

Report of:	Executive Member for Finance and Governance Interim Director of Finance (s151 Officer)
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Submitted to:	Executive
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Date:	21 November 2023
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Title:	Revenue and Capital Budget – Forecast Outturn position at Quarter Two 2023/24
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Report for:	Decision
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Status:	Public
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Strategic priority:	All
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Key decision:	Yes
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Why:	Decision(s) will incur expenditure or savings above £250,000 and have a significant impact in two or more wards
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Urgent:	No
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Why:	Not Applicable
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Executive summary

This report advises the Executive of the Council's financial position as at Quarter Two 2023/24, and seeks approval of budget virements within the revenue budget, and revisions to the capital programme in relation to activity in Quarter Two.

The report enables the Executive to discharge its financial management responsibilities by setting out the:

- General Fund Revenue Budget forecast outturn at Quarter Two;
- Statement of the Council's reserves and provisions at Quarter Two
- Capital Programme forecast outturn at Quarter Two;
- statement of the Council's borrowing and prudential indicators;
- actions that the Council has taken and plans to take in order address the issues identified.

In respect of the General Fund Revenue Budget, the Executive is requested to:

- Note the forecast 2023/24 net revenue budget outturn as at Quarter Two of £134.910m against an approved budget of £126.354m, a forecast overspend of £8.556m (6.8%). This represents an improvement of £3.007m from that forecast at Quarter One.
- Note that the forecast overspend of £8.556m relates primarily to a combination of forecast demand and inflationary pressures in the following Directorates :

	£m
Adult Social Care	1.676
Children's Social care	3.172
Education & Partnerships (Integrated Transport Unit - home to school transport)	1.879
Environment and Community Services (waste disposal costs)	1.017
2023/24 local government pay award	1.451
Other variances	(0.639)
Total	8.556

- Note and endorse the management actions taken in consultation with Executive Portfolio Holders over the year to date to control expenditure within the approved budget and to develop more financially sustainable solutions for future years as set out in paragraphs 7 to 14.
- Note that further work is continuing with a view to fully mitigate the forecast overspend and that further reports will be submitted to the Executive for noting and approval of management actions as appropriate.
- **Approve** the proposed revenue budget virements over £250,000 as detailed in Appendix 3.

In respect of the Council's Reserves and Provisions, the Executive is requested to:

- Note that the interim s151 Officer has undertaken a review of the balance sheet which has resulted in the release of £0.758m from the Revenue Grants Received Unapplied account that will be transferred to the Change Fund for which the balance will be re-stated as at 31 March 2023.
- Note that the s151 Officer has determined that the uncommitted 2023/24 Change Fund Reserve of £1.488m, shall be available to fund expenditure on transformation and efficiency as part of an agreed financial recovery plan.
- Note that as a result of the balance sheet review, the interim s151 officer is in discussion with the External Auditor in relation to the audit of the Council's methodology to calculate the Collection Fund Bad Debt provision in 2021/22 financial statements. This may result in favourable adjustments affecting the 2022/23 and

2023/24 accounts and impact upon 2024/25 budget setting. This will be reported upon conclusion of that work.

In relation to the Council's financial recovery and resilience, the Executive is requested to:

- Note the Quarter Two forecast of usable revenue reserves of £6.273m available at 1 April 2024 based on the Quarter Two forecast outturn position of £8.556m, a reduction from the already critically low level of £14.829m at 31 March 2023 reported in the Quarter One report. These would comprise of:
 - General Fund Reserve of £6.273m
 - Council's unrestricted usable earmarked reserves of £NIL
- Note that the risk of a s114 Notice under the provisions of the Local Government Finance Act 1988 in relation to setting a legally balanced budget for 2024/25 remains. A further report setting out the proposed 2024/25 draft budget and MTFP for the period 2024/25 to 2026/27 for consultation will be presented for consideration at the Executive meeting on 20 December 2023.
- Note that Statutory Officers remain in dialogue with the Department for Levelling Up Housing and Communities (DLUHC), the External Auditor and the Middlesbrough Independent Improvement Advisory Board (MIIAB) in relation to the development and delivery of the Council's Financial Recovery and Resilience plans.

In respect of the Capital Programme and Treasury Management, the Executive is requested to:

- Note that a full review of the Capital Programme has been undertaken since Quarter One including a review of profiling and alignment of funding sources in order to optimise the use of grants and external funding and mitigate the revenue impact of debt financing as far as possible.
- **Approve** the inclusion of additions to the Capital Programme for 2023/24 totalling £4.330m (detailed in paragraph 60) which are externally funded or funded from within existing Council resources for the 2023/24 Capital Programme as approved by Council in February 2023. These have increased the 2023/24 Capital Programme budget to £67.334m from the £63.004m revised Capital Programme budget for 2023/24 approved at Quarter One.
- Note the 2023/24 Capital Programme forecast outturn of £54.595m at Quarter Two, which is a reduction of £12.739m (19%) from the revised £67.334m budget for 2023/24. The forecast outturn against the revised capital programme is a favourable variance comprising:
 - An underspend of £0.076m
 - Slippage of £12.663m into 2024/25.
- Note the Treasury Management forecast outturn position with respect to the Council's prudential indicators as set out in paragraphs 69 to 79.

In respect of the Dedicated Schools Grant (DSG), the Executive is requested to:

- Note the current forecast in-year deficit of £3.231m for 2023/24 relating to the High Needs Block, which is an increase of £1.451m from the £1.780m reported at Quarter One.
- Note the forecast total cumulative deficit of £9.795m at 31 March 2024, including £10.252m relating to the High Needs Block, as set out in Table 7 and paragraphs 51 to 57.
- Note that under existing government regulations this deficit cannot be funded from the General Fund, and the Council is required to deliver a recovery plan to the Department for Education (DfE).
- Note that the Council is part of the DfE Delivering Better Value (DBV) scheme which aims to support financial recovery of the DSG position.

Purpose

1. This report:
 - Sets out the Council's forecast 2023/24 financial position at Quarter Two and highlights the areas of particular financial challenge;
 - Sets out the management actions taken to control expenditure within the General Fund budget approved by Council in February 2023.
 - Seeks Executive endorsement of the management actions that are planned in the form of Financial Recovery Plans in order to control expenditure within the approved budget and to develop more financially sustainable solutions for future years.
 - Seeks approval of the Executive in relation to revenue budget virements and revisions to the Capital programme.

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 actions. 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 Programme within approved Council resources.
3. This report enables the Executive to discharge its financial management responsibilities by setting out the:
 - General Fund Revenue Budget forecast outturn at Quarter Two;
 - Statement of the Council's projected reserves and provisions at Quarter Two
 - Capital Programme forecast outturn at Quarter Two;
 - statement of the Council's borrowing and prudential indicators;
 - actions that the Council has taken and plans to take in order address the issues identified.
4. Financial Procedure Rule 1.37 requires the Executive's approval of the proposed revenue budget virements as set out in Appendix 3.
5. A revised Capital Programme for the period 2023/24 to 2025/26 is attached at Appendix 7 for the Executive's consideration.

Revenue Budget

Context

6. The 2023/24 Revenue and Capital Budget Projected outturn report to the Executive at Quarter One set out:
 - the context in which the 2023/24 budget was approved by Council in February 2023, including the s151 Officer's statutory report on the robustness of budget estimates and adequacy of financial reserves under s25 of the Local Government Act 2003.
 - the 2023/24 Quarter One forecast overspend of £11.563m and critical level of usable General Fund reserves at 31 March 2023 standing at £14.8m.
 - the s151 Officer's advice in relation to the risk of issuing a s114 Notice under the Local Government Finance Act 1988.

- the 2023/24 to 2025/26 revised Capital Programme taking account of the 2022/23 final outturn position.
- A statement of the Council's reserves and provisions and borrowing and prudential indicators
- The actual and planned management actions to be taken in relation to controlling expenditure within the approved 2023/24 budget and to secure the Council's Financial Recovery and Resilience in the medium term.
- The requirement for unrelenting focus upon cost control and delivery of 2023/24 approved savings and demand mitigation to deliver within the approved budget.
- 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.

Budgetary Management and Control measures taken during Quarter Two 2023/24

7. Statutory Officers have engaged in regular dialogue over the period of the financial year in relation to the development and delivery of the Council's financial recovery plan with DLUHC officials, the External Auditor and the newly established Middlesbrough Independent Improvement Advisory Board (MIIAB).
8. On 7 July 2023, Council received a report setting out Phase 3 of the Corporate Governance Improvement Plan, including plans to voluntarily establish an Independent Improvement Advisory Board comprising experienced local authority peers to support, advise and guide the Council in delivering the Plan. The Corporate Governance Improvement Plan (CGIP) was endorsed by Council on 18 September 2023. Theme two of the CGIP relates to improving the Financial Recovery and Resilience of the Council. The plan also set out the terms of reference for MIIAB and the first meeting of the MIIAB took place on 2 October 2023.
9. On 21 August the External Auditor Ernst & Young LLP (EY), issued 11 statutory recommendations under s24 schedule 7(2) of the Local Audit and Accountability Act 2014. Three of the recommendations were related to the Financial Recovery and Resilience of the Council as set out in the report extract below:

4. We recommend that the Council builds upon the steps already taken to control its expenditure to identify specific deliverable savings over the short term (next 12 months) and protect its limited remaining reserves. Where appropriate, this may need to include the Council changing how it meets its statutory responsibilities and the extent to which it delivers services which are not required to discharge its statutory responsibilities.
5. We recommend that the Council reviews its service delivery models to ensure that they are efficient, represent value for money and achieve the outcomes required for the resources invested. Where opportunities to improve service delivery models are identified, the Council should develop detailed plans for implementation of service delivery transformation and how the up-front transformation costs will be funded.
6. We recommend that the Council review its financial forecasting processes to understand why significant financial pressures, over and above those anticipated and reflected in the Council's annual budget, have emerged within the first half of both the 2022/23 and 2023/24 financial years and ensure future forecasting reflects the lessons learned.

10. The Council's response to the s24 report agrees and acknowledges the recommendations and sets out the actions already taken and further plans to develop and implement measures to control in year expenditure. These are mirrored in theme 2 of the CGIP and include the activity set out below.

11. In relation to s24 Recommendation 4 the following actions have been implemented and will contribute to controlling the financial outturn:

- Continuation of monthly **budget challenge** sessions to identify opportunities to exercise further spending restraint and more cost-effective solutions within 2023/24 and future year. These will be reflected in further reports to the Executive as required and incorporated into Financial Recovery plans that are factored into the forecast outturn in Tables 1 and 2 below as appropriate;
- Continuation of regular **Vacancy Control Panels** by the LMT to constrain new recruitment to only essential vacancies that are necessary to meet statutory responsibilities, are externally funded or contribute to reducing the forecast overspend and are assessed as required for future planned service provision given the need to reduce the pay bill over the medium term.
- Monthly reports are being provided to Directors detailing expenditure on travel and other expenses, purchase card activity, and orders placed over £5,000 in order that **Directors** can ensure their service **compliance** with the s151 Officer's **spending control** direction issued in July 2023.
- A fundamental review and relaunch of the use of **purchasing cards** has been undertaken which has resulted in the reduction in approved card holders from 313 to 171 in order to strengthen controls and limit their use as part of a wider initiative to drive increased compliance with new Contract Procedure Rules (CPRs) approved by Council on 18 September 2023. Directors will enhance monitoring of expenditure through purchase cards on a monthly basis going forward, and mandatory training is being provided for all remaining purchase card users and their line managers before the end of the calendar year.
- An in year review of **fees and charges** has been undertaken to uplift for inflation since the last increase in November 2022. Recommended increases are set out in a separate report on this agenda. A fees and charges policy is being developed for 2024/25 onwards and a number of budget proposals considering opportunities to grow income are being developed and will be presented as part of the draft 2024/25 budget report to be considered by the Executive on 20 December 2023.

The implemented actions will be monitored closely for the remainder of the financial year to assess their impact and the need for further measures to be taken.

12. In relation to s24 Recommendation 5 and 6 the following measures are being taken:

- The budget development methodology being adopted for 2024/25 is focused upon the development of proposals to:
 - i. Managing/reducing service demand
 - ii. Service redesign
 - iii. Service transformation
 - iv. Reduction/stopping service levels.
- Reviewing and improving the robustness of demand and unit cost modelling to inform financial forecasts and budget modelling over longer time horizons has

commenced and will support the 2024/25 budget development process to provide increased assurance over the robustness of future budget estimates;

- The development and review of service benchmarking data and establishing deep dive reviews of high cost and overspending areas has commenced.

13. This work is informing the refinement of the year end forecast and the development of budget proposals and transformation plans to redesign services from a significantly lower cost base as part of the 2024/25 budget and MTFP development.
14. A number of transformational themes that will improve outcomes and deliver savings are emerging. The budget proposals will be brought forward in the 2024/25 draft budget and MTFP report for consultation that will be considered by the Executive on 20 December and will ultimately be considered by Council for approval on 28 February 2024. However, where opportunities for saving can be implemented within the financial year within the Council's governance arrangements, these opportunities are being factored into Directorate Financial Recovery Plans at the earliest opportunity. A number of areas as summarised in Table 6 and detailed in Appendix 5 have already been identified as suitable for investment and funding has been approved by the s151 Officer to be used from the Council's Change Fund on an invest to save basis to drive transformation subject to individual business cases and will be included in the revised Flexible Use of Receipts Strategy for 2023/24 where appropriate to enable alternative funding via cashed capital receipts by 31 March 2024. This will serve to preserve limited revenue resources.

Revenue Budget Forecast Year-End Outturn as at Quarter Two 2023/24

15. The 2023/24 forecast outturn on 30 September 2023 (Quarter Two) is an overspend of £8.556m (6.8%) against the approved budget of £126.354m by 31 March 2024. This represents an improvement of £3.007m from that forecast at Quarter One.
16. The analysis of the forecast financial position by Directorate is set out in Table 1 below. A summary of the key issues and variances is included in table 2, with details of Directorate variances detailed in Appendix 1. Table 1 includes any potential non-delivery of required budget savings as detailed in paragraphs 23 to 26.

Table 1 – Summary of Revenue Budget Forecast Outturn 2023/24 as at Quarter Two

All Directorates	Original Budget Full Year	Current Budget Full Year	Forecast Outturn	Forecast Variance	Forecast Variance as a % of Current Net Budget Full Year	Movement from Quarter One (Forecast Variance before Financial Recovery Plan)	Financial Recovery Plan	Forecast Outturn Variance (if Financial Recovery Plans assured)	
	£m	£m	£m	£m	%	£m	£m	£m	
				Adv / (Fav)		Adv / (Fav)	Adv / (Fav)	Adv / (Fav)	
Adult Social Care	49.808	49.649	51.325	1.676	3.4	(1.297)	↑	(0.219)	1.457
Public Health	(3.280)	(3.280)	(3.280)	0.000	0.0	0.000	↔	0.000	0.000
Children's Care	54.649	54.650	57.822	3.172	5.8	(0.477)	↑	(0.450)	2.722
Education & Partnerships	5.494	5.387	7.330	1.943	36.1	0.425	↓	(0.464)	1.479
Regeneration	(1.987)	0.986	0.590	(0.396)	(40.2)	(0.234)	↑	0.000	(0.396)
Environment & Communities	20.228	17.368	18.105	0.737	4.2	(0.556)	↑	(0.165)	0.572
Legal & Governance	10.245	10.304	10.308	0.004	0.0	(0.370)	↑	0.000	0.004
Chief Executive	0.000	0.234	0.222	(0.012)	(5.0)	(0.012)	↑	0.000	(0.012)
Finance	4.429	4.635	4.488	(0.147)	(3.2)	(0.614)	↑	0.000	(0.147)
Total Directorates	139.586	139.933	146.910	6.977	5.0	(3.135)	↑	(1.298)	5.679
Central Budgets	(13.232)	(13.579)	(12.000)	1.579	(11.6)	0.128	↓	0.000	1.579
Total Budget	126.354	126.354	134.910	8.556	6.8	(3.007)	↑	(1.298)	7.258

Note – the above table reflects a number of service moves between Directorates following approval of virements in the Quarter One report. The figures for the movement from Quarter One have been adjusted for the service moves between Directorates to provide meaningful comparisons between quarters

17. Table 1 shows that £1.298m of Financial Recovery Plan savings have been identified and quantified to date, with details being provided for each Directorate in Appendix 2. These will require further Director assurance to confirm deliverability together with the identification of further mitigations of expenditure to deliver the financial outturn within the approved budget by the year end. Subject to satisfactory assurance the plans will be factored into the year-end forecast.
18. Containing expenditure within the approved budget remains a critical priority for the Leadership Management Team and the Executive for the remainder of the financial year in order protect critically low reserves and provide an opportunity to start to rebuild them over 2024/25 and the medium term.
19. Financial Procedure Rule 1.37 requires the Executive's approval of the proposed revenue budget virements set out in Appendix 3.

Summary of key variances and recovery plans

20. The most significant directorate variances and financial recovery plans are summarised in Table 2 below, with further detail for each Directorate being included in Appendices 1 and 2.

Table 2 -Summary of variances and recovery plan actions

Directorate	Service Area	Summary of Variances over £250,000	2023/24 Forecast Overspend/ (underspend) £m	Financial Recovery Plan Key Actions	Value of Recovery Plan 2023/24 £m
Adults Social Care	Care Packages	Net unbudgeted demand and inflationary pressures in care packages.	2.203	Implementation of new residential admissions panel and review of high cost care package. Review of spending on personal care and fairer charging (review of zero payers)	(0.219)
	Across Directorate	Staff savings in excess of abatement target	(0.597)		
	Homelessness	Increased use of temporary accommodation (hotels and bed and breakfast accommodation) due to lack of available permanent accommodation, offset by grants.	0.370	Council wide cross cutting review of housing strategy	TBC
	Across Directorate	Other variances below £250,000	(0.300)		
Children's Care	External Residential	Increased numbers of children in external residential placements above budgeted level - national issue	2.507	Placement reviews	(0.400)
	Internal Residential	Agency staff	1.473	Permanent recruitment to posts, including marketing campaign and review of recruitment and retention packages.	(0.050)
	Fostering	Increasing number of young people in Independent Fostering Agency (IFA) placements above budget	0.770	Recruitment of internal foster carers to reduce reliance on independent fostering agencies and higher cost placements	TBC
	Across Service Teams	Staff savings from vacant posts and reduced expenditure on Section 17 and other expenditure across teams	(2.648)	To investigate increasing savings on vacant posts to cover over spend in Directorate	TBC
	Across Directorate	2023/24 budget savings for Children's Care and from the Children's Services Financial Improvement Plan currently rated "Red" and "Amber" (as shown in Table 4 and Appendix 4).	1.569	Review of savings required including review of purchase of properties for use as internal residential accommodation, and continued recruitment of edge of care provision.	TBC
	Across Directorate	Other variances below £250,000	(0.499)		
Education & Partnerships	Integrated Transport Unit	Increased number of children eligible for home to school transport, including children with Special Education Needs (SEN). Increase in costs per child of transportation.	1.879	Review all routes, decrease unused seat, encourage parents to use own transport, route planning and efficiencies, non statutory challenges, and investigate schools purchasing transport where appropriate.	(0.400)
	Across Directorate	Other variances below £250,000	0.064	Choice Advisors service needs review. Review of Partnership arrangements.	(0.064)
Regeneration	Commercial Income	Increased income above budget at Cleveland Centre and offset by decreased income below budget for Captain Cook Centre due to collapse of major tenant. Also expenditure savings on running costs.	(0.329)		TBC
	Across Directorate	Other variances below £250,000	(0.067)		
Environment & Communities	Waste Disposal	Increased contractual costs per tonne above budget, and increased civic amenity site management costs	1.017	Review of residual waste, recycling, and enforcement.	TBC
	Bereavement Services	Crematorium income shortfall and increased expenditure mainly Cemeteries	0.509	A report is to be taken to Executive on 21/11/23 on increasing the cremation and burial fees by from 1 December 2023	(0.074)
	Community Safety	Wardens - additional grant income and staff savings	(0.379)		
	Across Directorate	Other variances below £250,000	(0.410)	Review of Bus Station departure charges and car parking pressure to be met from Car Parking Reserve	(0.091)
Legal and Governance	Across Directorate	Other variances below £250,000	0.004		
Chief Executive	Across Directorate	Other variances below £250,000	(0.012)		
Finance	Resident & Business Support	Savings from review and revision of bad debt provision calculation, offset by court costs income pressures and staffing costs pressures due to reduction in level of New Burdens .	(0.527)		TBC
	Resident & Business Support- Housing Benefits Subsidy	Increase in homelessness cases and the cost of temporary accommodation, due to insufficient level of suitable available temporary accommodation, and Housing Benefit Subsidy not covering full costs	0.477	Council wide cross cutting review of housing strategy	TBC
	Across Directorate	Other variances below £250,000	(0.097)		
Central Budgets	Pay and prices contingency	Expected 2023/24 national pay award over budget provision - subject to finalisation of pay award	1.451		TBC
	External Audit Fees	Higher forecast external audit fees due to additional work undertaken by External Audit for statutory accounts (national issue) and in addressing Council governance failures	0.200		TBC
	Across Directorate	Other variances below £250,000	(0.072)		
Total Variance			8.556		(1.298)

21. It should be noted that the measures taken to control expenditure in year are a combination of 'one off mitigations' that have a favourable impact only in 2023/24 and plans that deliver 'ongoing' cost reductions or income generation that will have a favourable impact upon the calculated budget gap for 2024/25.

22. The ongoing pressures that remain as a result of the following are currently being identified and quantified in order to measure the impact upon the 2024/25 budget model:
- Partial or Non-delivery of approved planned savings (RAG Red and Amber)
 - Demand and other financial pressures for which a one-off mitigation has been delivered

Budget savings delivery

23. The approved revenue budget includes savings totalling £9.383m in 2023/24 and a further £2.987m in 2024/25. The savings tracker included in Table 3 summarises performance in 2023/24 and the impact upon delivery for 2024/25, categorising the current expected achievability of the savings. Table 4 shows performance for each Directorate against the 2023/24 savings. Savings delivery plans are monitored via the Savings Programme Board that is chaired by the Head of Business, Strategy and Customer Services.
24. The forecast overspend shown in Table 1 includes £1.569m (17%) of savings for 2023/24 categorised as “Red” and “Amber” within the savings tracker. Those categorised as “Green” £3.382m (36%) and considered to be on track are being further tested and challenged to gain further assurance. £4.432m (47%) have been delivered and classed as ‘Blue’.
25. Directors have been tasked with developing mitigation plans for those savings which are categorised as “Red” where savings will not be achieved, and “Amber” where there is significant risk to delivery. Also there is a need to ensure full achievement of savings categorised as “Green”. Any changes in delivery or alternative savings proposals will require approval by Executive and will be reported in future budget monitoring reports.

Table 3 – Savings Programme Assurance Summary

		2023/24	2024/25	Overall
RAG	RAG Description	£m	£m	£m
Blue	Saving Realised (delivered)	4.432	-	4.432
Green	Saving forecast to be realised as originally planned, or to be realised through alternative actions.	3.382	0.614	3.996
Amber	Medium risk to savings delivery, with mitigating actions being considered/worked on.	0.595	0.539	1.134
Red	High risk to savings delivery with limited scope of mitigation.	0.974	1.834	2.808
	Total Savings	9.383	2.987	12.370

Table 4 – Savings Programme Assurance for 2023/24 by Directorate

Directorate	23/24 RED (£m)	23/24 AMBER (£m)	23/24 GREEN (£m)	23/24 BLUE (£m)	TOTAL (£m)
Regeneration	-	-	0.300	0.296	0.596
Environment and Commercial Services	-	-	1.261	0.782	2.043
Legal and Governance	-	-	0.120	0.121	0.241
Adult Social Care and Health Integration	-	-	0.416	0.086	0.502
Public Health	-	-	-	0.296	0.296
Education and Partnerships	-	-	-	0.313	0.313
Children's Care	0.056	-	-	0.698	0.754
Central	-	-	-	0.543	0.543
Finance	-	-	-	0.130	0.130
Fees and Charges	-	-	1.111	-	1.111
Children's Services Financial Improvement Plan	0.918	0.595	0.174	1.167	2.854
TOTAL (£m)	0.974	0.595	3.382	4.432	9.383
Overall Percentages	10%	7%	36%	47%	

26. A detailed savings tracker of savings categorised as “Red” and “Amber” by Directorate is attached at Appendix 4. “Red” and “Amber” rated savings are factored into the forecast overspend for the year together with any in year mitigations to offset the resultant overspend.

Council Reserves and Provisions

27. It is critical that expenditure is contained within the approved budget of £126.354m to stabilise the Council’s financial position and provide a basis from which to rebuild reserves from the current critically low level.

28. The Interim Director of Finance has undertaken a due diligence exercise in relation to the Council’s accounting practice and an in-depth review of the balance sheet in order to provide assurance over the robustness of estimates and adequacy of reserves that will inform 2024/25 budget setting in order to identify:

- Risks that may impact adversely upon the reported financial position.
- opportunities to optimise the Council’s financial position.

A number of work streams remain in progress and any matters arising will be reported as appropriate upon conclusion of those work streams.

29. This work has included an in-depth review and revision of the methodology for calculating the bad debt provisions incorporated in the pre audited draft financial statements for 2021/22 and 2022/23 in accordance with the implementation of International Accounting Standard 37 (IAS37) governing the accounting for Provisions, Contingent Assets and Contingent Liabilities. IAS37 is applicable from 2021/22 financial year which are currently subject to external audit and the change in methodology and associated calculations is currently being reviewed by the External Auditor. This may result in favourable adjustments affecting the 2021/22, 2022/23, and 2023/24 accounts and will be reported once this work has been completed.

30. The balance sheet review has identified the opportunity to release £0.758m from the Revenue Grants Received Unapplied account which will be transferred to the Change Fund and re-stated at 31 March 2023.
31. The s151 Officer has determined that the revised balance on the Change Fund Reserve of £1.488m including the above shall be available in accordance with the approved use of Change Fund to fund expenditure on transformation and efficiency, including the cost of redundancies where relevant. The use of the Change Fund will contribute to the reduction of the 2023/24 overspend and/or support achieving a balanced budget for 2024/25. Projects will be subject to individual business cases and will also be included in the revised Flexible Use of Receipts Strategy for 2023/24 where appropriate to enable alternative funding via cashed capital receipts by 31 March 2024 which will serve to preserve limited revenue resources.
32. Table 5 provides an analysis of restricted and unrestricted reserves together with General Fund Provisions. It shows that the forecast balances on unrestricted usable revenue reserves currently comprising of the General Fund Reserve and unrestricted usable earmarked reserves, based upon the Quarter Two forecast outturn position of £8.556m would mean that all unrestricted usable earmarked reserves would be exhausted, leaving a General Fund Reserve of £6.273m representing the Council's total unrestricted usable revenue reserves. This is a significant reduction from the total of £14.829m at 31 March 2023, reported in the Quarter One report, which were already at a critically low level.

Table 5 – Analysis of unrestricted and restricted reserves and provisions, and impact of the forecast overspend on the level of reserves

	<u>Closing Balance 31/03/23 / Opening Balance</u>	<u>Additional Contributions</u>	<u>Transfers between Reserves</u>	<u>Use in Year</u>	<u>Use for projected 23/24 overspend</u>	<u>Forecast Balance at year-end</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
GENERAL FUND RESERVE	12.041				(5.768)	6.273
USABLE EARMARKED RESERVES						
<i>Restricted Use</i>						
Public Health	0.129					0.129
Insurance Fund	0.028					0.028
Better Care Fund	0.896					0.896
Marton Library S106	0.025					0.025
Housing Rental Sinking Fund	0.093					0.093
	1.171	0.000	0.000	0.000	0.000	1.171
<i>Unrestricted Use</i>						
Financial Resilience Reserve	1.797				(1.797)	0.000
Change Fund	0.000	0.730	0.758	(1.488)		0.000
Car Parking Reserve	0.742				(0.742)	0.000
Elections Costs	0.249				(0.249)	0.000
	2.788	0.730	0.758	(1.488)	(2.788)	0.000
	3.959	0.730	0.758	(1.488)	(2.788)	1.171
UNUSABLE EARMARKED RESERVES						
Revenue Grants Unapplied (Technical Reserv	10.539		(0.758)			9.781
Dedicated Schools Grant Adjustment Account	(6.565)			(3.230)		(9.795)
	3.974	0.000	(0.758)	(3.230)	0.000	(0.014)
SCHOOL BALANCES	3.640					3.640
GENERAL FUND PROVISIONS						
Business Rates Appeals	4.203					4.203
Insurance	0.824					0.824
Other	0.167					0.167
	5.194	0.000	0.000	0.000	0.000	5.194
	28.808	0.730	0.000	(4.718)	(8.556)	16.264
*NOTE	The year-end balances for 2022/23 may be subject to further change due to further technical adjustments which may be required as part of the closure of the Council's accounts. These will be mainly relating to the closure of the Collection Fund accounts, and school balances. There may also be potential changes required as part of the external audit of the Council's accounts for 2022/23. The final year-end balances for 2022/23 will be reported in the Council's Statement of Accounts for 2022/23, and will be updated as required as part of the quarterly budget monitoring reports throughout the financial year.					

33. Usable reserves remain at a critically low level and will be reduced further by any final overspend resulting at 31 March 2024. Priority must be given to replenishing reserves in the 2024/25 financial year and over the medium term to rebuild and strengthen the Council's financial sustainability.

34. For the avoidance of doubt, the risk of a s114 Notice under the provisions of the Local Government Finance Act 1988 in relation to setting a legally balanced budget for 2024/25 remains. A further report setting out the proposed 2024/25 draft budget and MTFP for the period 2024/25 to 2026/27 for consultation will be presented for consideration at the Executive meeting on 20 December 2023.

Contingency Budget and Change Fund

35. Table 6 summarises the 2023/24 budget and commitments against the central budgets controlled under the delegated powers of the s151 Officer in relation to the Contingency Budget and the Change Fund Budget and Change Fund Reserve at 30 September 2023. Note that the Change Fund is supplemented by a further £0.758m now held in the Change Fund Reserve following the recent balance sheet review (as detailed in paragraph 30). A summary of the projects approved for utilisation of these budgets is set out at Appendix 5.

Table 6 – Summary of 2023/24 budget and commitments against central budgets

	Corporate Contingency	Change Fund Reserve
	£m	£m
Starting Budget 2023/24	1.300	0.000
Budgeted contribution 2023/24	-	0.730
Additional contributions in year	-	0.758
Available for use	1.300	1.488
Approved Corporate Governance Improvement Plan Management Interventions	0.594	0.040
Approved invest to save transformation expenditure	0.000	0.984
Allocated/Committed to date	0.594	1.024
BALANCE REMAINING UNCOMMITTED	0.706	0.464

36. The s151 Officer has determined that the Change Fund resources of £1.488m budgets may be utilised to fund investment in transformation and/or efficiency measures that will realise a reduction in ongoing service expenditure in 2023/24 and/or future years. Appendix 5 shows that a number of invest to save transformation projects have already been approved to be funded from the Change Fund. Further applications for use of these funds will be subject to s151 Officer approval of a robust business case.

Potential further Risks to the Council's financial resilience

37. As set out in the main body of the report, current service delivery models are incurring annual expenditure in excess of the annual income available to the Council. Therefore, it is critical that the Council deploys further robust plans within 2023/24 and in relation to 2024/25 to adopt models of service that are deliverable within a sustainable funding envelope to address the substantial overspend position. This is critical to achieving a legally balanced budget for 2024/25.

38. The extent to which in year overspends are controlled on a one off basis, results in financial pressures continuing into 2024/25 and beyond. These will factor into the calculation of the budget gap for 2024/25 and will require robust budget proposals at scale to deliver savings sufficient to balance 2024/25. This presents a significant challenge to the organisation to deliver transformation and efficiency at pace in 2024/25. This issue is a key driver of the risk of a potential s114 Notice in relation to

2024/25 and will be addressed in the 2024/25 Budget and MTFP report that will be considered by the Executive on 20 December 2023.

39. All budget savings categorised as “Red” continue to be reviewed as part of the budget monitoring process to determine whether they are either delayed or undeliverable. Where possible, ways of enabling and accelerating their delivery will be implemented. If they are deemed to be undeliverable, alternative options will need to be developed by the relevant Chief Officer for consideration and approval by the Executive in considering options to balance the 2024/25 budget.
40. All budget savings currently categorised as ‘Green’ are forecast to be delivered by the year-end and are being tested to gain further assurance of delivery. It is expected that services will continue to work towards delivering these savings on time.
41. Economic conditions remain challenging, with the Cost of Living crisis having an impact across the economy including on residents, businesses and the Council directly. The continuing high level of inflation is a significant factor in managing the Council’s fragile financial position. For the Council in addition to the obvious higher costs caused by this, there are also risks around income collection.
42. Due diligence is being undertaken by the s151 Officer to ensure that the Council is compliant with accounting standards and grant funding conditions across a number of service areas to provide assurance of the robustness of the General Fund budget position. Risks and opportunities are being explored and significant issues will be factored into future reports addressing the Council’s financial position as this work is concluded.
43. The Council’s financial challenges will undoubtedly continue over the medium term. Therefore a step change in the scale and nature of measures to achieve financial balance is required. There are likely to be few if any easy options available to the Council in exercising control over the 2023/24 budget and setting a balanced 2024/25 budget.

Collection Fund - Council Tax and Business Rates income

44. Income received from Council Tax and Business Rates (NNDR) is a major source of income for the Council. It is accounted for within the Collection Fund and operates under the Government regulations. Due to the prescribed mechanisms for operating the Collection Fund, the financial impact of any 2023/24 income collection variances do not immediately affect the General Fund position. By illustration, the impact of any final surplus or deficit on the Collection Fund for 2022/23 is fed into the development of the 2024/25 budget and MTFP and any cost/ benefit does not impact the current 2023/24 financial year.
45. The 2023/24 MTFP presented to Council in February 2023 included the estimated effect of Council Tax and Business Rates income. In the context of the current economic climate and the Cost of Living Crisis, there is an ongoing risk to the levels of collection of these taxes which may result adversely upon collection rates. The forecast in-year collection rate for 2023/24 is 91% for Council Tax and 96.8% for Business Rates, however the above factors may affect these forecasts.

46. There is currently a growing uptake by residents of the Council Tax Reduction Scheme due to the cost of living crisis as a consequence of the current adverse economic climate. At the end of 2022/23 there were 18,130 claimants, however it is currently estimated that there are 18,257 claimants. It is likely that this will increase further in future years resulting in increased costs to the General Fund over time. This will be closely monitored and the MTFP will be updated as appropriate.
47. The budgeted Council Tax base includes assumptions on housing growth. If there is a variance in growth in housing numbers compared to the levels budgeted, this will impact upon Council Tax income due.
48. The Government provided support for businesses through increased business rates reliefs and grants in 2020/21, 2021/22, and for the start of 2022/23. Following the reduction in the level of this support, there is a risk that Business Rates income collection reduces in the future if businesses fail or are unable to pay the resultant increased amounts due. This area is to be reviewed in detail to inform future budget forecasting and the development of the 2024/25 budget and MTFP.
49. The level of outstanding Council Tax and Business Rates debt is expected to rise, and the Council will need to review the collectability of this debt and the adequacy of the bad debt provision over the period of the MTFP.
50. The Quarter Three report will provide a comprehensive update of the Collection Fund position addressing these factors. This will further inform the 2024/25 budget and MTFP development process and future budget monitoring and forecasting.

Dedicated Schools Grant (DSG)

51. The Council received £182.451m (before deductions and recoupment) of Dedicated Schools Grant (DSG) for 2023/24. 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). Currently after deductions and recoupment the Council will receive DSG of £63.502m in 2023/24. The forecast expenditure is £66.733m, an overspend of £3.231m within 2023/24.

Table 7 - Dedicated Schools Grant (DSG) after recoupment and deductions

	2023/24 Income	2023/24 Expenditure	2023/24 FORECAST OVERSPEND	BALANCE AS AT 31/03/2023	FORECAST CUMULATIVE DSG DEFICIT AS AT 31/03/2024
	£m	£m	£m	£m	£m
Early years	12.121	12.121	0.000	(0.254)	(0.254)
Schools Block	20.330	20.330	0.000	(0.182)	(0.182)
High Needs	30.008	33.239	3.231	7.021	10.252
Central school services block	1.043	1.043	0.000	(0.021)	(0.021)
TOTAL	63.502	66.733	3.231	6.564	9.795

52. There was a £6.564m total cumulative deficit on the DSG grant at the end of 2022/23, which included £7.021m attributed to the High Needs Block. The DSG deficit is predicted to increase during 2023/24 and it is currently forecast that there will be a total cumulative DSG deficit of £9.795m at 31 March 2024, including £10.252m relating to the High Needs Block which is partly offset by £0.457m of surplus forecast across the other blocks. The driver for increased costs is numbers of young people identified and assessed as having Special Educational Needs, and also the increases in Education, Health, and Care Plans.
53. The Dedicated Schools Grant (DSG) is subject to a statutory override by central Government which instructs Councils to account for the DSG deficits and resulting negative balance in a separate reserve and not to fund it by using its General Fund resources. This was planned to end on 31 March 2023, however Government has extended the arrangement to at least 31 March 2026. This is considered to be a potential major risk to the Council's financial resilience in the medium term if the Government remove the statutory override before the deficit position is resolved – the current balance is £9.795m which would be required to be met from the General Fund resources. The position that Government takes will be closely followed and updates will be provided as appropriate.
54. 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 and commit to reducing the deficit. 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.
55. The Council complete regular DSG management recovery plans to outline forecasts over the next 5 years. The Council is also working with the DfE and has received a Stage 1 grant of £45,000 and recently a Stage 2 grant bid for £1m has been approved for the "Delivering Better Value" (DBV) programme 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 participating in the DBV programme. It should be noted that Middlesbrough Council is not involved in the "Safety Valve" programme, which is support for those local authorities with the greatest DSG deficits.
56. 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.
57. 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 1,659 in 2022 to a predicted level of 2,115 in 2023, a 28% increase, and this is predicted to increase further in the future (see Table 8). It should be noted that the number of children with and EHCP is a key cost driver in relation to home to school transport costs that are met by the General Fund through the Integrated Transport Unit. This is a national issue affecting a large number of local authorities and presents a growing and significant financial risk to the Council. The Government have partly recognised this by an increase in funding allocated in the finance settlements for

2022/23 and 2023/24 for both Schools and High Needs Blocks. However, no specific funding has been provided in recognition of the adverse impact upon the General Fund cost of home to school transport, where it is currently forecast that 75-80% of EHCPs are forecast to require home to school transport.

Table 8 – Actual and forecast Education, Health, and Care plans (EHCPs)

Year	2022	2023	2024	2025	2026	2027
Number of EHCP – actual and forecast	1,659	2,115	2,235	2,355	2,475	2,595

Capital Programme Forecast Year-End Outturn 2023/24 as at Quarter Two

58. The Council approved a capital programme for 2023/24 of £71.211m (the original 2023/24 capital budget). This was then updated to take account of year end slippage in the Revenue and Capital Budget – Year End Outturn Position 2022/23 report of 20 June 2023, and Executive approved a revised capital budget for 2023/24 of £80.474m. Following a further review Executive approved a revised budget of £63.004m at Quarter One.
59. A comprehensive review of the capital programme, its profiling and forecast outturn including financing has been undertaken and is incorporated in this report to 30 September – Quarter Two.
60. The following additions over £0.250m to schemes within the current Capital Programme for 2023/24 totalling £4.330m, which are externally funded or funded from within existing Council resources for the 2023/24 Capital Programme as approved by Council in February 2023, have been added to the revised Capital Programme, subject to approval by Executive.
 - On 27 February 2023, Council approved the Revenue Budget, Council Tax, Medium Term Financial Plan, and Capital Strategy 2023/24 report. The report approved the flexible use of £3.000m of capital receipts to fund transformational revenue expenditure within the financial year. These funds have now been added to the Capital Programme.
 - The Council is undertaking a comprehensive Waste Strategy Review. The review has identified the need for a programme of wheeled bin replacements. £1.200m of Council capital resources within the resources approved by Council for 2023/24 in February 2023 have been identified and allocated in order to fund the replacements to enable the implementation of improved waste collection measures arising from the review.
61. There are no new schemes over £250,000 that have been added to the Capital Programme
62. There are no schemes over £250,000 that have been removed from the Capital Programme
63. There are no schemes within the Capital Programme that have been reduced by more than £250,000.

64. Table 9 below summarises the Capital Programme Financial Performance 2023/24 per Directorate as at Quarter Two. It is currently forecast at Quarter Two that the Council will spend £54.595m at year-end. This is 68% of the Executive approved revised original budget of £80.474m.

Table 9 – Summary of Capital Programme Financial Performance 2023/24 as at Quarter Two

	2023/24 Capital Programme Budget (as per 22/23 outturn)	2023/24 Capital Programme Budget (as per Quarter One)	2023/24 New externally funded schemes or funded from requested transfer within existing approved Council funded capital programme	2023/24 Revised Capital Programme Budget (as at Quarter Two)	2023/24 Actual Spend To 30/9/23	2023/24 Forecast Outturn	2023/24 Forecast Variance	2023/24 Forecast Variance % against Revised Quarter Two Budget	2023/24 Explanation Of Variance		Impact Upon 2024/25 Capital Programme
									Slippage	Reduction	
	£m	£m	£m	£m	£m	£m	£m	%	£m	£m	2.705
Regeneration	41.745	25.107	-	25.107	8.081	18.565	(6.542)	(26.06)	(6.614)	(0.015)	6.614
Environment & Community Services	23.560	20.714	1.200	21.914	6.211	20.769	(1.145)	(5.22)	(1.145)	-	1.145
Public Health	0.031	0.165	-	0.165	0.009	0.165	-	-	-	-	-
Education & Partnerships	7.852	6.938	0.060	6.998	0.574	4.244	(2.754)	(39.35)	(2.705)	(0.036)	2.705
Children's Care	2.141	2.107	3.070	5.177	0.083	3.415	(1.762)	(34.04)	(1.663)	(0.025)	1.663
Adult Social Care	1.447	3.682	-	3.682	1.484	3.595	(0.087)	(2.36)	(0.087)	-	0.087
Legal & Governance Services	3.120	3.713	-	3.713	1.978	3.642	(0.071)	(1.91)	(0.071)	-	0.071
Finance	0.578	0.578	-	0.578	0.070	0.200	(0.378)	(65.40)	(0.378)	-	0.378
Total	80.474	63.004	4.330	67.334	18.490	54.595	(12.739)	(18.92)	(12.663)	(0.076)	12.663

Note. Regeneration & Environment and Community Services budgets have been re-based following changes between Directorates.

65. Table 10 shows a summary of the reasons for the movements from the revised original capital budget for 2023/24 of £80.474m, and a breakdown of the forecast underspend of £12.739m in the capital programme for 2023/24 as at Quarter Two.

Table 10 - Summary Breakdown of movement in capital expenditure 2023/24

	<u>23/24</u> <u>£m</u>
Executive approved budget 20 June 23 (as per 2022/23 year end outturn report)	80.474
Slippage	(19.839)
Additions to existing schemes	2.285
New schemes	0.134
Reductions to existing schemes	(0.050)
Capital budget forecast outturn at Q1 (revised budget for 2023/24)	63.004
Amendments (subject to approval)	4.330
Revised approved budget as at Q2	67.334
Slippage	(12.663)
Additions to existing schemes	-
New schemes	-
Reductions to existing schemes	(0.076)
Capital budget forecast outturn at Q2	54.595

66. Capital slippage is a way of reprofiling capital budgets between financial years to match forecast timing of expenditure, whilst staying within the approved project budget. Details of capital slippage forecast for 2023/24 are shown in Appendix 6.
67. It can be seen from Table 9 that capital programme spend to the end of September 2023 of £18.490m is low compared to the forecast outturn for 2023/24 of £54.595m (34%), as such there is a risk that spend will be lower than forecast. While this will have a beneficial impact on revenue through higher investment balances and reduce the need to borrow it indicates that delivery is behind schedule and late delivery may pose risks for next financial year.
68. The revised Capital Programme covering the period 2023/24 to 2025/26 is summarised in Table 11 below and detailed in Appendix 7 for noting by Executive.

Table 11 - Summary of Capital Programme 2023/24 to 2025/26

Directorate	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m	TOTAL £m
Regeneration	37.155	18.565	64.887	2.979	123.586
Environment and Community Services	10.222	20.769	18.369	15.603	64.963
Public Health	0.219	0.165	0.007	-	0.391
Education & Partnerships	4.050	4.244	13.603	1.112	23.009
Children's Care	1.100	3.415	4.163	-	8.678
Adult Social Care	2.884	3.595	0.995	0.660	8.134
Legal and Governance Services	3.223	3.642	1.663	2.185	10.713
Finance	0.109	0.200	6.856	0.500	7.665
Total EXPENDITURE	58.962	54.595	110.543	23.039	247.139
Funded by					
Borrowing	24.597	23.396	42.711	10.145	100.849
Finance Leases	-	-	4.500	-	4.500
Capital Receipts	0.755	3.155	5.469	4.811	14.190
Grants	30.653	26.536	52.344	7.983	117.516
Contributions	2.957	1.508	5.519	0.100	10.084
Total FUNDING	58.962	54.595	110.543	23.039	247.139

Treasury Management - Borrowing & Prudential Indicators

69. The Council's investment and borrowing activity is managed in accordance with the Treasury Management Strategy (TMS) which is a key element of the MTFP alongside the annual revenue budget and capital programme which are approved by Council annually in before the start of the financial year.
70. Treasury Management activity is governed by the Prudential Indicators which are set within the TMS. The Council uses external expert Treasury Management Advisers to inform the development of its strategy and operational in year decisions. The budgeted and the actual position as at Quarter Two 2023/24 are summarised in table 12.

71. Investment and borrowing decisions are taken to manage the short, medium, and long term cash needs of the Council and are driven primarily by:

- the extent to which the Council finances its capital expenditure by borrowing which is measured by the Capital Financing Requirement (CFR)
- the timing differences between operational income and expenditure flows
- the level of cash backed reserves held by the Council; and informed by short to long term interest rate forecasts.

Table 12 – Prudential Indicators – Quarter Two 2023/24

Prudential Indicators - 2023/24 Quarter Two				
	<u>Budget</u> <u>(as per</u> <u>22/23</u> <u>outturn)</u> <u>(£M)</u>	<u>Forecast</u> <u>at Q2</u> <u>(£M)</u>	<u>Variance</u> <u>(£M)</u>	<u>Variance</u> <u>as % of</u> <u>Budget</u> <u>%</u>
Capital Expenditure	80.474	54.595	(25.879)	(32.2)
<u>Financing</u>				
External Sources	47.073	28.044	(19.029)	(40.4)
Own Resources	5.965	3.155	(2.810)	(47.1)
Debt	27.436	23.396	(4.040)	(14.7)
Capital Financing Requirement	300.588	300.227	(0.361)	(0.1)
External Debt borrowed	266.385	223.845	(42.540)	(16.0)
Cash Balances	15.000	12.029	(2.971)	(19.8)
Capital Financing cost	9.276	9.286	0.010	0.1
Revenue Budget	126.354	126.354	n/a	n/a
Cost as a % of Revenue Budget	7.3%	7.3%		

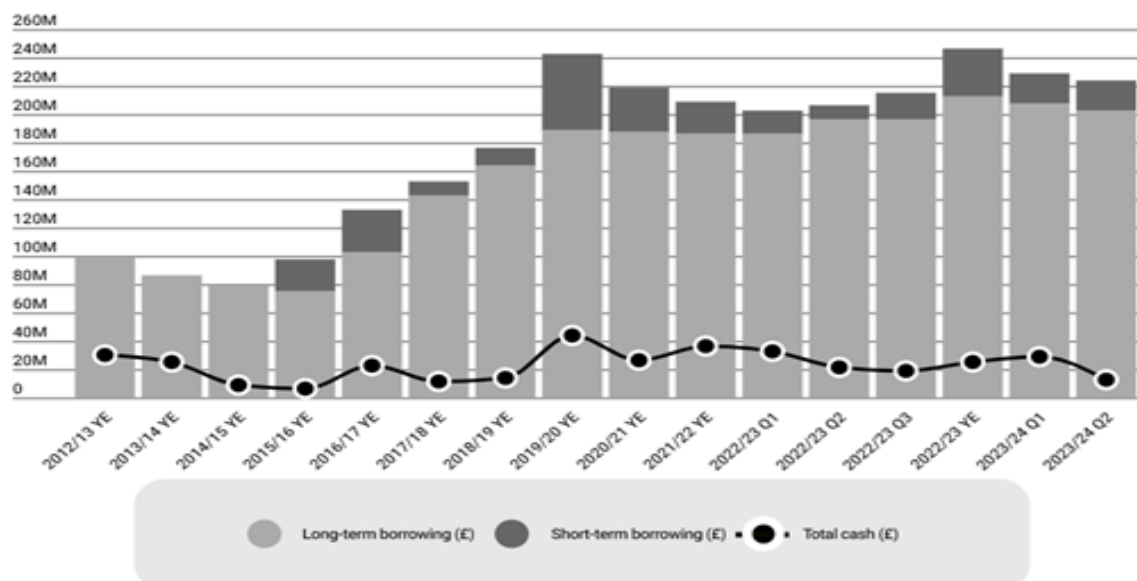
72. The Council's forecast Capital Expenditure outturn at Quarter Two is £54.595m compared to a revised original approved budget of £80.474m, an underspend of £25.879m (32.2%). This results in a slightly lower level of debt funding in-year than was anticipated at the start of the financial year.

73. During the first quarter, external borrowing reduced from £229.053m on 30 June 2023, to £223.845m on 30 September 2023. This decrease of £5.208m reflects the repayment of one long term loan of £5.000m, plus repayment of principal amounts on existing annuity loans held by the Council of £0.208m.

74. The long-term loan repaid above was a LOBO loan (Lender Option Borrower Option). This loan was taken out by the Council in 2004 for a period of 50 years at an interest

rate of 3.93%. The loan had an option attached to it which meant that the Lender, Dexia, could increase the interest rate at six monthly intervals. The Council then has the option to repay the loan if the interest rate movement was not favourable.

75. In September this year, Dexia exercised this option for the first time in 19 years on the loan with an offer of 4.90% going forwards. Given that the loan does not expire for a further 31 years and interest rates are expected to be lower than this over the medium to longer term, it was not felt to be good value for money. The Director of Finance, in conjunction with the Councils' treasury management advisers, decided to repay the loan out of existing cash balances and to re-finance this loan when interest rates reduce to lower levels.
76. Cash balances have reduced by over half from £24.950m to £12.029m between the end of June and September 2023. This reflects three main factors – the capital and revenue spending plans of the Council to date in this financial year, the expected over-spend on the revenue budget mentioned earlier in this report and the LOBO loan repayment. In addition, with interest rates being at high levels currently, there is little incentive to take external borrowing at present. The approach has therefore been to depress cash levels as far as possible during the quarter and only to borrow if the overall liquidity needs of the Council were compromised. The only external borrowing activity required during the quarter was the roll forward of an existing short-term loan with another local authority. Cash traditionally tends to be low within the third quarter, as income in advance is spent and the revenue and capital budgets are utilised. It is expected that there will be a demand for borrowing during the next quarter.
77. The ratio of short-term to long-term borrowing has remained constant during the quarter given the lack of borrowing activity. Long term Public Works Loan Board (PWLB) rates continue to remain high due to the changes in bank rate over the last 12 months. The Council's total under borrowed position (external debt compared to the capital-financing requirement – or underlying need to borrow) is £76.382m on 30 September 2023, or 25.4%. The overall strategy for borrowing in the current inflationary climate is complex and is regularly discussed with the Council's appointed external treasury management advisers. The over-riding objective continues to be to demonstrate value for money from any borrowing decisions taken. Most of the external borrowing required will be taken later this financial year.



78. 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 approved by Council as part of the annual budget process in February each year. CIPFA and Government view this approach as best practice in ensuring resources are allocated prudently to capital schemes.

79. The amount of external debt at £223.845m and the total underlying need to borrow of £300.227m are both well below the Council's authorised debt limit of £328.000m for the year. This is the threshold above which any borrowing would be illegal. The cost of capital financing to the Council is marginally higher than that set at budget of £9.276m. This is due to the costs of borrowing on the debt expected to be taken being higher than originally budgeted for, offset by capital schemes funded by borrowing being phased into the next financial year. The total annual cost of financing the Council's capital investment plans being £9.286m, or 7.3% of the current net revenue budget.

What decision(s) are being recommended?

In respect of the General Fund Revenue Budget, the Executive is requested to:

- Note the forecast 2023/24 net revenue budget outturn as at Quarter Two of £134.910m against an approved budget of £126.354m, a forecast overspend of £8.556m (6.8%). This represents an improvement of £3.007m from that forecast at Quarter One.
- Note that the forecast overspend of £8.556m relates primarily to a combination of forecast demand and inflationary pressures in the following Directorates :

	£m
Adult Social Care	1.676
Children's Social care	3.172
Education & Partnerships (Integrated Transport Unit - home to school transport)	1.879
Environment and Community Services (waste disposal costs)	1.017
2023/24 local government pay award	1.451
Other variances	(0.639)
Total	8.556

- Note and endorse the management actions taken in consultation with Executive Portfolio Holders over the year to date to control expenditure within the approved budget and to develop more financially sustainable solutions for future years as set out in paragraphs 7 to 14.
- Note that further work is continuing with a view to fully mitigate the forecast overspend and that further reports will be submitted to the Executive for noting and approval of management actions as appropriate.
- **Approve** the proposed revenue budget virements over £250,000 as detailed in Appendix 4.

In respect of the Council's Reserves and Provisions, the Executive is requested to:

- Note that the interim s151 Officer has undertaken a review of the balance sheet which has resulted in the release of £0.758m from the Revenue Grants Received Unapplied account that will be transferred to the Change Fund for which the balance will be re-stated as at 31 March 2023.
- Note that the s151 Officer has determined that the uncommitted 2023/24 Change Fund Reserve of £1.488m, shall be available to fund expenditure on transformation and efficiency as part of an agreed financial recovery plan.
- Note that as a result of the balance sheet review, the interim s151 officer is in discussion with the External Auditor in relation to the audit review of the Council's methodology to calculate the Collection Fund Bad Debt provision in 2021/22 financial statements. This may result in favourable adjustments affecting the 2022/23 and 2023/24 accounts and impact upon 2024/25 budget setting. This will be reported upon conclusion of that work.

In relation to the Council's financial recovery and resilience , the Executive is requested to:

- Note the Quarter Two forecast of usable revenue reserves of £6.273m available at 1 April 2024 based on the Quarter Two forecast outturn position of £8.556m, a reduction from the already critically low level of £14.829m at 31 March 2023 reported in the Quarter One report. These would comprise of:
 - General Fund Reserve of £6.273m
 - Council's unrestricted usable earmarked reserves of £NIL
- Note that the risk of a s114 Notice under the provisions of the Local Government Finance Act 1988 in relation to setting a legally balanced budget for 2024/25 remains. A further report setting out the proposed 2024/25 draft budget and MTFP for the period 2024/25 to 2026/27 for consultation will be presented for consideration at the Executive meeting on 20 December 2023.
- Note that Statutory Officers remain in dialogue with the Department for Levelling Up Housing and Communities (DLUHC), the External Auditor and the Middlesbrough Independent Improvement Advisory Board (MIIAB) in relation to the development and delivery of the Council's Financial Recovery and Resilience plans.

In respect of the Capital Programme and Treasury Management, the Executive is requested to:

- Note that a full review of the Capital Programme has been undertaken since Quarter One including a review of profiling and alignment of funding sources in order to optimise the use of grants and external funding and mitigate the revenue impact of debt financing as far as possible.
- **Approve** the inclusion of additions to the Capital Programme for 2023/24 totalling £4.330m (detailed in paragraph 60) which are externally funded or funded from within existing Council resources for the 2023/24 Capital Programme as approved by Council

in February 2023. These have increased the 2023/24 Capital Programme budget to £67.334m from the £63.004m revised Capital Programme budget for 2023/24 approved at Quarter One.

- Note the 2023/24 Capital Programme forecast outturn of £54.595m at Quarter Two, which is a reduction of £12.739m (19%) from the revised £67.334m budget for 2023/24. The forecast outturn against the revised capital programme is a favourable variance comprising:
 - An underspend of £0.076m
 - Slippage of £12.663m into 2024/25.
- Note the Treasury Management forecast outturn position with respect to the Council's prudential indicators as set out in paragraphs 69 to 79.

In respect of the Dedicated Schools Grant (DSG), the Executive is requested to:

- Note the current forecast in-year deficit of £3.231m for 2023/24 relating to the High Needs Block, which is an increase of £1.451m from the £1.780m reported at Quarter One.
- Note the forecast total cumulative deficit of £9.795m at 31 March 2024, including £10.252m relating to the High Needs Block, as set out in Table 7 and paragraphs 51 to 57.
- Note that under existing government regulations this deficit cannot be funded from the General Fund, and the Council is required to deliver a recovery plan to the Department for Education (DfE).
- Note that the Council is part of the DfE Delivering Better Value (DBV) scheme which aims to support financial recovery of the DSG position.

Rationale for the recommended decision(s)

80. 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

81. Not applicable.

Impact(s) of the recommended decision(s)

Legal

82. The proposed recommendations are consistent with and will promote the achievement of the Council's general legal duty to achieve Best Value in accordance with Section 3 of the Local Government Act 1999 (as amended by s137 of the Local Government & Public Involvement in Health Act 2007).

Strategic priorities and risks

83. 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.
84. Any impact on the Council's Strategic Plan will be reported as part of the Corporate Performance Update: Quarter Two 2023/24 report to this Executive.
85. In line with the Council's Risk Management Policy, the corporate Strategic Risk Register will be reported to this Executive as part of the Corporate Performance Update: Quarter Two 2023/24 report.

Human Rights, Equality and Data Protection

86. The overall impact assessment within the budget report to Council on 27 February 2023 found that the impact of the budget savings proposals on the protected characteristics of race could not be fully mitigated. It also identified an adverse impact on community cohesion, in line with the individual impact assessments. The complete overall impact assessment included in Appendix 4 of that report however found that there was a justified adverse impact from these proposals in order to ensure the Council is able to maintain a balanced budget and continue to meet its statutory obligations.

Financial

87. This report sets out the financial implications associated with the financial performance of the Council in managing its revenue and capital resources for the financial year 2023/24 and the financial implications are incorporated throughout.

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

Action	Responsible Officer	Deadline
Corporate revenue budget spending controls set out in the main body of the report will continue to be applied to Directorates as stated.	Director of Finance	31/3/24
Current Management Recovery Plans to be finalised and implemented, and further Management Recovery Plans to be identified by Directors for 2023/24	Directors	ongoing
Revenue budget virements detailed in Appendix 3 to be actioned, subject to approval	Head of Financial Planning & Support	30/11/23
Amendments to the capital programme for 2023/24 to be actioned, subject to approval	Head of Financial Planning & Support	30/11/23

Appendices

1	Detailed Directorate Revenue Budget Forecast Outturn 2023/24 as at Quarter Two
2	Directorate Financial Recovery Plans
3	Proposed revenue budget virements above £250,000 at Quarter Two 2023/24
4	Detailed savings tracker of savings categorised as “Red” and “Amber” by Directorate
5	Summary of projects approved for utilisation of Contingency Budgets and Change Fund
6	Capital Programme Quarter Two 2023/24– details of capital slippage
7	Revised Capital Programme to 2025/26

Background papers

Body	Report title	Date
Executive	Children’s Service Financial Improvement Plan	14/2/23
Council	Budget 2023/24 - S25 Report of the Chief Finance Officer	27/2/23
Council	Revenue Budget, Council Tax, Medium Term Financial Plan and Capital Strategy 2023/24	27/2/23
Executive	MTFP Update	23/8/23
Executive	Revenue and Capital Budget – Forecast Outturn position at Quarter One 2023/24	23/8/23

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