

<b>Report of:</b>	Executive Member for Finance and Governance Director of Finance
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<b>Submitted to:</b>	Overview and Scrutiny Board
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<b>Date:</b>	22 February 2023
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<b>Title:</b>	Revenue and Capital Budget – Projected Outturn position as at Quarter Three 2022/23
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<b>Report for:</b>	Information
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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>	Not applicable
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<b>Why:</b>	Not applicable
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<b>Urgent:</b>	Not applicable
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<b>Why:</b>	Not applicable
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### **Executive summary**

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

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

- projected revenue and capital budget year-end outturns as at Quarter Three 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 Overview and Scrutiny Board:

- Notes that there is a projected 2022/23 revenue budget year-end outturn as at Quarter Three of an approximate £3.4m overspend.
- Notes that it is proposed that the final 2022/23 revenue budget year-end outturn will be funded from the earmarked Social Care Transformation Reserve.
- Notes the progress against the Financial Recovery Plan 2022/23 as approved by Executive on 18 October 2022 and the effect on the projected 2022/23 overspend.
- 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, though there is currently a risk attached to full realisation of capital receipts in-year.
- 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 regarding the 2023/24 budget and the updated MTFP will be reported in a separate report to this Executive and then to Council on 27 February 2023 as part of the budget strategy for 2023/24 and future years. It should be noted that there is currently a great deal of uncertainty in forecasting created by potential future pay awards, inflationary pressures, and the impact on demand for services.
- Notes the proposed revenue budget virements over £150,000 as detailed in Appendix 1.
- Notes the 2022/23 capital budget predicted year-end outturn of £62.167m as at Quarter Three against a revised capital budget of £69.241m, and approves the revised Investment Strategy to 2024/25 at Appendix 2.
- Notes the current level of reserves and provisions as shown in the Reserves and Provisions Section of this report (paragraphs 136 to 141) and detailed in Appendix 3.

## **Purpose**

1. This report advises Overview and Scrutiny Board of the Council's financial position as at Quarter Three 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 Three 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 Three 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 and Two reports, 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. This additional funding has now been made permanent as mentioned in the MTFP Update report to Council of 30 November 2022 and confirmed in the separate Revenue Budget, Council Tax, MTFP, and Capital Strategy Report to this Executive and then to Council on 27 February 2023.
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. At Quarter Two an updated forecast overspend position at year end of £2.1m was reported if the Financial Recovery Plan was fully implemented.

9. Following the budget virements approved at Quarter Two Directorate budgets were 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.
10. The following table provides an update of the achievement of the Financial Recovery Plan for each Directorate. It can be seen that all the savings and fees and charges increases proposed in the Financial Recovery Plan are predicted to be achieved, apart from some of those relating to Children's Services. These relate to the proposed reduction in external residential placements of £300,000, proposed savings on Section 17 expenditure of £100,000, and a proposed reduction in the number of agency staff of £125,000. It is predicted that in light of the current financial challenges facing Children's Care in 2022/23, detailed in paragraphs 54 to 78, it will not be possible to achieve these proposed in-year savings. There will be a requirement for close monitoring of progress against the Financial Recovery Plan during the rest of the financial year, as any further non-achievement of this will lead to increased drawdown on reserves and affect the Council's MTFP.

Directorate	2022/23	2022/23	2022/23	2022/23
	Recovery Plan	Fees & charges	Total Recovery Plan	Total Achieved
	£'000s	£'000s	£'000s	£'000s
Regeneration and Culture	648	129	777	777
Environment and Community Services	419	132	551	551
Public Health	165	0	165	165
Adult Social Care	1,229	53	1,282	1,282
Education & Partnerships	0	29	29	29
Children's Care	811	1	812	287
Legal and Governance Services	156	23	179	179
Finance	225	96	321	321
Central Budgets *	3,240	0	3,240	3,240
<b>TOTAL</b>	<b>6,893</b>	<b>463</b>	<b>7,356</b>	<b>6,831</b>

11. 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. The current projected level of capital receipts for 2022/23 is shown in the revised Investment Strategy in Appendix 2. There is a potential risk around whether some of the projected capital receipts will be received in 2022/23, due to the fact that they are planned to be received very late in the financial year. Close

monitoring of the level of capital receipts received during the rest of the financial year will be undertaken, and an update will be provided in the year-end monitoring report. Entries will be made in the accounts at year end to reflect the Flexible Use of Capital Receipts Strategy 2022/23.

12. The Council's projected year-end outturn position for 2022/23 as at Quarter Three is an overspend of approximately £3.4m after the implementation of the Financial Recovery Plan compared to a projected overspend of approximately £2.1m reported at Quarter Two. The split per Directorate is shown in the table below. Details of the Directorate variances are included in paragraphs 27 to 98.

Directorate	2022/23 Revised Full Year Budget	2022/23 Q3 Projected Outturn at Year End	2022/23 Projected transfer to central additional inflation contingency (to be actioned at year end when finalised)	2022/23 Q3 PROJECTED OVER / (UNDER) SPEND AT YEAR END (after projected transfer to central additional inflation contingency)
	£'000s	£'000s	£'000s	£'000s
Regeneration and Culture	2,784	2,640	0	(144)
Environment and Community Services	21,240	24,003	(2,095)	668
<i>Public Health</i>	(2,992)	(3,730)	0	(738)
<i>Adult Social Care</i>	43,749	45,101	(775)	577
Total - Adult Social Care and Health Integration	40,757	41,371	(775)	(161)
<i>Education &amp; Partnerships</i>	2,043	1,659	0	(384)
<i>Children's Care</i>	44,691	55,771	(617)	10,463
Total - Children's Services	46,734	57,430	(617)	10,079
Legal and Governance Services	10,097	9,973	0	(124)
Finance	157	(1,157)	(24)	(1,338)
Central Budgets	(3,440)	(12,520)	3,511	(5,569)
<b>Revenue Outturn</b>	<b>118,329</b>	<b>121,740</b>	<b>0</b>	<b>3,411</b>

13. It should be noted that the Central Budgets line includes £3.2m of savings within Directorates, for which budgets have been reduced within Directorates and are now held centrally, meaning the overall saving against these budgets is now reported against the Central budget. This has led to a distortion of the change between the Quarter Two and Quarter Three position per Directorate, and therefore these have not been shown in the above table as they would not provide a complete picture.
14. In addition, the Central Budgets line includes an estimated £2.7m saving from for the adoption of the Flexible Use of Capital Receipts Strategy as part of the Financial Recovery Plan, however this may at year-end be shown within Directorate budgets.
15. It should be noted that savings against the £500,000 vacancy and agency control saving target reported under Central budgets as part of the Financial Recovery Plan at Quarter Two, are now reflected within individual Directorate outturns.

16. It is proposed that the final overspend at year-end resulting after the revenue spending controls have been implemented will be covered by the Social Care Transformation Reserve.
17. The current level of Reserves is shown in the Reserves and Provisions Section of this report (paragraphs 136 to 141) and detailed in Appendix 3.
18. 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***

19. 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 during 2022/23 and is expected to continue for the remainder of 2022/23. As shown in the table in paragraph 12 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.
20. As mentioned at Quarters One and Two, another area where there are additional pressures in 2022/23 is the pay award for 2022/23 for Local Government Services employees effective from 1 April 2022. Agreement was reached in November 2022 between the National Employers and the NJC Trade Unions of an increase of £1,925 on all NJC pay points 1 and above, and an increase of 4.04% on some allowances.
21. 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 was 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.
22. Following review, it has been calculated that the agreed pay award has cost approximately £5.5m in 2022/23, which equates to approximately an average 6.2% pay award. Directorate budgets have been adjusted accordingly for the agreed pay award in December 2022.
23. 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

£0.8m in 2022/23 is included within Central Budgets as shown in the table in paragraph 12 and noted in paragraph 94.

24. 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***

25. 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.
26. Paragraph 10 provides details of progress against the in-year 2022/23 budget savings proposed as part of the Financial Recovery Plan 2022/23 approved by Executive on 18 October 2022. Further updates will be included in the year-end outturn budget monitoring report.

### ***Directorate variances***

27. 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***

28. 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 £139,000 at year end (after increasing car parking charges in November 2022 as part of the Financial Recovery Plan), this represents a real improvement of £21,000 when comparing to the Quarter Two projections.
29. 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. This grant income will conclude at the end of the financial year.
30. 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.
31. In addition, there are a number of budget areas within Regeneration and Culture which have variances below £150,000, and these account for the overall total projected year-end position on the budget.

## Environment and Community Services

32. As mentioned in paragraph 19, 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. The position has improved when comparing to the Quarter Two projection of £2,500,000, predominantly in respect to assumptions on utility costs. The costs are likely to be subject to further change and as mentioned in paragraph 19, it is proposed that the final pressures at year-end will be funded from the £4.6m additional inflation contingency within Central budgets provided for this as part of the 2022/23 budget setting.

Service Area	Description	£
Property Running Costs	Inflation on utilities	408,200
Building Maintenance	Inflation of materials & contractors pricing	100,000
Integrated Transport Unit	Inflation on fuel & contractors pricing	300,000
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	195,000
Street Lighting	Inflation on electricity	319,700
<b>TOTAL DEMAND ON ADDITIONAL INFLATION CONTINGENCY BUDGET</b>		<b>2,095,000</b>

33. There is a projected pressure of £686,000 (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 £467,000 reported at Quarter Two due to an increase in demand on transport by taxis. The ongoing effects of pressure to the service will be considered as part of the MTFP update to this Executive and then to Council on 27 February 2023. The transfer of the Integrated Transport Unit to Education & Partnerships is included within the virements set out at Appendix 1 for Executive approval.
34. A shortfall in income and an overspend on expenditure within Bereavement Services is expected to result in a £370,000 pressure. This represents an increased pressure of £107,000 to that reported at Quarter Two, which is attributable to further decreases in income expectations following the opening of the facility at Stockton. A comprehensive review of the service will be undertaken in order to get this back on track, with updates being provided in future reports.
35. A total saving of £186,000 is projected against the Area Care service due to an underspend on staffing caused by recruitment issues and the receipt of project management funding.



36. A saving of £189,000 is expected to be achieved against the Highways Service budgets due to an increase in capital works being undertaken in-house.
37. Additional government grant funding of £200,000 in relation to Community Cohesion has been provided to the Council. This is expected to produce savings of £200,000 as the grant will cover costs that were previously envisaged to be met from budgets elsewhere within the Directorate.
38. 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*

39. There are projected savings on Public Health budgets totalling £738,000 in 2022/23, with the majority of the projected savings being due to staffing savings as a result of delayed recruitment to, or the deletion of vacant posts, and other pay related savings with the Service.

#### *Adult Social Care*

40. There are projected staff savings across the Service totalling £1,039,000 mainly due to staff turnover and delayed recruitment to vacancies. Similar to Children's Care (as detailed in paragraph 69 below), there are 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 have introduced a change to how Social Workers progress through the career structure grades as a staff retention incentive. However, further measures are in progress to implement a further recruitment and retention bonus scheme to attract and retain staff.
41. It is forecasted that by the end of the financial year there will be net growth of £1,770,000 in purchased care costs (mainly residential care) against the budget set at the start of 2022/23. As in previous years, this is subject to substantial change in the remaining months of 2022/23 depending on numbers of clients, and therefore this budget will be closely monitored. This pressure will be offset, in part, by utilising £364,000 of the Adult Social Care Recovery Reserve.
42. As mentioned in paragraph 19, the Adult Social Care Directorate has been substantially affected by hyper-inflationary increases mainly from providers of services. This is currently forecast at £775,000 for 2022/23. This is lower than the £1,600,000 provided for as part of the £4,600,000 additional inflation contingency within Central budgets provided as part of the 2022/23 budget setting. This amount is unlikely to significantly change in Quarter Four and as mentioned previously, it is proposed that the final pressure at year-end will be funded from the centrally held budget. It should be noted that the £1,600,000 will be required in full in future years.
43. The above pressure is offset by the recovery of an additional £155,000 of direct payments surpluses in excess of the budgeted target.
44. At Quarter Two the Bed and Breakfast budget was projecting an overspend of £177,000 for the provision of temporary accommodation for homeless people.

However, as a result of maximising the homelessness grant and housing benefits the overspend is now projected to have reduced to £45,000 at year-end.

45. 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 of £577,000 on the Adult Social Care budget.

#### *Education & Partnerships*

46. The outturn projection is mainly due to 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 £47,000 due to reduced income from lower take up of services than expected.
47. For information, the Council received £168.6m (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).
48. 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.
49. The Dedicated Schools Grant (DSG) statutory override which instructs Councils to account for the DSG negative balance in a separate reserve and not to fund it by using its General Fund was planned to end on 31 March 2023, however this has been extended to 31 March 2026. This was a major risk to the Council as it could have meant that the Council would have had to fund this deficit itself (current balance is £5.1m) and whilst it is still a risk to the Council the risk has been mitigated significantly in the medium term.
50. 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.
51. 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.

52. 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.
53. 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 finance settlement for 2022/23 and recently in the provisional finance settlement for 2023/24 for both Schools and High Needs Blocks.

### *Children's Care*

54. 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 (as mentioned in paragraph 7 this has now been made permanent). The variances in the table in paragraph 56 report against the revised budget for Children's Care in 2022/23 following the £5.665m temporary budget increase for 2022/23.
55. As mentioned in paragraph 19, 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 potentially subject to further change, and as mentioned previously 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 56 below assume the inflation will be provided for from central budgets in order to provide a real variance against budget.
56. There is a projected overspend on the total Children's Care budget at year-end of £10,463,000 as at Quarter Three, an increase from that reported at Quarter Two. The table below shows the split of the additional £5.665m budget provided between the individual budgets within Children's Care and summarises the variances against the individual revised budgets, with a comparison to Quarter Two, with further detail being provided in the paragraphs below. This figure includes £525,000 of required savings from the 2022/23 Financial Recovery Plan assigned to Children's Care that are not projected to be achieved. These relate to the proposed reduction in external residential placements of £300,000, proposed savings on Section 17 expenditure of £100,000, and a proposed reduction in the number of agency staff of £125,000.

Service Area:	2022/23 Original Budget	MTFP Temporary Increase in Budget for 2022/23	2022/23 Revised Budget	2022/23 Q3 Projected Outturn at year end	2022/23 Q3 PROJECTED OVER / (UNDER) SPEND AT YEAR END	2022/23 Q3 Variance from Q2 Position	2022/23 Q2 Projected Outturn at year end
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
External Residential Agency Placements	8,670	(276)	8,394	14,562	6,167	2,010	4,157
Education Contributions to External Residential Agency Placements	(750)	0	(750)	(625)	125	0	125
CCG Contributions to External Residential Agency Placements	(1,249)	120	(1,129)	(1,460)	(330)	(70)	(260)
In-House Fostering	3,401	671	4,072	3,965	(108)	132	(240)
Independent Fostering Agency (IFA)	5,395	262	5,657	6,270	613	114	499
Adoption Services	1,282	0	1,282	1,365	83	81	2
Family & Friends Allowances	2,368	1,244	3,612	3,539	(73)	(24)	(49)
Safeguarding and Care Planning	2,894	727	3,621	5,439	1,819	311	1,508
Review and Development Unit	927	203	1,130	1,614	484	70	414
Referrals & Assessments	2,691	116	2,807	2,769	(38)	163	(201)
Children Looked After Teams	2,071	606	2,677	2,986	309	175	134
Internal Residential Service	4,093	0	4,093	4,079	(14)	(227)	213
Children with Disabilities service	1,556	0	1,556	2,009	454	(1)	455
Management and Administration	1,704	160	1,864	2,173	310	(82)	392
Improvement	0	1,832	1,832	2,791	959	(65)	1,024
Prevention Services	1,819	0	1,819	1,597	(222)	(63)	(159)
Other Resource Services	2,154	0	2,154	2,081	(72)	(80)	8
<b>TOTAL</b>	<b>39,026</b>	<b>5,665</b>	<b>44,691</b>	<b>55,154</b>	<b>10,463</b>	<b>2,441</b>	<b>8,022</b>

57. A proportion of the overspend is linked to transformation and improvement within Children's Services, and as detailed in paragraph 11 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.
58. The external residential agency placements budget is currently projected to be £6,167,000 overspent at year-end (an increase of £2,010,000 from Quarter Two), 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 56 external residential placements at the end of Quarter Three, which is unexpectedly higher than at Quarter Two, and currently known movements in or out throughout the remainder of 2022/23.
59. 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.

60. Close monitoring and regular review of the numbers of external residential agency placements takes place and will continue to do so in the future. The significant inflationary and market pressures on average placement costs also need to be closely monitored. The MTFP and Children's Services Financial Improvement Plan in separate reports to this Executive contain further details of the proposed way forward.
61. 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.
62. The above pressure on the external residential agency placements budget has however been partly offset by projected additional income received from the ICB of £330,000 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 an increase from Quarter Two of £70,000, due to contributions identified for other services provided within Children's Services. Dedicated capacity has been provided to liaise with health commissioners in order to maximise health contributions.
63. The in-house fostering services budget is currently projected to be £108,000 underspent at year-end, a decrease in underspend of £132,000 from that reported at Quarter Two. This is predominantly due to a winter fee payment agreed to existing Foster Carers. There are currently 164 placements, which is a slight increase from the 161 placements reported at Quarter Two. A report was approved by Executive on 24 January 2023 to increase the 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, and initial results seem to imply that this strategy appears to have halted the transfer of Internal Foster Carers to Independent Fostering Agencies.
64. 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.
65. The Independent Fostering Agency (IFA) placements budget is currently projected to be £613,000 overspent at year-end, an increase of £114,000 from the Quarter Two position due mainly to the above mentioned transfer of in-house foster carers to agency, which as mentioned above it is hoped the new strategy will prevent this occurring in the future. The number of placements / cases has increased to be currently at 152 (from 150 at Quarter Two). This is after an 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.

66. There are currently 30 children in the process of being adopted, 13 of which are confirmed and a further 7 anticipated by the end of the financial year (subject to final hearings), with the remaining 10 currently have possible plans. This will help to reduce the expenditure in Children's Care in future financial years.
67. The Family and Friends Allowances budget is currently projected to be £73,000 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 474 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 reduce expenditure in this area, though there would not be an immediate reduction if the review was approved. This area is seen as a challenge across the country.
68. As with at Quarter Two, 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 £1,819,000, an increase of £311,000 from Quarter Two, 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 has 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.
69. 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 the 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 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 this came into effect on 1<sup>st</sup> November 2022.

70. There is a projected overspend at year-end on the Review and Development budget of £484,000 after the provision of additional temporary budget for 2022/23 of £203,000 relating to agency costs, which is an area where there is significant expenditure. This is an increase of £70,000 from the Quarter Two projected pressure. Agency staff filling vacant posts due to challenges in recruiting are creating a pressure in 2022/23, however, within this service area they have experienced some positive recruitment to vacant posts that were filled by agency staff, following the market weighting being implemented from November 2022. There is also a forecast pressure of £397,000 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.
71. The Referrals and Assessments Service is projecting a £38,000 underspend, which represents a worsened position when compared to the Quarter Two projection of savings of £201,000.
72. The Children Looked After teams' budget is projecting an overall £309,000 overspend at year-end (an increase from Quarter Two) 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. However, there is a projected overspend of £269,000 now on agency staff, which has increased from £62,000 projected at Quarter Two. As stated in paragraph 69, 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.
73. The Internal Residential Service budget is projecting a saving of £14,000, this is a marked improvement against the assumed pressure of £213,000 reported at Quarter Two. The saving is attributed to reduced challenges around recruitment, which has resulted in reduced use in agency and overtime costs. The Service reviewed the salaries of residential workers to support a recruitment drive.
74. The Children with Disabilities Service is projecting an overall £454,000 pressure on its budget, similar to that reported at Quarter Two, mainly due to continued pressures from expensive care packages of support required for young people in the Service.
75. The Management and Administration budget is projecting a slightly reduced pressure of £310,000, after the provision of additional temporary budget for 2022/23 of £160,000 relating to agency staff costs. There is a £44,000 reduction on the projected net pressure of £266,000 from Quarter Two, which arose from the high cost of two agency payments for vacant Heads of Services posts. This resulting pressure is partly offset 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 £16,000 projected pressure within a variety of Strategic Services budgets. Plans are in place to recruit to the Head of Service posts that are currently held by agency staff.

76. The Improvement journey continues in Children's Services, and it is currently projected that there will be £2,791,000 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 £959,000 on this budget, a slight reduction from that reported at Quarter Two. A reduction in this budget is required in future years.
77. Prevention Services are reporting a forecast saving of £222,000 on their budgets (an increase of £63,000 from that reported at Quarter Two) 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.
78. 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 £10,463,000 current projected overspend on the Children's Care budget.

#### *Legal and Governance Services*

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

#### *Finance*

80. Teesside Advanced Manufacturing Park (TAMP) is currently 97% 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 currently projected to be £162,000.
81. A net surplus of £302,000 is projected relating to excess rental income above budget from tenants renting space in Centre Square Buildings 1 & 2. This has reduced from the £355,000 surplus reported at Quarter Two due to an additional contribution to the Capital Financing budget.
82. 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 £191,000 (after capital financing costs) above that budgeted for in 2022/23. This represents an improvement of £120,000 to that reported at Quarter Two due to successful lease events. The projection takes into account a virement of £50,000 to the Car Parking budget that was required to fund longer opening hours at the Captain Cook car park.
83. 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



£1,234,000. 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.

84. There is however a pressure of £165,000 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, insurance, and other costs until new tenants are secured for the building.
85. The Commercial Property Income budget is currently projecting a pressure of £424,000 across the portfolio. The pressure has increased by £78,000 from the projection as at Quarter Two. 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.
86. There are projected savings currently estimated to be £113,000 across the overall Resident and Business Support Service mainly due to the receipt of new burdens grant funding and vacant posts. This is a reduction from the £400,000 savings projected at Quarter Two, due to reduced Housing Benefits overpayment income and increased bad debt provisions mainly related to Council Tax court costs.
87. 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.
88. In addition, there are a number of budget areas within Finance which have variances below £150,000, and these account for the overall £1,338,000 projected total underspend on the Finance budget at year-end (after inflation contingency funding).

#### *Central Budgets*

89. There is a projected overspend of £120,000 on the Capital Financing budget, similar to that reported at Quarter Two, due to rising interest rate costs. However, not currently included in the projected outturn position is a potential cost reduction in 2022/23 relating to the review of the Council's Minimum Revenue Provision (MRP) policy as approved by Council on 18 January 2023, and we are currently working through the implication of this on the in-year position, liaising with external audit as necessary. Further updates will be provided in the year-end budget monitoring report.
90. 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 and Culture Directorate into the centrally held Pay and Prices Contingency.

91. There is a net projected pressure of £342,000 anticipated within the General Fund budget, mainly as a result of the requirement to replenish the Adult Social Care Reserve following prior year adjustments to create and Insurance Provision, this is offset by one-off income in year from credits on Business Rates accounts for Middlesbrough Council properties.
92. As stated in paragraph 19, 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 19, 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 was 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.
93. It can be seen from the table in paragraph 12, that there are currently total projected costs of £3,511,000 in 2022/23 for additional inflation costs within Service Directorates. Therefore, there is a projected saving of £233,000 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.
94. As detailed in paragraph 23, whilst the decision to reverse the increased employers National Insurance contributions from November 2022 and a saving on the amount set aside for the 2021/22 pay award have produced savings, the pay award for 2022/23 is higher than that provided for and there is a resulting net pressure of approximately £0.8m due to these factors. This projected pressure is shown against Central Budgets.
95. The Financial Recovery Plan includes an estimated £2.7m for the adoption of the Flexible Use of Capital Receipts Strategy which is currently reflected centrally within Central Budgets, however this may at year-end be shown within Directorate budgets. It should be noted that savings against the £500,000 vacancy and agency control savings target reported under Central budgets as part of the Financial Recovery Plan at Quarter Two is now reflected within individual Directorate outturns.
96. The Financial Recovery Plan also includes £3.2m of savings within Directorates, for which budgets have been reduced within Directorates and are now held centrally, meaning the overall saving against these budgets is now reported against the Central budget.
97. There is currently a predicted pressure of £120,000 on the costs of CIPFA providing independent support to review internal governance processes, including undertaking a Financial Resilience Review.
98. 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 £5,569,000

current projected overspend on the Central Budgets at year-end (after the transfer of additional inflation costs from Directorates).

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

99. 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.
100. 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.
101. 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.
102. Our budgeted Council Tax base includes assumptions on housing growth. If there is reduced growth in housing numbers, this will impact on income levels.
103. 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.
104. 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.
105. 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.
106. 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 and MTFP updates.

## **Revenue budget spending controls**

107. 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.
108. 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.
109. As mentioned in paragraph 10, Executive approved a Financial Recovery Plan for 2022/23. This included the following actions to recover the position in 2022/23:
- a. Each Directorate was requested to identify where discretionary expenditure could be curtailed, stopping short of an in year spending freeze.
  - b. Additional controls around the recruitment to vacant posts and procurement of agency staff.
  - c. 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.
  - d. 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
110. 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 as part of a separate Medium Term Financial Plan Update report to this Executive and then to Council on 27 February 2023, as part of the budget strategy for 2023/24 and the future. 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 Three**

111. As part of the Quarter Two report to Executive on 8 November 2022, Executive approved a revised capital budget for 2022/23 of £69.241m. Following a further review and the inclusion of new additional schemes, increases to existing schemes, and the reductions to existing schemes (as detailed in paragraphs 113 to 116), it is currently predicted at Quarter Two that the Council will spend £62.167m at year-end.
112. The revised Investment Strategy to 2024/25 is included at Appendix 2 for approval.
113. No schemes over £150,000 are proposed to be removed from the Investment Strategy.

114. The following two new schemes have been added to the revised Investment Strategy, set out at Appendix 2 for consideration and approval.

- On 7 December 2022, Tees Valley Combined Authority (TVCA) provided confirmation of £2,517,333 grant funding relating to a number of traffic management initiatives across the Tees Valley, to which Middlesbrough Council will administer in its capacity as lead authority. The programme of works will include installation of several Virtual Message Signs, integration of existing and new equipment into the Urban Traffic Management Control system and the procurement of additional CCTV cameras. The majority of this will complete in 2023/24.
- On 6 December 2022, the Department for Education (DFE) announced a total of £447,000,000 of additional capital funding to improve energy efficiency in eligible schools and sixth form colleges. £236,381 of the grant will be shared between twelve maintained schools within Middlesbrough.

115. No additions to schemes over £150,000 have been added to the Investment Strategy

116. There were no schemes within the current Investment Strategy that were reduced by over £150,000.

117. 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 ten 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 Q2) £'000	Investment Strategy Projected Outturn at Q3 £'000	Investment Strategy Projected Outturn Variance at Q3 £'000	New, increased & reduced Schemes / transfers £'000	Real outturn variance excluding new, increased, & reduced schemes / transfers £'000
Regeneration and Culture	43,573	38,829	(4,744)	(210)	(4,534)
Environment and Community Services	12,205	11,123	(1,082)	399	(1,481)
Public Health	285	285	0	0	0
Education & Partnerships	4,571	4,141	(430)	0	(430)
Children's Care	442	393	(49)	0	(49)
Adult Social Care and Health Integration	3,608	3,317	(291)	0	(291)
Legal and Governance Services	4,441	3,941	(500)	0	(500)
Finance	116	138	22	0	22
<b>Total</b>	<b>69,241</b>	<b>62,167</b>	<b>(7,074)</b>	<b>189</b>	<b>(7,263)</b>

## *Regeneration*

118. Middlesbrough Development Company - £2,584,000 of resources have been re-profiled into 2023/24. This is primarily due to a sub-contractor on the Newbridge Court scheme going into administration with delays encountered in sourcing a subsequent contractor. The scheme is now anticipated to conclude in May 2023. Additionally, no further eyesore site or empty homes acquisitions are anticipated to conclude within the current financial year.
119. Boho X – Delays have been experienced with respect to Northern Power Grid providing electricity to the building. A timetable for the power connection is now in place, however, the delay has resulted in internal fit-out works now being undertaken in 2023/24. Consequently, the delays have resulted in £640,000 of funds being transferred into 2023/24.
120. Future High Streets Fund - £535,000 of grant funding has been redirected into 2023/24, due primarily to delays in fitting out works of units that are transforming from retail to leisure use. To ensure no further delays are encountered, additional project management resource has been employed on the scheme.
121. Affordable Housing Via Section 106 – The Council and Thirteen Group have agreed to end a joint venture at North Ormesby. £339,000 of unused section 106 resources assigned to the joint venture have been transferred from the North Ormesby Joint Venture scheme to the wider Affordable Housing Section 106 scheme and transferred into 2023/24 for use as and when further opportunities are identified.
122. Linthorpe Road Cycleway – The contingency of £260,000 is currently deemed to be unrequired and has been re-profiled into 2023/24. Upon conclusion of the scheme any remaining contingency will be returned to TVCA.

## *Environment & Community Services*

123. Highways Infrastructure – The Council's highways resurfacing contractor has stated that it is highly unlikely that it will be able to fully complete the set programme of works within the current financial year. £500,000 of resources have therefore been transferred into 2023/24 to fund the completion of the works, which are anticipated to conclude by May 2023.
124. Cleveland Centre – Works associated with asbestos removal have been delayed due to the Council awaiting final costings from the contractor. These works will now conclude in 2023/24 with £312,000 of resources transferring accordingly.
125. Bridges & Structures (Non Local Transport Plan) – Following the receipt of detailed inspections and contractor comments, the schedule of works has been reviewed to ascertain what could be expected to be undertaken in-year. The review has concluded that £300,000 of planned works will now be undertaken in 2023/24, the funds have therefore been re-profiled into 2023/24 to reflect this.

## *Education & Partnerships*

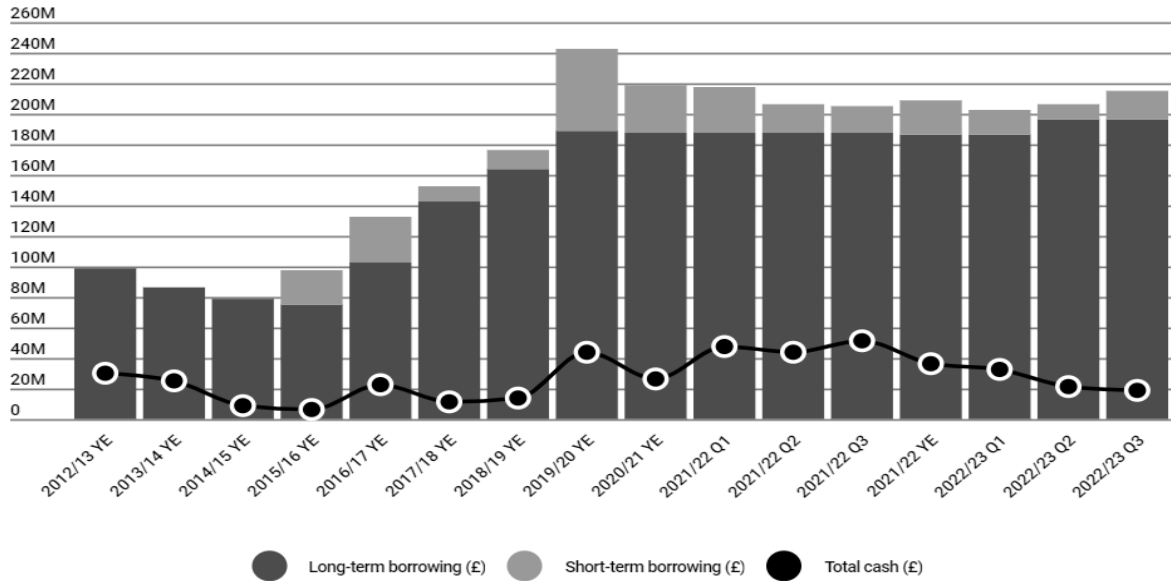
126. Schemes In Special Schools - £305,000 of funds have been re-profiled into 2023/24, primarily due to the following:
- The design and planning stage for the works at the new Specific Learning Disability site have taken longer than anticipated, resulting in the physical works now not being anticipated to commence until Autumn 2023, resulting in £200,000 of funds being transferred into 2023/24
  - It was originally anticipated that grant approval from DFE in relation to the Special Emotional and Mental Health Needs unit at Green Lane would have been received within this financial year. The approval is now expected to be received in 2023/24, £150,000 of funds have consequently been redirected into 2023/24

## *Legal & Governance*

127. Delays in the implementation of the Council's new electronic storage system, Sharepoint, have resulted in £456,000 of funds being re-profiled into 2023/24.

## **Borrowing & Prudential Indicators**

128. The Council's total borrowing increased from £205.7m on 30 September 2022 to £214.5m at 30 December 2022. This increase of £8.8m reflects new short-term borrowing of £10.0m for investment strategy and cash flow purposes, offset by a repayment of principal amounts on existing annuity loans held by the Council of £1.2m.
129. Cash balances started to reduce further during the third quarter of 2022/23 and as a result new borrowing was required to ensure the liquidity position of the Council was maintained. This reflects the usual trend of a 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 Three reports and this reflects the ongoing revenue pressures evident in Children's Social Care. Cash levels are currently slightly above the Council's trigger level for borrowing of £15m, but additional resources to fund the investment strategy and the use of revenue reserves will be needed in the fourth quarter in line with current forecasts.
130. The ratio of short-term to long-term borrowing has increased during the quarter given the addition of £10m to the short-term loan portfolio. Long term public works loan board rates remain higher at present and will only be utilised if rates decrease from current levels. 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.



131. 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.
132. The table below gives a comparison of the original budget against the actual position as at Quarter Three for 2022/23 on each of the prudential indicators adopted by the Council.

<u>Prudential Indicators - 2022/23 Quarter 3</u>		
	<u>Budget</u> <u>(£M)</u>	<u>Actual</u> <u>(£M)</u>
Capital Expenditure	124.475	62.167
<u>Financing</u>		
External Sources	74.344	37.804
Own Resources	6.296	3.409
Debt	43.835	20.954
Capital Financing Requirement	295.865	280.471
External Debt	268.350	214.450
Investments	15.630	19.300
Capital Financing	10.466	10.586
Cost as a % of Revenue		
Budget	8.8%	8.9%



133. The total capital spend & level of financing has reduced by £62.3m or 50% of the original budget that 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.
134. The Council's total under borrowed position (external debt compared to the capital-financing requirement – or underlying need to borrow) is £66.0m, or 23.5%, at 30 December 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 £30m - £40m of this under-borrowing will be needed to maintain the Council's overall liquidity position.
135. The amount of external debt at £214.5m and the total underlying need to borrow of £280.5m 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

136. 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	Adjusted 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	(5,374)	0	0	0	1,698
Earmarked Reserves - Other	22,500	(8,527)	764	0	0	14,737
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 - Business Rates Appeals & Other	1,921	0	0	0	0	1,921
Provisions - Insurance	3,250	(250)	0	0	0	3,000
<b>TOTAL</b>	<b>46,972</b>	<b>(15,495)</b>	<b>1,622</b>	<b>0</b>	<b>0</b>	<b>33,099</b>

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

138. It should be noted that the projected year-end balances include how the current projected final revenue outturn at year-end 2022/23 of £3.4m will be funded, with the remaining £5.1m Social Care Transformation Reserve initially being used, meaning that the balance at year-end on the Reserve currently being projected to be reduced to approximately £1.7m as a consequence.
139. It should be noted that for some Earmarked Reserves, e.g. Other Reserves and Provisions, Provisions, and School Balances, transfers and use of are only actioned at year end. The final end of year position on all Reserves and Provisions will be included in the 2022/23 year end budget monitoring report.
140. 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 budget strategy for 2023/24 and future years.
141. 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 Three of an approximate £3.4m overspend.
- Notes that it is proposed that the final 2022/23 revenue budget year-end outturn will be funded from the earmarked Social Care Transformation Reserve.
- Notes the progress against the Financial Recovery Plan 2022/23 as approved by Executive on 18 October 2022 and the effect on the projected 2022/23 overspend.
- 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, though there is currently a risk attached to full realisation of capital receipts in-year.
- 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 regarding the 2023/24 budget and the updated MTFP will be reported in a separate report to this Executive and then to Council on 27 February 2023 as part of the budget strategy for 2023/24 and future years. It should be noted that there is currently a great deal of uncertainty in forecasting created by potential future pay awards, inflationary pressures, and the impact on demand for services.

- Notes the proposed revenue budget virements over £150,000 as detailed in Appendix 1.
- Notes the 2022/23 capital budget predicted year-end outturn of £62.167m as at Quarter Three against a revised capital budget of £69.241m, and approves the revised Investment Strategy to 2024/25 at Appendix 2.
- Notes the current level of reserves and provisions as shown in the Reserves and Provisions Section of this report (paragraphs 136 to 141) and detailed in Appendix 3.

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

142. 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**

143. Not applicable.

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

#### ***Legal***

144. 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***

145. 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.

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

147. 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 Three 2022/23

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

148. 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.

149. 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**

150. The Council's revenue year-end outturn position for 2022/23 is currently projected to be an overspend of approximately £3.4m, following the implementation of the Financial Recovery Plan 2022/23 as approved by Executive on 18 October 2022.
151. Notes that it is proposed that the final 2022/23 revenue budget year-end outturn will be funded from the remaining earmarked Social Care Transformation Reserve, leaving a remaining balance of £1.7m estimated on the Reserve at year end.
152. As mentioned in paragraph 11 within the Financial Recovery Plan 2022/23, the Council's financial position will potentially be improved by the implementation of a Flexible Use of Capital Receipts Strategy in 2022/23 to fund transformation costs totalling approximately £2.7m across the Council, particularly within Children's Services, as approved by Full Council on 7 September 2022. It should be noted though that there is currently a risk attached to full realisation of capital receipts in-year.
153. It should be noted that the current projected outturn and any further 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 on 27 February 2023 as part of the budget strategy for 2023/24 and the update of the Council's MTFP. It should be noted that there is currently a great deal of uncertainty in forecasting created by potential future pay awards, inflationary pressures, and the impact on demand for services.
154. The 2022/23 capital budget predicted year-end outturn as at Quarter Three is £62.167m, 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	14/2/23

## Appendices

1	Proposed revenue budget virements above £150,000 at Quarter Three 2022/23
2	Proposed revised Investment Strategy to 2024/25
3	Detail of projected reserves and provisions as at Quarter Three 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
Executive	Revenue and Capital Budget – Projected Outturn position as at Quarter Two 2022/23	14/11/22
Council	Medium Term Financial Plan Update and Budget Savings Proposals 2023/24	30/11/22
Executive	Revenue Budget, Council Tax, Medium Term Financial Plan, and Capital Strategy 2023/24	14/2/23
Executive	Children's Services Financial Improvement Plan	14/2/23

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