

<b>Report of:</b>	Director of Finance (S151 Officer)
<b>Submitted to:</b>	Executive
<b>Date:</b>	14 February 2023
<b>Title:</b>	Budget 2023-24 – Statutory report of the Chief Finance Officer
<b>Report for:</b>	Information
<b>Status:</b>	Public
<b>Strategic priority:</b>	All
<b>Key decision:</b>	Not applicable
<b>Why:</b>	Not applicable
<b>Urgent:</b>	Not applicable
<b>Why:</b>	

### **Executive summary**

Section 25 of the Local Government Act 2003 requires the Chief Finance Officer to report on the robustness of the budget estimates and the adequacy of the financial reserves. The Act also requires the Authority to which the report is made to have regard to the report when making decisions about the budget. The Chief Finance Officer is as defined in Section 151 of the Local Government Act 1972 and is fulfilled by the Director of Finance.

This report covers:

- An overview of current financial standing.
- An assessment of the robustness of the 2023-24 budget setting process for both revenue and capital.
- An assessment of key risks that may impact the budget 2023-24.
- An assessment of the overall adequacy of reserves to contain financial risk and ensure the sustainability of the Council over the financial year 2023-24, and
- An indication of future direction of travel for the council beyond 2023-24.

In summary, the proposals to establish a net budget requirement of £126.4m and council tax requirement of £67.3m for 2023/24, as set out in the Executive report on 14 February 2023 are robust and provide sufficient resource to enable the council to set a balanced budget.

Reserves are adequate insofar as the minimum level of general balance is set at £12m, based on risk assessment; there are currently no plans for its use being the fund of last resort. However, there is little resilience in earmarked reserves, and these are at a critical level. The lack of substantial earmarked reserves means the overall reserves position, whilst adequate, is fragile and may require a reliance on cost control or the delivery of additional savings in the event of any unplanned costs.

The budget gap 2023/24 of £14.9m requires delivery of £9.4m savings in year (full year: £12.4m). The budget carries significant risk especially around the volatility of the budget for children's services and the delivery of approved saving plans in a timely way. The Council is advised to have an unrelenting focus on the delivery of saving plans and demand mitigation during the year. The delivery of children's financial improvement plan will be overseen by the Children's Finance Focus Group. Some level of contingency (£1.3m) and limited reserves (social care transformation – currently estimated to be £1.7m at the end of 2022/23) are held to mitigate these risks. In the event of significant unexpected cost pressures emerging during the year, further savings will be required from across the Council, and early consideration is advisable to forward plan future savings so they can be brought forward as necessary.

The Council's current financial standing reflects a number of weaknesses: relatively low levels of reserves; significant demands on services and governance weaknesses limiting the delivery of value for money for the people of Middlesbrough, resulting in a best value improvement notice issued in January 2023. The Council has in place a Governance Improvement Board under the purview of the LGA and CIPFA. It is imperative there is organisational grip to deliver planned improvements to ensure council money is spent wisely and this will require a significant programme of work during 2023/24 to be delivered at pace that focusses on embedding budget management and improved accountability arrangements within the organisational culture.

The CFO does not consider Middlesbrough Council to be at risk of a s114 Notice (Local Government Act 1988) in setting the budget for 2023/24 as set out in the report to Executive on 14 February 2023. This view is based on the latest available information and in the event of a change in the risk profile or financial circumstances, the position cannot be assured over the medium term and will be kept under review in the coming months. Council is asked to note the requirement for early consideration of budget proposals for 2024/25 and for these to be available for acceleration if required.

The Council is advised to pursue a policy of strengthening its financial resilience by maximising its local revenues; seeking to replenish reserves and delivery of savings in a timely way. In this way the Council will be better able to withstand any future financial shocks and be in a stronger position to develop and implement its strategic plans.

The reports requests that Executive:

- Note this report and have regard to it when setting the Revenue Budget 2023/24.
- Note
  - An unrelenting focus on delivery of 2023/24 savings and demand mitigation will be required to maintain a balanced budget; further work may be needed to accelerate future budget proposals, if necessary.
  - The CFO advise to adopt a medium-term strategy that seeks to maximise resources and replenish reserves.
  - The requirement for a future programme of work to embed an organisational culture of good governance and financial management and within this a particular focus on strengthening financial practice in children’s services.

## **Purpose**

1. The purpose of the report is to enable members to fulfil their responsibility to set a balanced budget for 2023/24.

## **Background and relevant information**

2. Section 25 of the Local Government Act 2003 requires the Chief Finance Officer to report on the robustness of the budget estimates and the adequacy of the financial reserves. The Act also requires the Authority to which the report is made to have regard to the report when making decisions about the budget. The Chief Finance Officer is as defined in Section 151 of the Local Government Act 1972 and is fulfilled by the Director of Finance.
3. This report is made in respect of the Budget 2023/24 as set out in the report to Executive 14 February 2023.

## **Chief Finance Officer Overall Opinion**

4. In general, the proposals to establish a net budget requirement of £126.4m and council tax requirement of £67.3m, as set out in the report to Council on 27 February 2023 are robust and provide sufficient resource to enable the council to set a balanced budget for 2023/24.
5. Reserves are adequate insofar as the minimum level of general balance following risk assessment is set at £12m and there are no plans to use them in 2023/24 as the fund of last resort. However, there is little resilience in earmarked reserves, and these are at a critical level. The lack of substantial earmarked reserves to support significant unplanned spending means the overall reserves position whilst adequate is fragile and may require continuing reliance on cost control or the acceleration of future saving plans in the event any unexpected costs emerge. The Council must take every opportunity to replenish reserves, some contribution to reserves is planned in 2023/24 and the Council must proactively plan for this in future budget rounds. In this way, reserves will be available to smooth budget fluctuations over the medium term and for investment in strategic priorities.
6. The current financial standing of the Council indicates a number of significant stressors and addressing the underlying issues will seek to improve future resilience. The CIPFA Financial Resilience index highlights low levels of reserves and significant demand led

pressures. At the time of drafting, the Council is awaiting findings from the more recent CIPFA Finance resilience review and it is imperative that a programme of work is set up in response to those findings when known.

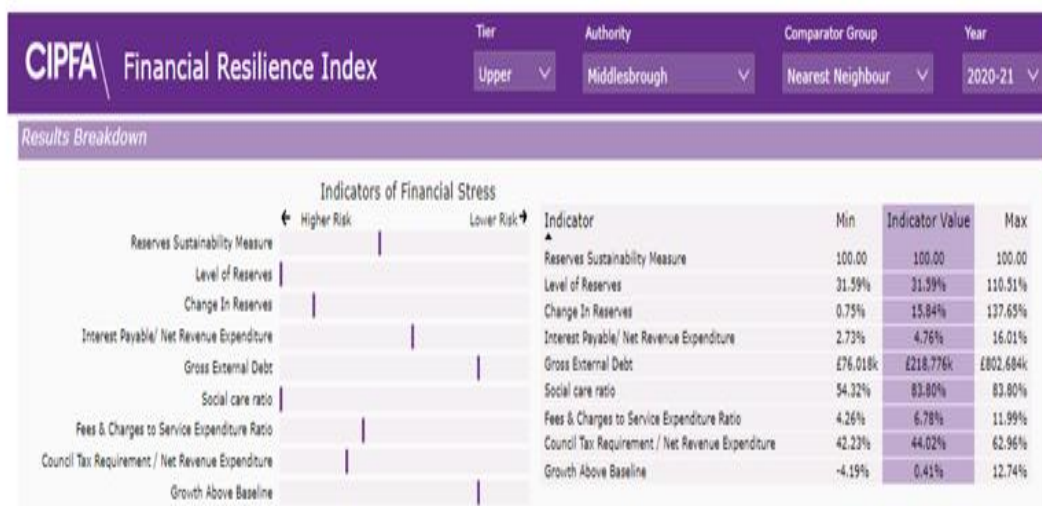
7. Significantly, the external auditor issued a value for money qualification for 2020/21 in respect of governance weaknesses. External audit found practices which hindered the smooth running of operations limiting the council's ability to safeguard public money. As a result, the Governance Improvement Board under the purview of the LGA has been established to put in place the necessary foundations through a comprehensive improvement plan. A government Best Value Improvement notice was issued in January 2023 to reinforce the requirement for change to be delivered at pace. It is imperative the Council seeks to deliver against the governance improvement plan to ensure decisions are taken in the right way to demonstrate best value.
8. Plans are also needed to embed accountability in the organisational culture. Effective demand mitigation and rigorous financial control will be required by all directors to remain within spending control totals. This will require careful monitoring, and proactive management by individual directorates to maintain grip to ensure financial health. Budget oversight exercised through the Leadership Management Team, Executive and Overview & Scrutiny Committees will be vital to maintain visibility. The Children's Finance Focus Group led by the Deputy Mayor (or similar) is expected to continue in 2023/24.
9. The most significant risk facing the council's financial health is the volatility in the cost of children's social care impacting both 2022/23 and 2023/24 and significant additional resource of £17m has been baselined into the 2023/24 Budget. This now means children's care directorate budget has increased from approx. £33m to approx. £56m over the period 2012/13 to 2023/24, currently representing 44% of the council's budget. The additional resource provided for 2023/24 is sufficient to meet current demand and enable the completion of the children's improvement plan and a small central contingency (£1.3m) held for additional demand. Residual funds held within the social care transformation reserve estimated at £1.7m will be held to mitigate risk on the children's budget including risk to delivery of savings. Without a doubt the financial health of the council is inextricably linked with the cost pressure and volatility on children's social care.
10. The Budget relies on some £9.4m being achieved in savings. This includes £6.5m for non-children's and £2.9m for children's services. Budget implementation plans have been developed to achieve the proposed savings and oversight for the delivery of those plans will be overseen by the Chief Executive. As some of these savings are to be implemented part year there will also be a financial benefit in 2024/25 of a further £3m. The Council will require an unrelenting focus on the delivery of savings to ensure the budget remains on track.
11. The financial challenges facing the council have been the most intense during 2022/23 and this is expected to continue into 2023/24 in response to exceptional inflation costs and service demand. Financial planning assumptions for 2024/25 suggest a continuing requirement for further savings. In the event of slippage to delivery of planned savings in 2023/24, further savings will be required, and it is recommended that early consideration is given to forward planning of further savings so they can be brought forward as necessary.

12. The Local Government Financial Settlement predicated an expected increase in council tax of 5% per annum for 2023/24 and 2024/25 and government announcements of headline funding increases of 9% for 2023/24 assume councils will implement council tax rises at the maximum permitted under regulation. The Council's ability to increase council tax in this way serves to improve and consolidate the funding base and strengthens resilience. Within the prevailing regulatory framework, Council is urged to maximise its local revenues wherever possible, recognising this is a political decision and a strategic choice balancing competing priorities. Every 1% of council tax not taken up, means the Council has foregone a permanent reduction of £0.65m in its resource base.

### Financial Standing

13. A number of matters can be examined in assessing financial standing,
- the CIPFA Financial Resilience Index
  - External audit value for money opinion 2020/21
  - The CIPFA Financial Resilience review.

### CIPFA Financial resilience index



14. The table above was recently shared at an all-member briefing and subsequently circulated to all members. It shows the key financial stressors on Middlesbrough's resilience in respect of 2020/21 relative to statistical nearest neighbours. Whilst areas of business rate growth and debt are indicators of low stressors on overall financial health, the level of reserves and high levels of spending in social care mean there is little resilience to absorb financial shocks.

15. The greater the proportion of the local authority budget that is used for social care, the less funding there is for other services. Increased demand will therefore reduce the flexibility of the council's budget, making it more vulnerable to financial challenge and creating a dependency for savings to be found elsewhere to compensate. As can be seen from the above table, Middlesbrough had the highest risk of the comparator group in 2020/21.

16. For Middlesbrough this risk is also coupled with low reserves. Reserves are essential to financial resilience as we cannot borrow money to fund the budget and we are

required to balance the budget each year. Low levels of reserves mean there is less capacity to mitigate significant or unexpected cost increases. It may be counter intuitive, but at a time of increased uncertainty, the role of reserves becomes more important and the need for adequate levels of reserves has increased. Middlesbrough had the lowest level of reserves in 2020/21 of the comparator group.

#### External Audit Value for Money opinion and Best Value Improvement notice

17. External audit issued in their interim Audit Results Report 2020/21 a value for money qualification in respect of governance weaknesses and this was considered at Corporate Affairs and Audit Committee in July 2022:

*“We have observed evidence which leads us to conclude that the culture and governance arrangements at the Council have not been operating as expected, and that this is undermining the effectiveness of the Council’s governance framework. During the year ended 31 March 2021, we identified multiple instances where significant decisions were taken by the Council without following the Council’s established policies and procedures and contrary to the boundaries of the respective roles and responsibilities of officers and members.”*

18. As a result, the Governance Improvement Board under the purview of the LGA has been established to implement the improvement plan prepared by CIPFA and considered by Full Council in October 2022. Since, the government subsequently issued a Best Value Improvement notice in January 2023 to reinforce the requirement for change and for this to be delivered at pace. The best value notice will be in place for 12 months.
19. It is imperative the Council seeks to deliver against the governance improvement plan to ensure decisions are taken in the right way and each pound is spent appropriately.
20. The external auditors are considering the Budget 2023/24 as part of their going concern assessment before the 2020/21 audit can be concluded.

#### CIPFA Financial Resilience review

21. This review was commissioned in January 2023 to provide an independent assessment of the financial standing of the Council. At the time of drafting this report, the review has not concluded, though a planned programme of work will be developed from its findings.

#### **Robustness of the Budget 2023/24**

22. In assessing the robustness of the overall budget for next year, the following factors have been considered:
- a. Underpinning assumptions on which the budget was prepared.
  - b. The governance arrangements in place to manage the budget throughout 2023/24
  - c. Compliance to the funding framework
23. The underpinning assumptions on which the budget has been determined.
- a. Financial resources have been aligned to the spending needs of the Council.
  - b. Savings to achieve a balanced budget have been identified, consulted on and impact assessed. Savings have been appropriately phased with delivery plans developed.

- c. The budget reflects additional resource requirements for social care as well as planned savings to deliver sustained financial improvement incorporating the children's improvement plan approved by the Director of Children's services, and the adults demand assessment by the Director of Adult Social Services.
- d. The outcome of the provisional local government finance settlement has been factored into the budget thereby considering latest information on government grants and business rates baseline and uplifts.
- e. It reflects an assumption of an increase in council tax of 3.99% (1.99% general, 2% ASC precept) using the approved council taxbase 2023/24.
- f. The pay award has been included at the agreed pay award 2022 and similar increases for pay award 2023, national living wage reflects national increases and pension costs have been adjusted to reflect the new rates in place from 2023/24.
- g. Assumptions about contractual commitments, future inflation and interest rates reflects the latest known position.
- h. Capital and revenue budgeting is integrated with the revenue consequences of the capital programme considered as part of the 2023/24 budget. Additional costs arising from new borrowing have been provided in the capital financing budget.
- i. The treasury management position reflects the approved change to Minimum Revenue provision approved at Council in January 2023.
- j. Income estimates reflect decisions taken to increase fees and charges and current trends including commercial income expected from place shaping and regeneration activity.

24. Governance arrangements are in place to manage the financial resource and will be improved during 2023/24:

- a. The Budget has been prepared with full involvement of the Leadership Management Team led by the Chief Executive and has been through several iterations and internal challenge, with updates provided at weekly meeting to the finance portfolio holder, deputy mayor and mayor.
- b. Under the Council's constitution, financial management is delegated to the appropriate Director, they are required to contain spend within their allocated control total. Financial commitments are expected to comply with the Council's Financial Procedure Rules, which all Directors and their teams are aware. Arrangements are currently being reviewed to strengthen directorate accountability.
- c. Governance arrangements are in place for budget monitoring and reporting during the year. Quarterly monitoring reports are prepared for Executive and Overview & Scrutiny with "by exception" reporting on a monthly basis, although these arrangements are subject to review.
- d. A Children's Finance Focus Group under the leadership of the Deputy Mayor meets to review the financial progress on approved children's financial improvement plan.
- e. Progress on the delivery of saving plans is owned and overseen by the Chief Executive and incorporated into budget monitoring.
- f. Budget management arrangements will be strengthened following the recommendations of the CIPFA Financial resilience review.

## 25. Funding framework for local government

- a. The Settlement figures are based on the provisional local government settlement, details of the final settlement are awaited, and any variations will be included in the final budget 2023/24.
- b. The Mayor's proposals do not breach the excessiveness principle for 2023/24 where a local referendum is required for any council tax increase above 2.99% general and 2% Adult Social Care precept.
- c. An assessment has been made of likely levels of bad debt provision when determining the council tax base.
- d. The budget reflects the Flexible use of Capital Receipts where those receipts are realistic, and these have been utilised to meet the costs of transformation in line with central government guidance.

### **Risk Assessment**

The major risks to which the council are exposed are set out below:

#### 26. Social care volatility

Middlesbrough already faces exceptionally high children's social care costs. In 2021/22, Middlesbrough children's social care costs was £1,900 per head of population 0–17 years significantly above the unitary average of £1,136 and children's nearest neighbour of £1,499. Even at this level of spend, the most significant risk facing the council's financial health is the volatility in the cost of children's social care impacting both 2022/23 and 2023/24. In response significant additional resource of £17m has been baselined into the 2023/24 Budget to reflect known demand. This now means children's care directorate budget has increased from approx. £33m to approx. £56m over the period 2012/13 to 2023/24.

A children's finance improvement plan has been prepared and is reported elsewhere on your agenda. This plan outlines areas where sustained cost improvements can be made to improve value for money and has been reflected in the Budget 2023/24, with £2.8m of cost reductions being included. This in itself creates budget risk in the event the savings cannot be delivered in full and in a timely way. A small reserve will be retained through the social care transformation reserve as a buffer for mitigation of about £1.7m.

Further, there is a risk of a sharp and sudden increase in the number of looked after children especially those with complex needs placing additional strain on the budget. A contingency of £1.3m has been provided to accommodate this risk with sufficient headroom for five additional residential placements for a full year at average current cost.

Additional social care grants provided by central government will be used in partnership with the health service to mitigate health and care demand and facilitate hospital discharge and have been internally ringfenced for this purpose.



## 27. Continuing exceptional inflation and cost

The Budget reflects the full provision for the 2022/23 pay award, an assumed 5% for 2023/24 along with the estimated future costs for national living wage which impacts social care providers. The provision for price inflation has increased significantly by over £7m since the previous assessment made in February 2022 to provide for unavoidable cost increases including energy costs. Each 1% of pay is equivalent to £0.9m and a small contingency is held for an additional 1% inflation.

## 28. Budget position 2022/23

Service demands have arisen during 2022/23 have been assessed and considered as part of 2023/24 Budget. The most significant cost increases being baselined in children's services, necessary for proper planning of a robust budget.

## 29. Outcome of future OFSTED inspection

Members will be aware the last ILACS inspection conducted in December 2019 concluded with an overall Inadequate judgement. Since then, the Council has engaged with OFSTED and the DfE on its improvement journey with a three-year plan developed to deliver sustained improvement and change. Subsequent OFSTED monitoring visits have reported favourably on progress made. A full ILACS inspection is due to take place early 2023. The outcome of which is unknown at the time of preparing the Budget 2023/24, the financial plans may need to be revisited depending on the findings of the Inspector and the Council may be faced with strategic choice.

## 30. Insured and uninsured risks

The Council received an assessment from its Insurance Actuary during 2022/23 which recommended the Council set aside some £7m for known and future insurance claims that are likely to be settled. Of this £3.3m has been set aside as a provision in the 2020/21 Statement of Accounts for claims already received but not yet paid. The Budget 2023/24 provides for an annual contribution of £0.5m over the medium-term period, for the remaining £3.7m of claims which may be received in the long term.

In addition, the Council may be exposed to risks arising from contractual obligations or other uninsured risks. In the event that liabilities arise during the year, the Council will assess the impact including disclosure as a contingent liability. We will further assess following robust challenge whether these liabilities will be an obligation for which the Council must provide.

## 31. Utilisation of reserves

The Budget 2023/24 does not place any requirement to use reserves for general support to deliver a balanced position.

The Budget 2023/24 plans for contributions to the Insurance Reserve of £0.5m, Change Fund of £0.73m, and capital investment reserve of about £0.5m.

## 32. Capital receipts

The Council has approved the flexible use of capital receipts policy to support Children's

Improvement and council wide transformation. Some £3m capital receipts will be used to deliver transformation in 2023/24 and is planned pipeline for receipt in 2023/24. The use of capital receipts in this way is regulated under government guidance. The Council can only use the flexibility on eligible disposals of assets and for qualifying spend. The Council has adopted this policy in full compliance of the guidance and full details of their use contained in the main Budget report 2023/24.

### 33. Workforce

The delivery of savings will be dependent on workforce change, this will include possible redundancy and exit costs. Wherever possible the Council has sought to reduce the impact on the workforce seeking to recruit internally and offer redeployment opportunities. Where exit costs are incurred, the Council will either charge the cost to the capital receipts flexibility (subject to satisfying the conditions) or to the Change Fund.

A significant workforce risk is the increasing reliance on agency staff especially in the field of social care. The short-term nature of agency workforce carries a significant cost premium. The Council is implementing plans to reduce reliance on agency and managed teams and has recently refreshed its reward package. This approach is not without risk due to national issues with social care workforce and this risk will be mitigated through the use of residual monies held in the social care transformation reserve in the first instance.

### 34. Delivery of savings

The Budget 2023/24 is predicated on the basis of £9.4m savings to be delivered with a full year benefit of £12.4m. The delivery of the savings programme to achieve the profiled savings will require the development of detailed implementation plans and programme management methodology. These arrangements are well underway and will be overseen by the Chief Executive, though will require an unrelenting focus to ensure delivery. There is a benefit to the 2024/25 Budget position too as the full year impact helps to close the 2024/25 gap by £3m. In the event of slippage to savings or in year overspends, further savings will be required for recovery, and it is recommended early consideration is given to forward planning so additional savings can be accelerated if and when necessary.

### 35. TV Mayoral Development Corporation/ Middlesbrough Development Company

The Council is working in partnership with the Tees Valley Combined Authority to establish a development corporation to redevelop and master plan parts of the Middlesbrough Town Centre. This will involve the identification of assets for transfer to the Corporation. Some of these council owned assets create revenue income streams to the council as well as the assets holding intrinsic value. Due diligence will be carried out on any assets for transfer on a “no detriment” basis to Middlesbrough council to mitigate against risk to the budget and balance sheet.

Related to this, the current Middlesbrough Development Company is being wound up with assets being transferred to the Council, a task and finish group to oversee the transfer is in place. It is not expected this will create significant risk to the revenue budget, though the contractual obligations may take some time to finalise.

### 36. Internal borrowing

The Council adopts a policy of making best use of its treasury management facility and seeks to use internal borrowing where it is prudent to do so. This is expected to be around £40m in 2023/24. Much of this relates to revenue and capital reserves being held on the balance sheet which are expected to be used over the MTFP period so the gap will reduce over time. In the event cash flow dictates external borrowing over and above that provided in the Budget 2023/24, additional cost will arise. This risk is currently considered to be low based on current cash flow planning.

### 37. Change in MRP Policy

The Council approved a revised MRP policy in January 2023, which sets out a change to the profile in the repayment of debt, harmonising the treatment for both supported and unsupported borrowing. Government guidance sets out several options to enable prudent provision and the Council has adopted the annuity basis over the life of an asset. It is not possible to backdate this policy for prior years and it will be only future charges that are influenced by the policy.

The impact of this change will be to improve the management of the revenue budget and to smooth the total cost of capital financing over many years. Costs are lowest in the early years but steadily increase over time. The Budget 2023/24 provides for a baselining of MRP on an annuity basis at Year 10 as a prudent provision. In doing so, this creates headroom in the capital financing budget to be ringfenced for future capital investment, or financing risk.

### 38. Finalisation of prior year Statement of Accounts 2020/21 and 2021/22

The Council currently has prior years Statement of Accounts not yet signed off and audit certificates are awaited. This means there is a risk that our reserves position as reported could be amended in the event of new issues emerging requiring further accounting adjustments in those years. The external auditors are also considering the Budget 2023/24 as part of their assessment of going concern for 2020/21 and we await their feedback. Currently both 2020/21 and 2021/22 Statement of Accounts have yet to be signed off.

### 39. DSG deficits

The Council is currently faced with about £5m deficit on the high need's element of the Dedicated Schools Grant and is taking part in the Delivering Better Value programme with a planned programme for recovery. The government will be extending the Statutory Override for the Dedicated Schools Grant for the next 3 years from 2023-24 to 2025-26 and as such this deficit is considered to be out of scope for the purposes of setting the budget 2023/24. Deficit recovery plans are in place and overseen by the Director of Education and progress reported to Executive, though a residual deficit of c£2m is anticipated to remain by the end of 2025/26 and has been considered as part of the risk assessment for general fund balances.

## **Adequacy of reserves**

40. The Budget 2023/24 reported elsewhere on the agenda includes a summary statement of the key strategic reserves so is not repeated here. The assessment of the adequacy of reserves is dependent on the underlying risks in the preparation of the revenue budget along with future uncertainty and medium-term outlook.
41. General Fund balance will be retained at £12m being the minimum level of reserve required to mitigate against general risk and uncertainty. This level has been ascertained following a robust risk assessment. General fund balance is the fund of last resort when all other funds have been exhausted; there are no plans to use this reserve in 2023/24.
42. The Budget 2023/24 provides for additional contributions to earmarked reserves primarily to the Insurance Reserve; Change Fund and Investment reserve. These reserves are much needed providing cover for future anticipated expenditure and adequate provision is required to reduce the risk of costs falling to the revenue budget.
43. The social care transformation reserve is currently used to mitigate in year overspends in 2022/23 arising from pressures in social care. It is anticipated this reserve will be significantly reduced by the end of 2022/23 to £1.7m. From 2023/24, its purpose will be amended, and any balance will be held to mitigate risks to the social care budget arising from unmitigated demand and risks to the delivery of budget savings.
44. Flexible use of capital receipts will be available in line with the policy guidance to support children's transformation and to reduce demand where relevant. To some extent this reduces the reliance on and risks to reserves. This is a time limited policy whilst transformation programme is being undertaken and is currently not planned to be continued in 2024/25.
45. Earmarked reserves are at a critical level. Whilst they are adequate the current climate of uncertainty, in year overspends and historic under provision for known risk means they are fragile. The absence of substantial earmarked reserves to act as a buffer may require the acceleration of additional savings being required in year or a reliance on cost control to mitigate any unplanned costs.
46. Whilst the Council is starting the financial year 2023/24 with sufficient reserves, it is imperative the Council takes every opportunity to protect and replenish them. In this way, reserves will be available to smooth budget fluctuations over the medium term, withstand shocks and for investment in strategic priorities.

## **Financial Outlook beyond 2023/24**

47. The financial challenges facing the council have been intense during 2022/23 and this is expected to continue into 2023/24 in response to exceptional inflation costs and service demand.
48. The longer-term view suggests the Council will continue to face a budget gap. Whilst the full year impact of the 2023/24 saving proposals will contribute to closing the gap, there is likely to be a requirement for further savings. Any budget challenges that emerge during 2023/24 may require the acceleration of future saving programme and

the Council is urged to consider future saving plans early in the next municipal year.

49. The Local Government Financial Settlement predicates an expected increase in council tax of 5% per annum for 2023/24 and 2024/25 and government announcements of headline funding increases of 9% for 2023/24 assume councils will implement council tax rises at the maximum permitted under regulation. The Council's ability to increase council tax in this way serves to improve and consolidate the funding base and strengthens resilience. Every 1% of council tax not taken up, means the Council has foregone a permanent reduction of £0.65m in its resource base.
50. The Council is advised to pursue a policy of strengthening its financial resilience by maximising its local revenues; seeking to replenish reserves and achieve the delivery of savings. In this way the Council will be in a stronger position to develop its strategic plans.

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

The reports requests that Executive:

- Note this report and have regard to it when setting the Revenue Budget 2023/24.
- Note
  - An unrelenting focus on delivery of 2023/24 savings and demand mitigation will be required to maintain a balanced budget; further work may be needed to accelerate future budget proposals, if necessary.
  - The CFO advice to adopt a medium-term strategy that seeks to maximise resources and replenish reserves.
  - The requirement for a future programme of work to embed an organisational culture of good governance and financial management and within this a particular focus on strengthening financial practice in children's services.

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

51. To satisfy the statutory requirements of the Local Government Act 2003.

### **Other potential decision(s) and why these have not been recommended**

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

#### ***Legal***

52. As contained in the body of the report.

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

53. In the event the Council is not able to deliver a balanced budget, there is a risk the Council could be faced with the issuance of a s114 Notice under the Local Government Act 1988. This is a mandatory duty placed on the Chief Finance Officer in the event expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed resources (including sums borrowed) available to it to meet that expenditure. This report makes it clear to all members of the Council that it

faces a financial situation of a serious nature with unfunded financial deficits and places a prohibition on spending. Failure to take appropriate action in response to such a report may lead to intervention by the auditor.

54. In June 2020, CIPFA modified the s114 guidance temporarily in the wake of COVID -19 that “it would not normally be necessary for s114 notices to be issued while informal discussions with government are in progress”. At the earliest opportunity the CFO should make informal confidential contact with MHCLG (now DHLUC) and communicate the potential unbalanced budget position to MHCLG (now DHLUC) at the same time as providing a potential s114 scenario report to the council executive and external auditor.

55. The CFO does not consider that Middlesbrough Council to be at risk of a s114 notice in setting the budget for 2023/24 as set out in the report to Executive on 14 February 2023. However, in the event of a change in the risk profile or financial circumstances, this cannot be assured over the medium term and will be considered further as future financial plans develop.

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

56. As contained in the body of the report.

### ***Financial***

57. Contained in the report.

### **Actions to be taken to implement the recommended decision**

Action	Responsible Officer	Deadline

### **Appendices**

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### **Background papers**

Body	Report title	Date

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