

EXECUTIVE MEMBER REPORT TO COUNCIL

EXECUTIVE MEMBER: FINANCE & GOVERNANCE – COUNCILLOR NICKY WALKER

DATE OF MEETING: 29 November 2023

The purpose of this report is to provide an update to members on areas of activity within my portfolio including performance against strategic priorities.

STRATEGIC PRIORITIES

Strategic Priority: *We will ensure that we place communities at the heart of what we do, continue to deliver value for money and enhance the reputation of Middlesbrough.*

Update:

I continue to have weekly briefings with each of the two directors relevant to my portfolio as well as frequent additional meetings and contact with them and other officers as appropriate.

On 15 November 2023 I attended Overview and Scrutiny Board to give an update on my portfolio.

HIGHLIGHTS

Quarter Two Outturn

- Following the budget challenge sessions for Quarter Two which took place w/c 23 October 2023, the forecast 2023/24 net revenue budget outturn as at Quarter Two, was published in a report that I will be presenting to the Executive on 21 November 2023. This showed an improvement of £3.006million from the projected overspend at Quarter One.
- However, a forecast overspend remains of £8.556million or (6.8%) in relation to the 2023/24 Revenue Budget for 2023/24 of £126.354m. The overspends across directorates relate primarily to a combination of forecast demand and inflationary pressures summarised as follows:

	£m
Adult Social Care	1.676
Children’s Social care	3.173
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	(0.640)
Total	8.556

3. **Adult Social Care** main pressures relate mainly to the net effect of unbudgeted demand and inflationary pressures in care packages and increased use of more expensive temporary accommodation in relation to homelessness.
4. **Children's Care** relates mainly to the increased numbers and costs of residential placements, of independent fostering and the deliverability of budget savings for 2023/24.
5. **Integrated Transport Unit** pressures relate mainly to the increased numbers of children eligible for Home to School Transport, including those with Special Educational Needs (SEN) and increased transport cost.
6. **Environment and Community Services** has seen increased costs of waste disposal over and above that budgeted together with crematorium income shortfall and increased expenditure.
7. **2023/24 Local Government Pay Award** following the recent confirmation of the amount of the pay award further work is being undertaken which may alter this figure.
8. A great deal of further work is ongoing with executive members and officers to mitigate the overspend for this year further, to address the revised projected gap identified in the Medium Term Financial Plan report of August 2023, of £14.204m, and to develop more financially sustainable solutions for this and future years.
9. It should be noted that the measures taken to control expenditure in this current year are a combination of 'one off mitigations' that have a favourable impact only in 2023/24 and plans are required that deliver 'ongoing' cost reductions or income generation that will have a favourable impact upon the calculated budget gap for 2024/25.
10. In order to return to a position of financial resilience, annual revenue expenditure must be brought back to a level whereby it is within the available annual income, and we must begin to replenish our reserves.
11. Note that the section 151 Officer has stated that 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.

Reserves

12. My earlier reports have highlighted the critically low level of Usable Revenue Reserves at 31.03.23.
13. As a reminder the General Fund Reserve is the fund of last resort and should only be used in exceptional circumstances to address matters that arise due to external factors and are largely beyond the council's control. The General Fund Reserve had remained virtually the same over the 4-year period from 31.03.19-31.03.23, with just a 1% difference from £11.908m as at 31.03.2019 to £12.041m as at 31.03.2023.
14. Whereas Usable Earmarked Reserves, held to cover known specific risks internal to the Council and had been drawn on to fund overspends in recent years. had fallen by around 75% over the same period from £16m at 31.03.2109 to £4m at 31.03.2023.

15. Following some slight adjustment during the production of the annual accounts and after deducting that part Usable Earmarked Reserves of £1.171m which are restricted for a particular use, this left a total of £14.829 Unrestricted Revenue Reserves at 31.03.23.
16. The table below illustrates how our already critically low levels of reserves would be reduced even further, if the projected overspend at Quarter Two remained the same with Unrestricted Usable Earmarked Reserves being completely exhausted, leaving only a General Fund Balance of £6.273m. A table giving further detail on this is contained in the forecast 2023/24 net revenue budget outturn as at Quarter Two report available on the council website, to be presented to Executive on 21 November 2023.

	Balance 31.03.23	Use for 2023/24 overspend	Forecast balance year end 31.03.24
	£m	£m	£m
Unrestricted Usable Earmarked Reserves	2.788	2.788	0.00
General Fund	12.041	5.768	6.273
Total Usable Revenue Reserves	14.829	8.556	6.273

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

17. The following is extracted from the Statutory Recommendations form External Auditors, Ernst Young (EY) of 21 August 2023 on Financial Recovery and Resilience
18. *“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.*
19. *“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.*
20. *“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.”*
21. In relation to Recommendation 4 the following measures are being taken:

- Continuation of monthly budget challenge sessions and quarterly sessions involving executive members to identify opportunities to exercise further spending restraint and more cost-effective solutions within 2023/24 and future years.
- Continuation of regular Vacancy Control Panels 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 to ensure 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.
- An in-year review of fees and charges has been undertaken to uplift for inflation since the last increase in November 2022, 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. In addition, as fees and charges have not been increased for a year, since November 2022, a report implementing an inflationary increase of an average of 8.6% in a range of charges from 01 December 2023 will be presented to Executive on 21 November 2023. If agreed, it is projected to generate £116,000 this financial year.

22. In relation to 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:
 1. Managing/reducing service demand
 2. Service redesign
 3. Service transformation
 4. 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.

23. In order to fund the transformation required in order to bring expenditure back within available resources, and due to the critically low levels of reserves left available to support this, an asset review has been undertaken to identify land and property owned by the Council that could be utilised differently (including disposal) to provide the capital receipts required to help support the Council's financial recovery and to achieve financial sustainability. A report on this Asset Review will be presented to the Executive by the Executive Member for Regeneration on 21 November 2023.

THE TIME AHEAD

Central Government Funding for Local Government

24. In advance of the Autumn Statement of 22 November 2023, the Local Government Association (LGA) has written to the Chancellor of the Exchequer outlining the acute financial pressure councils face, and the steps they feel the Government needs to take to address this situation. They describe how councils nationally face ongoing inflationary and pay pressures alongside rising demands and market challenges in areas such as children's and adults social care and temporary accommodation provided to the homeless.
25. Their analysis shows that councils overall are facing funding gaps of £2.4 billion in 2023/24 and £1.6 billion in 2024/25. These gaps relate solely to the funding needed to maintain services at their current levels. The LGA has calculated that the funding gap in 2023/24 "is equivalent to councils stopping all spending on waste collection, library services and recreation and sports combined".
26. Middlesbrough has seen its funding from Central Government fall by 46% since 2013/14. As pointed out in Middlesbrough Council's budget report of February 2023, even though there was additional funding announced for 2023/24, Government funding for local government as a whole has fallen substantially since 2010. Since changes were made to the Local Government Finance System in 2013/14 Middlesbrough Council has suffered a significant reduction in Government funding, with a reduction of £37.7m (46%) from £81.2m received in 2013/14 to £43.5m in 2023/24.

Budget Setting and Member Briefings/Involvement

27. To date this year there have been:
- Members' Finance Training (3 sessions)
 - Members' briefings Medium Term Financial Plan (August)
 - Members' briefings Asset Review (November)
28. Prior to the budget being considered by the full Council there will be
- Members' Briefings on Budget Setting/Proposals 12 December
 - OSB will consider Budget Proposals on 20 December 2023
 - Individual Scrutiny Panels will also have the opportunity to consider/develop proposals.
29. Suggestions from staff and members on transformation of service delivery, budgetary savings or increased income are still welcome. The email address for suggestions which was circulated to all members at my request on 22 August 2023 and has also been provided to staff is:

financialplanning@middlesbrough.gov.uk

30. A frequently asked questions page is to be published by 30 November to address all staff suggestions received.

NAME: Cllr Nicky Walker
DATE: 21 November 2023