster carers to bring them broadly in line with the payments received by carers from Independent Fostering agencies, in order to attempt to prevent this worrying trend continuing further. An increase in expenditure against 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 currently projected to be £499,000 overspent at year-end, an increase of £333,000 from the Quarter One position due mainly to the above mentioned transfer of in-house foster carers to agency. The number of placements / cases has increased to be currently at 150 (from 143 at Quarter One). This is after an increased additional temporary budget increase of £262,000 for 2022/23. 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 are currently 30 children in the process of being adopted, and it is currently projected that 27 Adoption Orders will be finalised in 2022/23. This may help to reduce the expenditure in Children's Care later on in the financial year.
60. The Family and Friends Allowances budget is currently projected to be £49,000 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 473 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.

61. As with at Quarter One there is a significant overspend predicted at year-end on the Safeguarding and Care Planning teams revised budget for 2022/23. This is currently predicted to be £1,508,000, an increase of £604,000 from Quarter One, this is even 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.
62. 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 team's budget. It remains a challenge to recruit and retain social workers and this is a significant regional and national challenge as well. At the request of the Department of Education the Multi-Agency Strategic Improvement Board is now receiving updates on the work to recruit and retain social workers at every one of its meetings and this work is supported by the Council's leadership 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. Leadership Management Team recently agreed a 15% market supplement, which is an improved offer from the current recruitment and retention schemes and will come into effect on 1<sup>st</sup> November 2022.
63. There is a projected overspend at year-end on the Review and Development budget of £414,000 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. This is an increase from the Quarter One pressure of £184,000. Agency staff to fill vacant posts due to challenges in recruiting are creating a pressure 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 £373,000 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.
64. The Referrals and Assessments Service is projecting a £201,000 underspend (an improved position against that forecast at Quarter One of £167,000), due to staffing vacancies caused by the inability to recruit and the managed agency teams which have been covering the work being shown under the Improvement budget.

65. The Children Looked After teams' budget is projecting an overall £134,000 overspend at year-end (a slight increase from Quarter One) 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 62, 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 increased legal costs.
66. The Internal Residential Service budget is projecting a reduced pressure of £213,000 due to challenges around recruitment, which is requiring the use of agency staff and additional overtime across the Service. The Service are currently undertaking some work to review the salaries of residential workers to support the drive to recruit them. 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.
67. The Children with Disabilities Service is projecting an overall £455,000 pressure on its budget, an increase of £96,000 from Quarter One, mainly due to continued pressures from expensive care packages of support required for young people in the Service.
68. The Management and Administration budget is projecting a slightly reduced pressure of £392,000, 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 the very high cost of two agency payments for vacant Heads of Services posts, which is offset partly by the additional budget provided of £160,000. Middlesbrough has just recently been successful in being awarded a £330,000 grant from DfE for Improvement funding which should offset part of the cost of one of these Head of Service posts and also help towards some other expenditure. There are also £272,000 of previous years savings not predicted to be fully achieved, and a £43,000 projected pressure within a variety of Strategic Services budgets.
69. The Improvement journey continues in Children's Services, and it is currently projected that there will be £2,856,000 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 £1,024,000 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.
70. Prevention Services are reporting a forecast saving of £159,000 on their budgets (a slight reduction to that at Quarter One) 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.
71. 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 £8,022,000 current projected overspend on the Children's Care budget at year-end before the

Financial Recovery Plan savings. In the Financial Recovery Plan there are £811,000 of savings planned to be made by year-end. A large majority of the planned savings in the Financial Recovery Plan are around reducing agency workers and external placements and these will be challenging targets, and therefore close monitoring will take place of progress against these, and this will be reported in future quarterly budget monitoring reports.

### *Legal and Governance Services*

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

### *Finance*

73. 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 £151,000. This is a decrease from the £233,000 reported at Quarter One due to a failure of a business.
74. A net surplus of £355,000 is projected relating to excess rental income above budget from tenants renting space in Centre Square Buildings 1 & 2.
75. 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 £72,000 (after capital financing costs) above that budgeted for in 2022/23. This is similar to the position as at Quarter One following a virement of £50,000 actioned to the Car Parking budget at Quarter One.
76. 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 £1,232,000. 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.
77. 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.
78. The Commercial Property Income budget is projecting a pressure of £346,000 across the portfolio. This is a significant improvement to Quarter One position due to a review of service charges to tenants. The pressure 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.



79. There are projected savings currently estimated to be £400,000 across the overall Resident and Business Support Service mainly due to the receipt of new burdens grant funding and vacant posts.
80. There is a net projected pressure of £158,000 on audit fees due to scale fee increases received for external audits of the Council's accounts up to the 2021/22 accounts. This pressure is after grant income of £46,000 being predicted to be received relating to the Redmond Review, and also a £20,000 Public Sector Audit Appointments (PSAA) Arbitration saving. External audit fees are planned to increase further in the future, mainly due to the increased complexity of the audits required, and this is a national issue for local authorities.
81. There is currently a predicted pressure of £90,000 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.
82. In addition, there are a number of budget areas within Finance which have variances below £150,000, and these account for the overall £1,177,000 projected total underspend on the Finance budget at year-end (after inflation contingency funding). It is anticipated that there will be £321,000 savings achieved by year end as part of the Financial Recovery Plan which will further increase the underspend.

### *Central Budgets*

83. As reported at Quarter One the Capital Financing budget is projected to overspend by £120,000 due to rising interest rate costs. In light of the increasing interest rates, this is a risk to the Council, and this will be closely monitored.
84. As reported at Quarter One there is a total budget saving for 2022/23 on payments to bus operators for the concessionary travel scheme of £711,000, which has been transferred from the Regeneration Directorate into the centrally held Pay and Prices Contingency.
85. Net projected savings of £325,000 are anticipated within the General Fund budget, mainly as a result of one-off income in year from credits on Business Rates accounts for Middlesbrough Council properties.
86. As stated in paragraph 15 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 15, 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, 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.
87. It can be seen from the table in paragraph 9 that there are currently total projected costs of £4,321,000 in 2022/23 for additional inflation costs within Service Directorates.

Therefore, there is a projected pressure of £577,000 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.

88. As detailed in paragraph 19, whilst the decision to reverse the increased employers National Insurance contributions from November 2022 will produce savings, the proposed pay award for 2022/23 is currently forecast to be higher than that provided for and there is a resulting net pressure of approximately £1.4m due to these factors. This projected pressure will be shown against Central Budgets.
89. In addition to the above, there are a number of budget areas within Central budgets which have variances below £150,000, and these account for the overall £922,000 current projected overspend on the Central Budgets at year-end (after the transfer of additional inflation costs from Directorates).
90. The Financial Recovery Plan includes an estimated £2.7m for the adoption of the Flexible Use of Capital Receipts Strategy and £0.5m for vacancy and agency control which will be shown centrally within Central Budgets, however these may at year-end be shown within Directorate budgets.

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

91. 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.
92. 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.
93. There is currently a growing uptake by residents of the Council Tax Reduction Scheme, and due to the current economic climate it is likely that this will increase further throughout the rest of the financial year. This will be closely monitored and the MTFP will be updated for this as appropriate.
94. Our budgeted Council Tax base includes assumptions on housing growth. If there is reduced growth in housing numbers, this will impact on income levels.
95. 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.

96. 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.

97. 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.

98. 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**

99. As previously reported to the Executive, a number of controls were implemented from 2019/20 to minimise overspending across the Council in-year and these remained in place for 2020/21 and 2021/22, and were continued into 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.

100. 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 and market supplements 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.

101. As mentioned in paragraph 8 Executive approved a Financial Recovery Plan for 2022/23. This includes the following actions to recover the position in 2022/23:

- Each Directorate was requested to identify where discretionary expenditure could be curtailed, stopping short of an in year spending freeze.
- Additional controls around the recruitment to vacant posts and procurement of agency staff.
- Member led focus meetings on the challenges facing Children's Services with an objective to mitigate demand and workforce challenges, concurrently assisting both the financial position and improvement journey.
- The subsequent approval of the adoption of a Flexible Use of Capital Receipts Strategy for 2022/23 at Full Council in September 2022 to support transformation

102. 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 a separate Medium Term Financial Plan Update report to this Executive and then to Council, 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 Two**

103. As part of the Quarter One report to Executive on 6 September 2022, Executive approved a revised capital budget for 2022/23 of £90.614m. Following a further review and the inclusion of new additional schemes, removed schemes, increases to existing schemes, and the reductions to existing schemes (as detailed in paragraphs 105 to 108), it is currently predicted at Quarter Two that the Council will spend £69.241m at year-end.

104. The revised Investment Strategy to 2024/25 is included at Appendix 2 for approval.

105. No schemes over £150,000 are proposed to be removed from the Investment Strategy.

106. No new schemes over £150,000 have been added to the Investment Strategy.

107. The following three 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 2 for consideration and approval:

- On 4 October 2022, Tees Valley Combined Authority (TVCA) provided the Council with official confirmation from the Department of Transport (DoT) of the City Region Sustainable Transport Settlement: Local Highway Authority Funding. The settlement provides funding details for the five financial years commencing 2022/23 to 2026/27. The Council will receive a total of £17,017,981, £3,403,596 per annum in each of the five years and is allocated as follows:
  - £1,067,795 per annum for Pothole Funding
  - £1,270,627 per annum for Highways Maintenance Formula and Incentive
  - £1,065,174 per annum for Integrated Transport Block.

The total settlement has been added to the Investment Strategy with years 2025/26 and 2026/27 included in the 2024/25 allocation until such time that the respective years are added. The relevant increases are on the following lines of the Investment Strategy:

- £5,325,870 – Local Transport Plan within Regeneration
  - £11,692,110 – Local Transport Plan – Highways Maintenance within Environment & Community Services.
- £875,000 has been added to the Investment Strategy in relation to Middlesbrough Development Company (MDC). This relates directly to additional costs incurred

within MDC's Boho Village scheme, but will be refunded directly to the Council through sales receipts achieved from the onward disposal of the development which has already been secured.

- In addition, on 18 December 2018, Executive approved the "Housing Delivery Vehicle (HDV) – Preferred Delivery Model" report. The report approved a funding package of up to £10,000,000, comprising of part equity and part loan to MDC. £1,000,000 of the loan has not been required to date. However, due to cost overruns within the Newbridge Court scheme, MDC now require the funds to be allocated to the company. The £1,000,000 has been sourced from pre-existing Council funds within the Affordable Housing scheme via Section 106, resulting in no additional resources being added to the Investment Strategy.

108. One scheme over £150,000 is proposed to be reduced within the revised Investment Strategy, set out at Appendix 2 for consideration and approval:

- On 1 September 2020, Executive approved the "Middlesbrough Development Company: Strategic Plan, CSI Site and Boho Village" report. The report approved capital borrowing of up to £24,000,000 for the construction of an apartment development on the former CSI site in the town centre and the Boho Village development at Middlehaven, subject to further sign off from the Council's Section 151 Officer. Subsequently, the Section 151 Officer approved and added borrowing of £9,500,000 to the Investment Strategy in relation to the CSI site scheme. It is now deemed that this scheme will not proceed and consequently the borrowing has been removed from the Investment Strategy.

109. 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 twenty two 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 Revised Budget (as per Q1)	Investment Strategy Projected Outturn at Q2	Investment Strategy Projected Outturn Variance at Q2	New, increased & reduced Schemes / transfers	Real outturn variance excluding new, increased, & reduced schemes / transfers
	£'000	£'000	£'000	£'000	£'000
Regeneration and Culture	60,612	43,573	(17,039)	(8,273)	(8,766)
Environment and Community Services	11,704	12,205	501	2,338	(1,837)
Public Health	140	285	145	137	8
Education & Partnerships	9,308	4,571	(4,737)	0	(4,737)
Children's Care	366	442	76	0	76
Adult Social Care and Health Integration	3,593	3,608	15	0	15
Legal and Governance Services	4,478	4,441	(37)	0	(37)
Finance	413	116	(297)	(105)	(192)
<b>Total</b>	<b>90,614</b>	<b>69,241</b>	<b>(21,373)</b>	<b>(5,903)</b>	<b>(15,470)</b>

## *Regeneration*

110. Boho X – £3,600,000 of the wider funding envelope for the construction of Boho X and Boho 8 is not required for the schemes. The funding, which consists of both Council resources and grant provided by TVCA has been re-profiled into 2023/24 with the intention of reallocation to other schemes within Middlehaven and the town centre as and when required.
111. Middlehaven Projects – £500,000 of resources are also available for schemes within Middlehaven. As per the above these resources will be allocated to specifically identified schemes as and when required. These resources are not expected to be expended within this financial year and have therefore been transferred into 2022/23.
112. Brownfield Housing Fund – The programme has been suspended until a solution is provided in relation to the issue of nutrient neutrality. Consequently, £1,050,000 of assumed grant funded expenditure has been redirected into 2023/24.
113. Future High Streets Fund – £1,835,000 of grant funding intended to be spent within the financial year has been transferred into 2023/24. This is due predominantly to extended negotiations with prospective new leisure tenants at Captain Cook Shopping Precinct. Whilst the negotiations are progressing positively, the delay in the anticipated dates of lease agreements has impacted upon assumed costs associated with fit-out works within the respective units at the precinct. Other delays for associated network adaptations and cycle infrastructure have also been encountered.
114. Teesside Advanced Manufacturing Park Phase 2 – Due to increased borrowing costs, additional work is being undertaken to determine the financial viability of the scheme. This has resulted in £250,000 of planned expenditure being transferred into 2023/24.
115. Housing Growth - £240,000 of resources have been re-profiled into 2023/24. This is largely due to the Council's considerations in respect of the most appropriate solution for the onward sale of the Newham Hall site, which has resulted in the pausing of the appointment of architects and consultants.
116. Cultural Development Fund – A tender process was undertaken with regard to the appointment of an architectural company to act as lead consultant on the project. Due to the disparity of the tenders in respect of the financial elements, in order to ensure that there was comparability in terms of expectations the tender process was extended with a clarification question. The extension has created delays in planned expenditure, resulting in £543,000 being re-profiled into 2023/24.
117. Towns Fund – East Middlesbrough Community Hub – Discussions are ongoing in respect of the final design and positioning of the building. This has impacted on the amount of assumed expenditure in-year, resulting in £500,000 being transferred to 2023/24.
118. Towns Fund – As per the Towns Fund Board, an allocation of £171,000 has been provided to Middlesbrough College as a contribution towards it identifying a property within the town centre for a college presence. The college is still considering options, resulting in the grant no longer being anticipated to be required in this financial year.

This, coupled with a delay in respect of improvement works at Pallister Park has resulted in a total of £236,000 being re-profiled into 2023/24.

119. New Civic Centre Campus – Whilst all costs associated with the scheme have not been finalised, it is currently envisaged that £360,000 of funds will be available upon completion of the scheme. These funds have been transferred to 2023/24 as contingency to ensure that any future amendments to the scheme can be funded from the overall budget provided.
120. Acquisition Of Town Centre Properties - £207,000 of funds relating to the acquisition of the Cleveland Centre remain available. The intended use of these funds are for landlord works within vacant units for the attraction of tenants and the optimisation of rent achieved within the units. It is not envisaged that the funds will be required within this financial year and have therefore been reallocated to 2023/24.

#### *Environment & Community Services*

121. Purchase Of Vehicles – £200,000 of planned expenditure has been re-profiled into 2023/24, this is due to extended lead in times and therefore delays in the delivery of a number of vehicles on order.
122. Bridges & Structures (Non-Local Transport Plan) – Following the results of detailed inspections and consideration to contractor commitments, the schedule of works has been reviewed to ascertain which schemes can realistically be completed within the financial year. This has resulted in £800,000 of expenditure relating to the Newport and Marton Road schemes being transferred into 2023/24.
123. Town Hall Roof – The timing of the works has been reviewed with the decision being made to defer the commencement of the scheme until March 2024. This decision allows for the planning of events and avoids the cessation of bookings within the Town Hall, in order to minimise disruption and loss of revenue income. This has resulted in further slippage of £400,000 into 2023/24. The project is expected to be fully complete by the end of October 2024.
124. Towns Fund Ward Initiatives - Issues associated with procurement, planning permissions and the finalisation of specifications have resulted in delays in the creation of new play areas and community gardens. It has therefore been necessary to carry forward funds totalling £500,000 to 2023/24. All schemes are expected to be complete by the end of summer 2023.
125. CCTV – Due to the current volume of work within the service, the Safer Streets programme has taken priority. Additionally, two of the high rise buildings in East Middlesbrough which currently house major pieces of equipment are being demolished. The relocation of the equipment has taken precedent over the installation of new cameras. This has resulted in elements of the CCTV schemes completion being delayed. £200,000 of resources have been re-profiled into 2023/24 accordingly.
126. Property Asset Investment Programme - £474,000 of Council funds earmarked for expenditure in future years has been brought forward to 2022/23 in order to fund urgently required works, primarily at the crematorium and the Council's commercial sites.

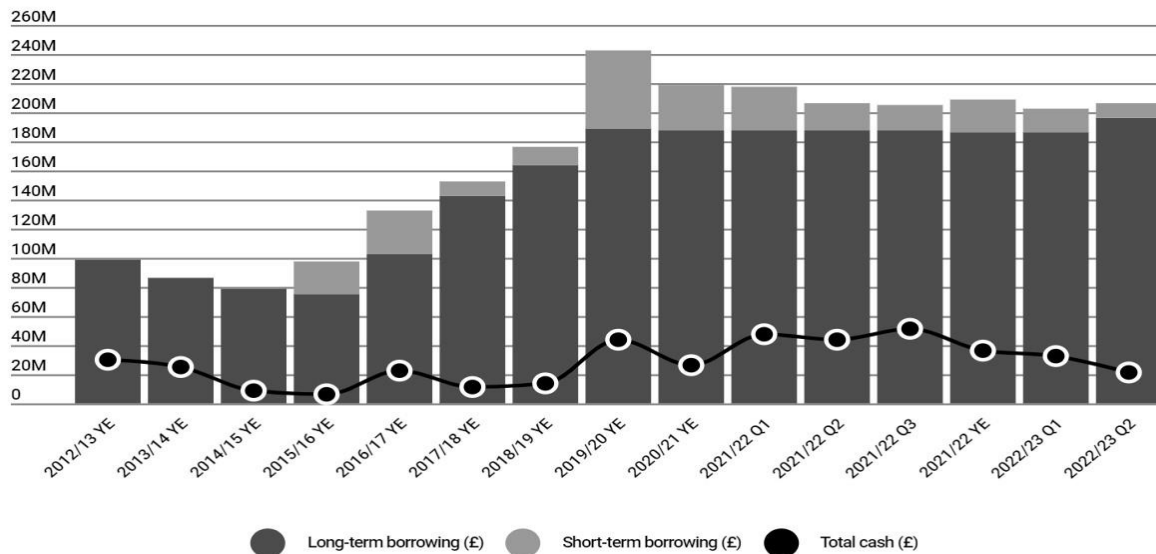
## *Education & Partnerships*

127. Contribution To New School at Middlehaven - The development of the Outwood Riverside school in Middlehaven has been delayed by the Department for Education (DfE) as a result of one of their contractors going into administration and unable to deliver the construction contract. As a result, the DfE have been required to go back out to tender to appoint a new preferred contractor, whilst this process is being progressing, the delay has resulted in £1,646,000 of the Council's contribution to the scheme being re-profiled into 2023/24.
128. Block Budget (Grant) School Condition Allocation – All works expected to be undertaken within the financial year have been allocated to specific schemes. £927,000 remains unallocated, this has been transferred for the funding of schemes expected to be undertaken 2023/24.
129. Block Budget (Grant) – High Needs Provision Capital Allocation – All works expected to be undertaken within the financial year have been allocated to specific schemes. £1,559,000 remains unallocated and has been transferred for the funding of schemes expected to be undertaken in 2023/24.
130. Maintained Primary Schools – Various small scale issues and delays in delivery have resulted in £166,000 being re-profiled into 2022/23
131. Special Schools – £185,000 has been reallocated to 2023/24, this is predominantly due to a delay in the relocation of the Cleveland Unit.

## **Borrowing & Prudential Indicators**

132. The Council's total borrowing increased from £202.1m at 30 June 2022 to £205.7m at 30 September 2022. This increase of £3.6m reflects new short-term borrowing of £5.0m for cash flow purposes, the conversion of £10m of short-term borrowing into longer-term government borrowing, offset by a repayment of principal amounts on existing annuity loans held by the Council of £1.4m.
133. Cash balances started to reduce during the second quarter of 2022/23 from £32.5m at 30 June to £21.0m at 30 September. This reflects the usual trend of reduction in cash where government grants are received in advance early in each financial year and then these are utilised as time progresses. However, the cash balances are lower relative to previous Quarter Two reports and this reflects the ongoing revenue pressures evident in Children's Social Care. Cash is currently above the Council's trigger level for borrowing of £15m, but borrowing to fund the investment strategy and the use of revenue reserves will be needed in the third and fourth quarters of the year.
134. The ratio of short-term to long-term borrowing has decreased during the quarter given the repayment of £10m of the short-term loan portfolio into public works loan board long-term borrowing. This was to give an element of budget stability and certainty for the medium term. The recent rises in both bank rate and longer-term interest rates mean that deferring borrowing decisions where possible, and only taking cheaper short-term borrowing if essential, 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.





135. 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.

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

<u>Prudential Indicators - 2022/23 Quarter Two</u>		
	<u>Original Budget</u> <u>(£M)</u>	<u>Actual</u> <u>(£M)</u>
Capital Expenditure	124.825	69.241
<u>Financing</u>		
External Sources	74.344	41.579
Own Resources	6.296	3.257
Debt	44.185	24.405
Capital Financing Requirement	295.865	283.324
External Debt	268.350	205.667
Investments	15.630	21.020
Capital Financing	10.466	10.587
Cost as a % of Revenue Budget	8.8%	8.9%

137. The total capital spend & level of financing has reduced by £55.6m 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.

138. The Council's total under borrowed position (external debt compared to the capital-financing requirement – or underlying need to borrow) is £77.7m, or 27.4%, at 30 September 2022. As cash balances reduce further during the 2022/23 financial year, with the level of reserves planned to be spent, plus the borrowing requirements within the Investment Strategy, between £40m - £50m of this under-borrowing will be needed to maintain the Council's overall liquidity position.

139. The amount of external debt at £205.7m and the total underlying need to borrow of £283.3m 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

140. 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	(8,613)	230	0	0	17,367
Earmarked Reserve - Dedicated Schools Grant (DSG)	(3,756)	(1,344)	0	0	0	(5,100)
School balances	4,802	0	0	0	0	4,802
Provisions	1,921	0	0	0	0	1,921
<b>TOTAL</b>	<b>46,972</b>	<b>(11,920)</b>	<b>1,088</b>	<b>0</b>	<b>0</b>	<b>36,140</b>

141. 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.

142. 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 is hoped that the implementation of the revenue budget controls and the Financial Recovery Plan (outlined in paragraphs 99 to 102) 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. If the Financial Recovery Plan is fully implemented in 2022/23 then the projected final revenue outturn at year-end is currently projected to be £2.072m as shown in the table in paragraph 10, and this will mean that the balance on the Social Care Transformation reserve at year-end will be reduced to approximately £3m.

143. As noted earlier, any reduction in Reserves balances will have a negative effect on the current MTFP and the position is currently being assessed and will be reported to this Executive and then to Council as part of the Medium Term Financial Plan Update and as part of the budget strategy for 2023/24 to Executive and Council.

144. 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 that there is a projected 2022/23 revenue budget year-end outturn as at Quarter Two of a £9.429m overspend.
- Notes that if the Financial Recovery Plan 2022/23 as approved by Executive on 18 October 2022 is fully implemented, then the forecast overspend can potentially be reduced to approximately £2.1m.
- Notes the management action being taken to address the shortfall and to improve this position further, wherever possible, in order to mitigate the risk on reserves.
- Notes the proposed implementation of a Flexible Use of Capital Receipts Strategy for 2022/23 to fund transformation costs, in particular in Children's Services, as approved by Full Council on 7 September 2022.
- Notes that the current projected outturn and any non-implementation of the approved Financial Recovery Plan 2022/23 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 in a separate report to this Executive and then to Council as part of the Medium Term Financial Plan Update, and then 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.
- Approves the proposed revenue budget virements over £150,000 as detailed in Appendix 1.
- Notes the 2022/23 capital budget predicted year-end outturn of £69.241m as at Quarter Two against a revised capital budget of £90.614m, and approves the revised Investment Strategy to 2024/25 at Appendix 2.

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

145. 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**

146. Not applicable.

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

#### ***Legal***

147. 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***

148. 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.

149. Any impact on the Council's Strategic Plan will be reported as part of the Corporate Performance Update: Quarter Two 2022/23 report to this Executive.

150. 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: Quarter Two 2022/23

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

151. 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.

152. The Financial Recovery Plan 2022/23 report to Executive on 18 October 2022 included that the financial recovery plan does not create policy change for service users, clients, and customers. The proposed Fees and Charges increases included in the Plan also do not result in disproportionate adverse impact on groups or individuals because they hold one or more protected characteristics.

#### ***Financial***

153. The Council's revenue year-end outturn position for 2022/23 is currently projected to be an overspend of £9.429m.

154. If the Financial Recovery Plan 2022/23 as approved by Executive on 18 October 2022 is fully implemented, then the forecast overspend can potentially be reduced to approximately £2.1m.

155. As mentioned in paragraph 8 within the Financial Recovery Plan 2022/23, the Council's financial position will potentially be improved by the proposed implementation of a Flexible Use of Capital Receipts Strategy in 2022/23 to fund transformation costs across the Council, particularly within Children's Services, as approved by Full Council on 7 September 2022.

156. It should be noted that the current projected outturn and any non-implementation of the approved Financial Recovery Plan 2022/23 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 in a separate report to this Executive as part of future Medium Term Financial Plan updates, and then 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.

157. The 2022/23 capital budget predicted year-end outturn as at Quarter Two is £69.241m, which if approved will become the revised Investment Strategy budget for 2022/23 as shown in Appendix 2.

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

<b>Action</b>	<b>Responsible Officer</b>	<b>Deadline</b>
Mitigation in the form of revenue budget spending controls set out in the main body of the report and in the Financial Recovery Plan 2022/23 approved by Executive on 18/10/22, 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	30/11/22

### **Appendices**

<b>1</b>	Proposed revenue budget virements above £150,000 at Quarter Two 2022/23
<b>2</b>	Proposed revised Investment Strategy to 2024/25
<b>3</b>	Detail of projected reserves and provisions as at Quarter Two 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
Executive	Refreshing the Strategic Plan workplan for the 2022-24 period	5/4/22
Executive	Revenue and Capital Budget – Projected Outturn position as at Quarter One 2022/23	6/9/22
Council	Flexible Use of Capital Receipts Strategy 2022/23	7/9/22
Executive	Financial Recovery Plan 2022/23	18/10/22

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