

<b>Report of:</b>	Director of Finance (s151 Officer)
<b>Relevant Executive Member:</b>	Executive Member for Finance and Governance
<b>Submitted to:</b>	Executive
<b>Date:</b>	14 February 2024
<b>Title:</b>	Revenue and Capital Budget – Forecast Year-end Outturn position at Quarter Three 2023/24
<b>Report for:</b>	Decision
<b>Status:</b>	Public
<b>Strategic priority:</b>	All
<b>Key decision:</b>	Yes
<b>Why:</b>	Decision(s) will incur expenditure or savings above £250,000 and have a significant impact in two or more wards
<b>Subject to call in :</b>	No
<b>Why:</b>	Not Applicable

**Proposed decision(s)**

That the Executive notes the Council's forecast year-end financial outturn as at Quarter Three 2023/24, and approves budget virements within the revenue budget and revisions to the capital programme in relation to activity in Quarter Three. The recommendations are detailed in Section 2 of the report.

## Executive summary

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

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

- General Fund Revenue Budget forecast outturn at Quarter Three;
- Statement of the Council's reserves and provisions at Quarter Three
- Capital Programme forecast outturn at Quarter Three;
- 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.

The main highlights of the report are :

- the forecast 2023/24 net revenue budget year-end outturn as at Quarter Three is a forecast year-end overspend of £5.544m (4.4%). This represents an improvement of £3.012m from that forecast at Quarter Two
- the 2023/24 Capital Programme forecast year-end outturn of £47.129m at Quarter Three, which is a reduction of £20.502m (30%) from the revised £67.631m budget for 2023/24
- following a detailed review of the balance sheet as part of finalising 2022/23 financial statements for publication, the balance on the usable unrestricted revenue reserves at 31 March 2023 was restated from £14.829m to £15.586m
- based upon the forecast outturn of £5.544m at Quarter Three, the General Fund Balance is forecast to be £9.036m whilst the balance on usable unrestricted reserves is forecast to be zero at 31 March 2024 (with the exception of a £0.055m Election Costs Reserve which has planned spend committed against it).
- It is expected that at 2024/25 budget setting, the cumulative surplus on the Collection Fund of approximately £8.3m in 2023/24 will be released to replenish the critically low usable revenue reserves which is an exceptional and one-off adjustment. Even with this one-off adjustment usable revenue reserves remain critically low and the MTFP report to be considered by Executive on 28 February 2024 and Council on 8 March 2024 sets out the plan for replenishing reserves over the period to 2026/27.

## 1. Purpose

### 1.1 This report:

- Sets out a forecast of the year-end annual outturn for the financial year 2023/24, based on the Quarter Three review of revenue current and projected expenditure against the current year's Revenue Budget, and highlights the areas of particular financial challenge.
- Sets out the management actions that have been taken to control expenditure within the General Fund budget approved by Council in February 2023.
- Seeks Executive endorsement of the management actions that are in place 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.

## 2. Recommendations

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

- Note the forecast 2023/24 net revenue budget year-end outturn as at Quarter Three of £131.898m against an approved budget of £126.354m, a forecast year-end overspend of £5.544m (4.4%). This represents an improvement of £3.012m from that forecast at Quarter Two.
- Note that the forecast year-end overspend of £5.544m relates primarily to a combination of forecast demand and inflationary pressures in the following Directorates:

	£m
Adult Social Care	1.358
Children's Social care	2.884
Education & Partnerships	1.443
Environment and Community Services	0.943
Other variances (Regeneration, Legal and Governance, Finance and Central)	(1.084)
<b>Total</b>	<b>5.544</b>

- Note and endorse the management actions taken in consultation with Executive Members 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 4.6 to 4.13.
- Note that work will continue to try to mitigate further the forecast year-end overspend before the end of 2023/24 and the final position will be reported as part of the final 2023/24 outturn report to Executive in June 2024.
- **Approve** the proposed revenue budget virements over £250,000 as detailed in Appendix 4. These are technical adjustments.

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

- Note that the s151 Officer has undertaken a review of the balance sheet which has resulted in the release of £0.757m from the Revenue Grants Received Unapplied account that has been transferred to the Change Fund and the balance has been re-stated as at 31 March 2023 from £0.730m to £1.487m.
- Note that the s151 Officer has determined that the 2023/24 Change Fund Reserve of £1.487m, 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 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 is estimated to result in a favourable adjustment of approximately £8.3m affecting the 2022/23 and 2023/24 accounts and impact upon 2024/25 budget setting – this will be used to replenish the usable unrestricted revenue reserves and General Fund balance that will be used to fund the final 2023/24 overspend. This sum is not available to balance the 2024/25 budget.

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

- Note the Quarter Three forecast of usable revenue reserves of £9.036m available at 1 April 2024 based on the Quarter Three forecast outturn position of £5.544m, a reduction from the already critically low level of £15.586m at 31 March 2023. These would comprise of:
  - General Fund Reserve of £9.036m
  - Council's unrestricted usable earmarked reserves of £NIL (with the exception of a £0.055m Election Costs Reserve which whilst technically is unrestricted and usable has planned committed spend against it on election costs in future years)
- Note that in order to set a legally balanced and robust budget whilst maintaining adequate revenue reserves for 2024/25, Executive on 17 January 2024 approved an application for Exceptional Financial Support (EFS) to DLUHC. The s151 Officer's advice is that without securing External Financial Support via DLUHC, it will not be possible for it to:
  - Balance the 2024/25 budget
  - Secure financial recovery and sustainability over the medium term
- Note that the formal EFS application was made to DLUHC on 17 January 2024 and the result of the application is expected in the period from 26 February to 1 March 2024. Further details will be provided as part of the 2024/25 budget and Medium Term Financial Plan (MTFP) report to Executive on 28 February 2024 and Council on 8 March 2024.

- Note that depending on the decision taken by DLUHC in relation to the EFS application, the risk of a s114 Notice under the provisions of the Local Government Finance Act 1988 remains. Further details will be provided as part of the 2024/25 budget and Medium Term Financial Plan (MTFP) report to Executive on 28 February 2024 and Council on 8 March 2024.
- 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 (MIAB) in relation to the development and delivery of the Council's Financial Recovery and Resilience plans.

2.4 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 Two including a review of profiling and alignment of funding sources to optimise the use of grants and external funding and mitigate the revenue impact of debt financing upon the revenue budget position as far as possible.
- **Approve** the inclusion of additions to the Capital Programme for 2023/24 totalling £0.297m (summarised in Table 9) 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 £67.631m from the £67.334m revised Capital Programme budget for 2023/24 approved at Quarter Two.
- Note the 2023/24 Capital Programme forecast outturn of £47.129m at Quarter Three, which is a reduction of £20.502m (30%) from the revised £67.631m budget for 2023/24. The forecast outturn against the revised capital programme is a favourable variance comprising:
  - An underspend of £1.611m
  - Slippage of £18.891m into 2024/25.
- Note the Treasury Management forecast outturn position with respect to the Council's prudential indicators as set out in paragraphs 4.73 to 4.81.

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

- Note the current forecast in-year deficit of £6.644m for 2023/24 relating to the High Needs Block, which is an increase of £3.323m from the £3.321m reported at Quarter Two. The increase is mainly due to higher demand for specialist provision as inclusion of pupils within mainstream settings has remained a challenge. A range of management actions are being taken to address the increase in expenditure alongside the DBV (Delivering Best Value) programme (paragraph 4.54)

- Note the forecast total cumulative deficit of £13.208m at 31 March 2024, including £13.665m relating to the High Needs Block, as set out in Table 7 and paragraphs 4.52 to 4.53.
- 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). This position presents a long term risk to the Council's financial position which is dependent upon how central government ultimately resolve the spending pressures arising in High Needs, given the nationwide financial pressures being experienced by local authorities in this area.
- Note that the Council is part of the DfE Delivering Better Value (DBV) scheme which aims to support financial recovery of the DSG position.

### **3. Rational for the recommended decision (s)**

- 3.1 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.

### **4. Background and relevant information**

- 4.1 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.
- 4.2 This report enables the Executive to discharge its financial management responsibilities by setting out the:
- General Fund Revenue Budget forecast outturn at Quarter Three;
  - Statement of the Council's projected reserves and provisions at Quarter Three
  - Capital Programme forecast outturn at Quarter Three;
  - 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.
- 4.3 Financial Procedure Rule 1.37 requires the Executive's approval of the proposed revenue budget virements as set out in Appendix 4.
- 4.4 A revised Capital Programme for the period 2023/24 to 2025/26 is attached at Appendix 6 for the Executive's consideration.

## **Revenue Budget**

### ***Context***

- 4.5 The 2023/24 Revenue and Capital Budget Projected outturn reports to the Executive at Quarter One and Two 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 year-end overspend of £11.563m and critical level of usable General Fund reserves at 31 March 2023 standing at £14.8m. Quarter Two forecast year-end overspend reduced by £3.007m to £8.556m as budgetary management and control measures as well as recovery plans commenced.
- 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 progress of a detailed review of the Council's balance sheet as part of the development of its financial recovery plan.
- The requirement for unrelenting focus upon cost control and delivery of 2023/24 approved savings and demand mitigation to attempt 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 2023/24***

- 4.6 Statutory Officers continue to engage 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 Middlesbrough Independent Improvement Advisory Board (MIIAB).
- 4.7 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 Three 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. The MIIAB issued its first progress report to the Executive on 17 January 2024, reflecting the progress made to date and areas of key focus in the year ahead. The Board's first report set out the background to its appointment, a summary of activity to date, and a forward view on the future focus the Council should have in its improvement journey. In summary, the Chair of the Board identified that there had been improvements in relationships since the Best Value Notice and it was also recognised that changes to culture took time, however there were still concerns about the speed Member enquiries were dealt with. Also while the Board were confident the Council had robust plans to address its financial

issues and to achieve its transformation aspirations, there was a degree of urgency required to ensure this was achieved.

4.8 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.

4.9 The Council's response to the s24 report agreed and acknowledged the recommendations and set 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. The most recent progress report was considered by Council on 17 January 2024.

4.10 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 years. Also Executive Member involvement in budget challenge sessions has been re-introduced, with quarterly challenge sessions attended by the relevant Executive Member and chaired by the Executive Member for Finance and Governance. These will be reflected in further reports to the Executive as required and incorporated 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 year-end 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 174 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 increase of **fees and charges** to uplift for inflation from 1 December 2023 was approved by Executive on 21 November 2023. Directorate budgets were amended for the fees and charges increases and this is reported as part of the Directorate forecast year end outturns in Table 1. All the revised fees and charges have been implemented from 1 December 2023, with the exception of the car parking charges increases (estimated to achieve approximately £30,000 of additional income for 2023/24) which was not implemented due to technical issues arising from amending the ticket machines and the expenditure required to undertake this and issue notices for the short period of time until a further review of the charges in 2024/25. This saving has been largely mitigated by increased demand. 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 2024/25 budget report to be considered by Executive on 28 February 2024 and then submitted for approved by Full Council on 8 March 2024.

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.

4.11 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 continues 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 is ongoing.

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.

4.12 A number of transformational themes that will improve outcomes and deliver savings are emerging. The budget proposals included in the 2024/25 draft budget and MTFP report to the Executive on 20 December, have been subject to public consultation and will now be considered by Executive on 28 February 2024 and by Council for approval on 8 March 2024.

4.13 Also a report will be submitted to Council in March 2024 detailing the Transformation Programme to be undertaken. However, where opportunities for saving can be implemented within the financial year within the Council's governance arrangements, these opportunities have been factored into the Outturn forecast and any further savings achieved will be included in the final 2023/24 outturn. A number of areas as summarised in Table 6 and detailed in Appendix 3 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 reserves.

### **Revenue Budget Forecast Year-End Outturn as at Quarter Three 2023/24**

4.14 The 2023/24 forecast outturn on 31 December 2023 (Quarter Three) is an overspend of £5.544m (4.4%) against the approved budget of £126.354m by 31 March 2024. This represents an improvement of £3.012m from that forecast at Quarter Two.

4.15 The analysis of the forecast financial position by Directorate is set out in Table 1. 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 4.22 to 4.25.

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

All Directorates	Original Budget Full Year	Current Budget Full Year	Forecast Outturn	Forecast Variance	Forecast Variance as % of Current Budget	Movement from Quarter Two (Forecast Variance)	
	£m	£m	£m	£m	%	£m	
				Adv / (Fav)		Adv / (Fav)	
Adult Social Care	49.808	51.692	53.050	1.358	2.6	(0.405)	↑
Public Health	(3.280)	(3.095)	(3.095)	0.000	0.0	0.000	↔
Children's Care	54.649	55.692	58.576	2.884	5.2	(0.289)	↑
Education & Partnerships	5.494	5.737	7.180	1.443	25.2	(0.500)	↑
Regeneration	(1.987)	1.010	0.675	(0.335)	(33.2)	0.179	↓
Environment & Communities	20.228	19.533	20.476	0.943	4.8	0.175	↓
Legal & Governance	10.245	10.780	10.834	0.054	0.5	0.050	↓
Chief Executive	0.000	0.234	0.234	(0.000)	(0.1)	0.012	↓
Finance	4.429	5.181	4.846	(0.335)	(6.5)	(0.187)	↑
<b>Total Directorates</b>	<b>139.586</b>	<b>146.764</b>	<b>152.776</b>	<b>6.012</b>	<b>4.1</b>	<b>(0.965)</b>	↑
Central Budgets	(13.232)	(20.411)	(20.878)	(0.467)	2.3	(2.047)	↑
<b>Total Budget</b>	<b>126.354</b>	<b>126.354</b>	<b>131.898</b>	<b>5.544</b>	<b>4.4</b>	<b>(3.012)</b>	↑

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

4.16 Table 1 shows that all Financial Recovery Plan savings have been identified and quantified into the forecast outturn for Quarter Three. Recovery plans in Quarter One identified £2.557m of potential savings, with Quarter Two reporting £1.298m, these recovery plans through assurance with Directors have contributed to a reduced overspend from the forecast outturn reported earlier in the financial year.

4.17 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.

4.18 Financial Procedure Rule 1.37 requires the Executive's approval of the proposed revenue budget virements set out in Appendix 4. These are technical adjustments and the current Directorate budgets in Table 1 have assumed approval of these.

### **Summary of key variances**

4.19 The most significant directorate variances are summarised in Table 2 below, with further detail for each Directorate being included in Appendix 1.

**Table 2 -Summary of variances**

Directorate	Service Area	Summary of Variances over £250,000	2023/24 Forecast year-end Overspend/ (underspend) £m
Adults Social Care	Care Packages	Net unbudgeted demand and inflationary pressures in care packages.	2.250
	Across Directorate	Staff savings in excess of abatement target	(0.752)
	Homelessness	Increased use of temporary accommodation (hotels and bed and breakfast accommodation) due to lack of available permanent accommodation, offset by grants.	0.182
	Across Directorate	Other variances below £250,000	(0.322)
Children's Care	External Residential	Increased numbers of children in external residential placements above budgeted level - national issue and lower Education contributions	3.349
	Internal Residential	Agency staff	1.017
	Fostering	Increasing number of young people in Independent Fostering Agency (IFA) placements above budget	0.641
	Across Service Teams	Staff savings from vacant posts and reduced expenditure on Section 17 and other expenditure across teams	(3.692)
	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 2).	1.569
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.	1.481
	Across Directorate	Other variances below £250,000	(0.038)
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.	(0.384)
	Cultural Services	A favourable variance has been achieved from the Town Hall scheduling more shows than originally planned and from the Museums driven by a combination of staff vacancies and increased income from the Dorman Museum exhibitions.	(0.254)
	Property Services	Higher than anticipated Utility prices has resulted in an overspend in running costs and within Cargo Fleet Depot. Additionally, following a review of Building Maintenance the costs that are eligible for capitalisation has resulted in an overspend.	0.488
	Across Directorate	Other variances below £250,000	(0.185)
Environment & Communities	Waste Disposal	Increased contractual costs per tonne above budget, and increased civic amenity site management costs	0.960
	Bereavement Services	Crematorium income shortfall and increased expenditure mainly Cemeteries	0.509
	Supported Communities	Additional Grant Funding supporting Asylum Seekers and Refugees	(0.345)
	Street Lighting	An increase in Energy costs. £0.476m, are offset by an increase in Street Lighting engineers charges to capital schemes, (£0.288m).	0.188
	Property and Commercial	Increase in Universal Free School Meal funding	(0.250)
	Across Directorate	Other variances below £250,000	(0.119)

Legal & Governance	Across Directorate	Other variances below £250,000	0.054
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 .	(0.945)
	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	0.790
	Across Directorate	Other variances below £250,000	(0.180)
Central Budgets	Contingency for Future Uncertainty	No planned further use of current remaining budget, noting final Outturn will depend on cashed capital receipts	(0.658)
	Across Directorate	Other variances below £250,000	0.190
<b>Total Variance</b>			<b>5.544</b>

4.20 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.

4.21 The ongoing pressures that remain as a result of the following will 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***

4.22 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.

4.23 The forecast year-end 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’.

4.24 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”. It has been determined that a number of savings categorised as “Red” will not be achieved ongoing and these were detailed in the 2024/25 Budget and MTFP Update 2024/25 to 2026/27 report to Executive on 20 December 2023 with budget growth proposed for this. This will be considered again by Executive on 28 February 2024 and for approval by Council on 8 March 2024.

**Table 3 – Savings Programme Assurance Summary**

Savings Programme and CS Financial Improvement plan - summary		2023/24	2024/25	Overall
Rag	Savings	£000	£000	£000
<b>Blue</b>	Saving Realised (delivered)	4,432	0	4,432
<b>Green</b>	Saving forecast to be realised as originally planned, or to be realised through alternative actions.	3,382	424	3,806
<b>Amber</b>	Medium risk to savings delivery, with mitigating actions being considered/worked on.	0	729	729
<b>Red</b>	High risk to savings delivery with limited scope of mitigation.	1,569	1,834	3,403
	<b>Total Savings</b>	<b>9,383</b>	<b>2,987</b>	<b>12,370</b>

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

Directorate	23/24 RED (£000s)	23/24 AMBER (£000s)	23/24 GREEN (£000s)	23/24 BLUE (£000s)	TOTAL (£000s)
Regeneration	0	0	300	296	596
Environment and Commercial Services	0	0	1,261	782	2,043
Legal and Governance	0	0	120	121	241
Adult Social Care and Health Integration	0	0	416	86	502
Public Health	0	0	0	296	296
Education and Partnerships	0	0	0	313	313
Children's Care	56	0	0	698	754
Central	0	0	0	543	543
Finance	0	0	0	130	130
Fees and Charges	0	0	1,111	0	1,111
Children's Services Financial Improvement Plan	1513	0	174	1167	2,854
<b>TOTAL (000s)</b>	<b>1569</b>	<b>0</b>	<b>3382</b>	<b>4432</b>	<b>9,383</b>
<b>Overall Percentages</b>	<b>17%</b>	<b>0.00%</b>	<b>36.04%</b>	<b>47.23%</b>	

4.25 A detailed savings tracker of savings categorised as “Red” and “Amber” by Directorate is attached at Appendix 2. “Red” and “Amber” rated savings are factored into the forecast year-end overspend for the year together with any in year mitigations to offset the resultant overspend.

### **Council Reserves and Provisions**

4.26 It is critical that expenditure is contained in 2023/24 as far as possible 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.

4.27 The 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.

4.28 As a result of the balance sheet review, the 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 is estimated to result in a favourable adjustment of approximately £8.3m affecting the 2022/23 and 2023/24 accounts and impact upon 2024/25 budget setting – this will be used to replenish the usable unrestricted revenue reserves and General Fund balance that will be used to fund the final 2023/24 overspend. This sum is not available to balance the 2024/25 budget.

4.29 The balance sheet review has identified the opportunity to release £0.757m from the Revenue Grants Received Unapplied account which has been transferred to the Change Fund which has been re-stated at 31 March 2023.

4.30 The s151 Officer has determined that the revised balance on the Change Fund Reserve of £1.487m 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.

4.31 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 Three forecast outturn position of £5.544m would mean that all unrestricted usable earmarked reserves would be exhausted (with the exception of a £0.055m Election Costs Reserve which whilst technically is unrestricted and usable it is required for Election Costs in future years) , leaving a General Fund Reserve of £9.036m representing the Council's total unrestricted usable revenue reserves.

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

	<u>ORIGINAL</u> <u>Closing</u> <u>Balance</u> <u>31/03/23 /</u> <u>Opening</u> <u>Balance</u> <u>01/04/23</u>	<u>Amendments</u> <u>from Balance</u> <u>Sheet</u> <u>Review</u>	<u>REVISED</u> <u>Closing</u> <u>Balance</u> <u>31/03/23 /</u> <u>Opening</u> <u>Balance</u> <u>01/04/23</u>	<u>Additional</u> <u>Contributions</u>	<u>Transfers</u> <u>between</u> <u>Reserves</u>	<u>Use in</u> <u>Year</u>	<u>Use for</u> <u>forecast</u> <u>year-end</u> <u>23/24</u> <u>overspend</u>	<u>Forecast</u> <u>Balance at</u> <u>year-end</u>
	£m	£m	£m	£m	£m	£m	£m	£m
<b>GENERAL FUND RESERVE</b>	<b>12.041</b>	<b>0.000</b>	<b>12.041</b>				<b>(3.005)</b>	<b>9.036</b>
<b>USABLE EARMARKED RESERVES</b>								
<i>Restricted Use</i>								
Public Health	0.129		0.129	0.450				0.579
Insurance Fund	0.028		0.028	0.500				0.528
Better Care Fund	0.896		0.896					0.896
Marton Library S106	0.025		0.025					0.025
Housing Rental Sinking Fund	0.093		0.093					0.093
	1.171	0.000	1.171	0.950	0.000	0.000	0.000	2.121
<i>Unrestricted Use</i>								
Financial Resilience Reserve	1.798		1.798				(1.798)	0.000
Change Fund	0.000	0.757	0.757	0.730		(1.487)		0.000
Car Parking Reserve	0.741		0.741				(0.741)	0.000
Elections Costs	0.249		0.249			(0.194)		0.055
	<b>2.788</b>	<b>0.757</b>	<b>3.545</b>	<b>0.730</b>	<b>0.000</b>	<b>(1.681)</b>	<b>(2.539)</b>	<b>0.055</b>
	<b>3.959</b>	<b>0.757</b>	<b>4.716</b>	<b>1.680</b>	<b>0.000</b>	<b>(1.681)</b>	<b>(2.539)</b>	<b>2.176</b>
<b>UNUSABLE EARMARKED RESERVES</b>								
Revenue Grants Unapplied (Technical Reserve)	10.539	(5.664)	4.875			(4.875)		0.000
Dedicated Schools Grant Adjustment Account	(6.564)		(6.564)			(6.644)		(13.208)
	<b>3.975</b>	<b>(5.664)</b>	<b>(1.689)</b>	<b>0.000</b>	<b>0.000</b>	<b>(11.519)</b>	<b>0.000</b>	<b>(13.208)</b>
<b>SCHOOL BALANCES</b>	<b>3.641</b>		<b>3.641</b>					<b>3.641</b>
<b>GENERAL FUND PROVISIONS</b>								
Business Rates Appeals	4.203		4.203					4.203
Insurance	0.824		0.824					0.824
Other	0.167		0.167					0.167
	<b>5.194</b>	<b>0.000</b>	<b>5.194</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>5.194</b>
	<b>28.810</b>	<b>(4.907)</b>	<b>23.903</b>	<b>1.680</b>	<b>0.000</b>	<b>(13.200)</b>	<b>(5.544)</b>	<b>6.839</b>

**\*NOTE**  
The opening balances shown above differ from those shown at Q2 to reflect amendments to the year end balances 2022/23 made since Q2.  
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.

4.32 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. Details of the risks surrounding this are included in paragraphs 4.37 to 4.39.

### **Contingency Budget and Change Fund**

4.33 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 31 December 2023. Note that the Change Fund is supplemented by a further £0.757m now held in the Change Fund Reserve following the recent balance sheet review (as detailed in paragraphs 4.29 and 4.30). A summary of the projects approved for utilisation of these budgets is set out at Appendix 3.

4.34 The s151 Officer has determined that the Change Fund resources of £1.486m 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 3 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.

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

	<b>Corporate Contingency</b>	<b>Change Fund Reserve</b>
	<b>£m</b>	<b>£m</b>
<b>Starting Budget 2023/24</b>	<b>1.300</b>	<b>0.000</b>
Budgeted contribution 2023/24	-	0.730
Additional contributions in year	-	0.757
<b>Available for use</b>	<b>1.300</b>	<b>1.487</b>
Approved Corporate Governance Improvement Plan Management Interventions	0.642	0.040
Approved invest to save transformation expenditure	0.000	1.082
<b>Allocated/Committed to date</b>	<b>0.642</b>	<b>1.122</b>
<b>BALANCE REMAINING UNCOMMITTED</b>	<b>0.658</b>	<b>0.365</b>

***Potential further Risks to the Council's financial resilience***

4.35 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 and future years.

4.36 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 have been factored into the calculation of the budget gap for 2024/25 and this has presented a significant challenge to the organisation in order to deliver budget proposals at scale to deliver savings sufficient to balance the budget in 2024/25 and to deliver transformation and efficiency at pace in 2024/25. This issue is a key driver of the application for Exceptional Financial Support (EFS) to DLUHC, and in the risk of a potential s114 Notice in relation to 2024/25 as detailed below in paragraphs 4.37 to 4.39 below.

4.37 In order to set legally balanced budget and robust budget whilst maintaining adequate revenue reserves for 2024/25, Executive on 17 January 2024 approved an application for Exceptional Financial Support (EFS) to DLUHC. The



s151 Officer's advice is that without securing External Financial Support via DLUHC, it will not be possible for it to:

- Balance the 2024/25 budget
- Secure financial recovery and sustainability over the medium term

- 4.38 The formal EFS application was made to DLUHC on 17 January 2024 and the result of the application is expected in the period from 26 February to 1 March 2024. Further details will be provided as part of the 2024/25 budget and Medium Term Financial Plan (MTFP) report to Executive on 28 February 2024 and Council on 8 March 2024.
- 4.39 Depending on the results of the EFS application the risk of a s114 Notice under the provisions of the Local Government Finance Act 1988 remains. Further details will be provided as part of the 2024/25 budget and Medium Term Financial Plan (MTFP) report to Executive on 28 February 2024 and Council on 8 March 2024.
- 4.40 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. It has been determined that a number of savings categorised as "Red" will not be achieved ongoing and these were detailed in the 2024/25 Budget and MTFP Update 2024/25 to 2026/27 report to Executive on 20 December 2023 with budget growth proposed for this. This will be considered again by Executive on 28 February 2024 and for approval by Council on 8 March 2024.
- 4.41 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.
- 4.42 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.
- 4.43 Due diligence has been 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.
- 4.44 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 Council's financial position in the future.

#### **Collection Fund - Council Tax and Business Rates income**

- 4.45 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.

- 4.46 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.
- 4.47 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 18,258 claimants. It is likely that this will increase further in future years resulting in increased costs to the General Fund over the medium term . This will be closely monitored and the MTFP will be updated as appropriate.
- 4.48 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.
- 4.49 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 has been reviewed in detail to inform future budget forecasting and the development of the 2024/25 budget and MTFP.
- 4.50 The level of outstanding Council Tax and Business Rates debt is expected to rise. Measures to invest in additional staff resource to recover debt are incorporated into 2024/25 budget proposals in order to maintain and improve collection performance. The collectability of this debt and the adequacy of the bad debt provision over the period of the MTFP will be kept under close review during 2024/25.
- 4.51 The 2024/25 budget and MTFP report to Executive on 28 February 2024 and to Council on 8 March 2024 will provide a comprehensive update of the Collection Fund position.

### **Dedicated Schools Grant (DSG)**

- 4.52 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 £63.472m in 2023/24. The forecast expenditure is £70.116m, a forecast year-end overspend of £6.644m within 2023/24. which is an increase of £3.323m from the £3.321m reported at Quarter Two.

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

	2023/24 Income Forecast	2023/24 Expenditure Forecast	2023/24 Forecast Year-end 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	29.978	36.622	6.644	7.021	13.665
Central school services block	1.043	1.043	0.000	(0.021)	(0.021)
<b>TOTAL</b>	<b>63.472</b>	<b>70.116</b>	<b>6.644</b>	<b>6.564</b>	<b>13.208</b>

- 4.53 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 £13.208m at 31 March 2024, including £13.665m relating to the High Needs Block which is partly offset by £0.457m of surplus forecast across the other blocks.
- 4.54 As part of the Delivering Better Value (DBV) work detailed in paragraph 4.57, it was identified that there would be a £3.4m pressure in the current year at Quarter Two. However, additional risks were highlighted as part of the DBV programme (commenced September 2023); specifically, that this may not be achieved without significant change regarding inclusion in mainstream schools. Inclusion within mainstream has remained a challenge, which has resulted in continued increased demand for specialist provision. This has resulted in over commissioned places which subsequently comes in financial pressure to provide place funding. Alongside this, there has also been an increase in rates from specialist providers across the board and significant increased pressure from rising permanent exclusions. This has increased the forecast deficit position for 2023/24 to a £6.6m pressure, and as the Council were already reporting a previous deficit on DSG reserve overall of £6.564m at the end of 2022/23, this will mean that the forecast DSG deficit position at the end of 2023/24 will be over £13m. A range of management actions are being taken alongside the DBV programme these include initiatives such as :
- Work with health colleagues to identify health contributions where relevant
  - On-going reviews of Education, Health and Care (EHC) assessments
  - Training for staff and school staff to support children remaining in mainstream settings
  - Reintegration of Excluded pupils to mainstream where possible
  - Governance of High Needs budget
  - Service review and modelling
  - Review of Top-ups in line with Improvement Plan
  - Reduce Exclusions
  - Consider notional SEND budget and how this is used
  - Linking school inspection in with SEND and Alternative Provision Improvement plan
  - Review school reserves and examination of potential of implementing a policy (subject to SMF) for taking excess reserves back into High Needs where relevant and appropriate

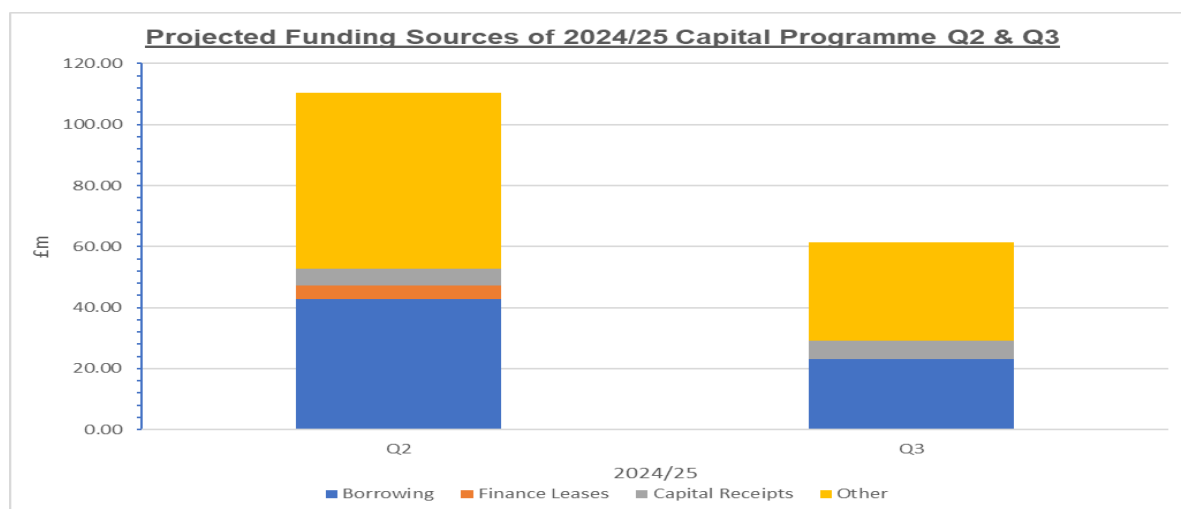
- 4.55 The Dedicated Schools Grant (DSG) is subject to a statutory override by central Government which instructs Councils to account for the DSG deficits and resulting negative balance in a separate reserve and not to fund it by using its General Fund resources. This was planned to end on 31 March 2023, 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 long term if the Government remove the statutory override before the deficit position is resolved – the current balance is £13.208m which would be required to be met from the General Fund resources. The position that Government takes on this national issue which presents significant financial risks for many local authorities, will be closely followed and updates will be provided as appropriate.
- 4.56 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 had 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.
- 4.57 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.
- 4.58 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.
- 4.59 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 1,804 in 2023, a 9% 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 the provision of home to school transport by the local authority.

**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	1,804	1,877	2,023	2,066	2,143

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

- 4.60 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 £67.334m at Quarter Two, with a further revision to £67.631m at Quarter Three to account for some new externally funded schemes or funded from transfers within the existing approved Council funded capital programme below £0.250m (summarised in Table 9).
- 4.61 A comprehensive review of the capital programme, its profiling and forecast outturn including financing has been undertaken and is incorporated in this report to 31 December 2023 – Quarter Three.
- 4.62 The review has resulted in significant movement of spending assumptions, in particular, spending projections moving out of 2024/25 and into 2025/26. The table below shows the level of spend expected within 2024/25 at Quarter Two and the revised assumptions following the review.



- 4.63 The total projected expenditure in 2024/25 has reduced from £110.543m reported at Quarter Two to £61.449m, an in-year reduction of £49.094m. £19.674m of the overall reduction is in relation to schemes which are funded from Council borrowing. This has a significant beneficial impact in 2025/26 upon the Council's Capital Financing revenue budget, reducing projected borrowing costs by £1.770m against those assumed at Quarter Two.

4.64 Two schemes over £0.250m have been removed from the Capital Programme

- On 21 November 2023, as part of the Asset Review report, Executive approved the disposal of Teesside Advanced Manufacturing Park (TAMP), including Phase 2. Consequently, £8.820m of Council resources assigned to the construction of TAMP Phase 2 in 2024/25 are no longer required.
- The uncommitted allocation of £6.076m of Brownfield Housing Fund grant provided by Department of Levelling Up, Housing and Communities, via Tees Valley Combined Authority has also been removed from the Capital Programme in 2024/25. The land identified where the grant was to be utilised is contained within Middlehaven, which is part of the proposed list of assets due to transfer to the Middlesbrough Mayoral Development Corporation (MDC). As such, any future employment and benefit of this grant will be undertaken by MDC.

4.65 The following two schemes within the Capital Programme has been reduced by more than £0.250m

- As part of the comprehensive review of the Capital Programme, the Traffic Signals Non-Tees Valley Combined Authority scheme has been re-evaluated, resulting in £0.500m of Council funding deemed no longer being required without detrimentally impacting the overall scheme.
- The Local Transport Plan Incentive Funding scheme has also been reviewed with £0.913m of Council resources being removed from the Capital Programme, again without impacting the proposed programme of works.

4.66 The following additions over £0.250m to schemes within the current Capital Programme for 2023/24 and future years, totalling £1.909m, 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.

- As part of the afore mentioned Asset Review report, Executive approved investment of £1.500m of Council resources, in existing Council buildings to accommodate additional staff. This would permit the closure and sale of Council assets identified for disposal. The additional resource has been added to the Property Asset Investment Programme scheme. This additional funding is expected to be expended throughout financial years 2024/25 and 2025/26.
- The Council has been awarded an additional £0.409m of grant funding from the Department of Transport, via Tees Valley Combined Authority for pothole repairs.

4.67 There are no new schemes over £250,000 that have been added to the Capital Programme

4.68 Table 9 below summarises the Capital Programme Financial Performance 2023/24 per Directorate as at Quarter Three. It is currently forecast at Quarter Three that the Council will spend £47.129m at year-end. This is 70% of the revised Quarter Three budget of £67.631m.

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

Directorate	2023/24 Capital Programme Budget (as per 22/23 outturn)	2023/24 Capital Programme Budget (as per Quarter Two)	2023/24 New schemes (externally funded) or funded from requested virement from existing programme	2023/24 Transfers Between Directorates	2023/24 Revised Capital Programme Budget (as at Quarter Three)	2023/24 Actual Spend To 31/12/23	2023/24 Forecast Outturn	2023/24 Forecast Variance	2023/24 Forecast Variance % Against Revised Quarter Three Budget	2023/24 Explanation Of Variance		2024/25 Impact Upon 2024/25 Capital Programme	
											Slippage		Reduction
	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	£m		£m
Regeneration	41.745	25.107	0.100	0.315	25.522	9.876	17.412	(8.110)	(31.78)	(8.095)	(0.015)	8.095	
Environment & Community Services	23.560	21.914	0.109	(0.028)	21.995	11.273	16.532	(5.463)	(24.84)	(4.050)	(1.413)	4.050	
Public Health	0.031	0.165	0.022	-	0.187	0.017	0.151	(0.036)	(19.25)	(0.036)	-	0.036	
Education & Partnerships	7.852	6.998	0.016	(0.013)	7.001	1.775	3.469	(3.532)	(50.45)	(3.374)	(0.158)	3.374	
Children's Care	2.141	5.177	-	(0.074)	5.103	0.145	3.183	(1.920)	(37.62)	(1.895)	(0.025)	1.895	
Adult Social Care	1.447	3.682	0.050	-	3.732	2.543	3.427	(0.305)	(8.17)	(0.305)	-	0.305	
Legal & Governance Services	3.120	3.713	-	-	3.713	2.212	2.955	(0.758)	(20.41)	(0.758)	-	0.758	
Finance	0.578	0.578	-	(0.200)	0.378	-	-	(0.378)	(100.00)	(0.378)	-	0.378	
<b>Total</b>	<b>80.474</b>	<b>67.334</b>	<b>0.297</b>	<b>0.000</b>	<b>67.631</b>	<b>27.841</b>	<b>47.129</b>	<b>(20.502)</b>	<b>(30.31)</b>	<b>(18.891)</b>	<b>(1.611)</b>	<b>18.891</b>	

4.69 Table 10 shows a summary of the reasons for the movements from the revised original capital budget for 2023/24 of £80.474m and the revised Executive approved capital budget for 2023/24 of £67.334m, and a breakdown of the forecast underspend of £20.502m in the capital programme for 2023/24 as at Quarter Three.

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

	<b><u>23/24</u></b> <b><u>£m</u></b>
Executive approved budget 20 June 23 (as per 2022/23 year end outturn report)	<b>80.474</b>
Slippage	<b>(19.839)</b>
Additions to existing schemes	2.285
New schemes	0.134
Reductions to existing schemes	<b>(0.050)</b>
<b>Capital budget forecast outturn at Quarter One (revised budget for 2023/24)</b>	<b>63.004</b>
Approved amendments	4.330
<b>Revised approved budget as at Quarter Two</b>	<b>67.334</b>
Additions to existing schemes	0.197
New schemes	0.100
<b>Revised budget as at Quarter Three</b>	<b>67.631</b>
Slippage	<b>(18.891)</b>
Reductions to existing schemes	<b>(1.611)</b>
<b>Capital budget forecast outturn at Quarter Three</b>	<b>47.129</b>

4.70 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 from Quarter Two to Quarter Three are shown in Appendix 5. Details of the slippage from Quarter One to Quarter Two was shown in Appendix 6 of the Quarter Two budget monitoring report. These added together total the £18.891m total slippage for 2023/24 as at the end of Quarter Three.

- 4.71 It can be seen from Table 9 that capital programme spend to the end of December 2023 of £27.841m is low compared to the forecast outturn for 2023/24 of £47.129m (59%), 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 example in the form of increased costs or for invest to schemes delays in achieving savings, for future financial years.
- 4.72 The revised Capital Programme covering the period 2023/24 to 2025/26 is summarised in Table 11 below and detailed in Appendix 6 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	37.260	17.412	21.582	36.935	113.189
Environment and Community Services	10.222	16.532	17.396	19.781	63.931
Public Health	0.219	0.151	0.043	-	0.413
Education & Partnerships	4.050	3.469	12.040	3.597	23.156
Children's Care	1.100	3.183	2.035	2.360	8.678
Adult Social Care	2.884	3.427	1.213	0.660	8.184
Legal and Governance Services	3.223	2.955	2.350	2.185	10.713
Finance	0.004	-	4.790	-	4.794
<b>Total EXPENDITURE</b>	<b>58.962</b>	<b>47.129</b>	<b>61.449</b>	<b>65.518</b>	<b>233.058</b>
<b>Funded by</b>					
Borrowing	24.597	19.300	23.037	28.009	94.943
Capital Receipts	0.755	3.000	6.000	6.000	15.755
Grants	30.653	23.644	29.897	27.931	112.125
Contributions	2.957	1.185	2.515	3.578	10.235
<b>Total FUNDING</b>	<b>58.962</b>	<b>47.129</b>	<b>61.449</b>	<b>65.518</b>	<b>233.058</b>

### **Treasury Management - Borrowing & Prudential Indicators**

- 4.73 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.
- 4.74 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 Three 2023/24 are summarised in table 12.



- 4.75 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.

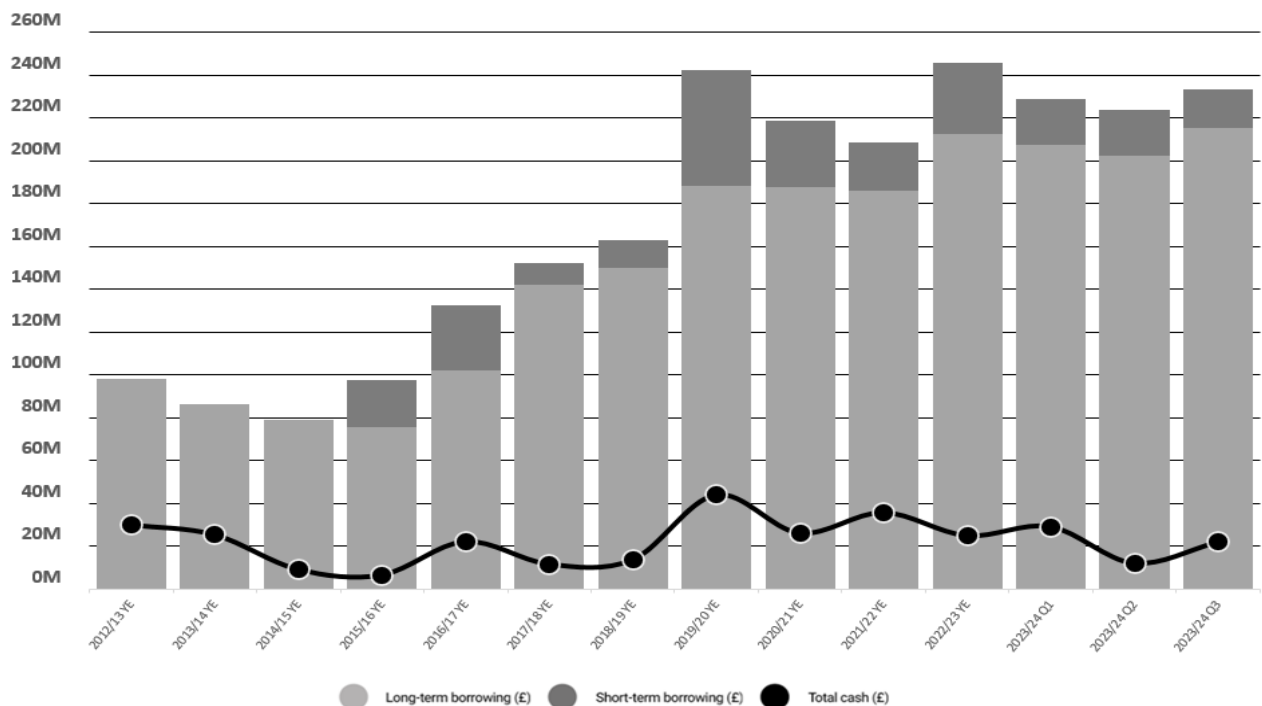
**Table 12 – Prudential Indicators – Quarter Three 2023/24**

<b>Prudential Indicators - 2023/24 Quarter Three</b>				
	<u>Budget</u> <u>(as per</u> <u>22/23</u> <u>outturn)</u> <u>(£M)</u>	<u>Forecast</u> <u>at Quarter</u> <u>Three</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	47.129	(33.345)	(41.4)
<u>Financing</u>				
External Sources	47.073	19.300	(27.773)	(59.0)
Own Resources	5.965	3.000	(2.965)	(49.7)
Debt	27.436	24.829	(2.607)	(9.5)
Capital Financing Requirement	300.588	299.173	(1.415)	(0.5)
External Debt borrowed	266.385	233.491	(32.894)	(12.3)
Cash Balances	15.000	21.847	6.847	45.6
Capital Financing cost	9.276	9.403	0.127	1.4
Revenue Budget	126.354	126.354	n/a	n/a
Cost as a % of Revenue Budget	7.3%	7.4%		

- 4.76 The Council's forecast Capital Expenditure outturn at Quarter Three is £47.129m compared to a revised original approved budget of £80.474m, an underspend of £33.345m (41.4%). This results in a slightly lower level of debt funding in-year than was anticipated at the start of the financial year.
- 4.77 During the third quarter, external borrowing increased from £223.845m on 30 September 2023, to £233.491m on 31 December 2023. This increase of £9.646m reflects £15.000m of new long-term borrowing less the repayment of £3.000m in total on short term borrowing. The remaining £2.354m is long term debt that has now matured and been repaid.
- 4.78 Cash balances have increased from £12.029m to £21.847m between the end of September and December 2023. This reflects the capital and revenue spending plans of the Council to date in this financial year. Also, long term interest rates from

the Public Works Loan Board have reduced from over 5% to closer to 4.5% due to reducing inflation rates and this has been more in line with current budget assumptions. The approach has therefore been to borrow long-term within the target period of 10-15 years which is the lowest cost of external debt at present. All borrowing decisions have been discussed in detail with our treasury advisers, Arlingclose, to ensure that they are consistent with the Council's debt portfolio and TMS.

4.79 The ratio of long-term to short-term borrowing has therefore increased during the quarter given the borrowing activity and reducing longer term interest rates. The Council's total under borrowed position (external debt compared to the capital-financing requirement – or underlying need to borrow) is £65.682m on 30 December 2023, or 22.0%. Further borrowing will be required during Quarter Four due to a demand on cash balances from the revenue budget position and from the capital programme as it approaches the financial year end. The over-riding objective continues to be to demonstrate value for money from any borrowing decisions taken.



4.80 The affordability & sustainability of the Capital Programme 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.

4.81 The amount of external debt at £233.491m and the total underlying need to borrow of £299.173m 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 £9.403, or 7.4% of the current net revenue budget.

## **5. Other potential alternatives(s) and why these have not been recommended**

5.1 Not applicable.

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

### **6.1 *Financial (including procurement And Social Value)***

6.1.1 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.

### **6.2 *Legal***

6.2.1 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).

### **6.3 *Risks***

6.3.1 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 2023/24 report.

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

6.4.1 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.

### **6.5 *Climate Change / Environmental***

Not applicable

### **6.6 *Children and Young People Cared for by the Authority and Care Leavers***

Not applicable

### **6.7 *Data Protection / GDPR***

Not applicable

## 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
Revenue budget virements detailed in Appendix 4 to be actioned, subject to approval	Head of Financial Planning & Support	28/2/24
Amendments to the capital programme for 2023/24 to be actioned, subject to approval	Head of Financial Planning & Support	28/2/24

## Appendices

1	Detailed Directorate Revenue Budget Forecast Outturn 2023/24 as at Quarter Three
2	Detailed savings tracker of savings categorised as “Red” and “Amber” by Directorate
3	Summary of projects approved for utilisation of Contingency Budgets and Change Fund
4	Proposed revenue budget virements above £250,000 at Quarter Three 2023/24
5	Capital Programme Quarter Three 2023/24– details of capital slippage
6	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
Executive	Revenue and Capital Budget – Forecast Outturn position at Quarter Two 2023/24	21/11/23
Executive	Fees and Charges Review 2023/24	21/11/23
Executive	Draft 2024/25 Budget and MTFP Refresh	20/12/23
Executive	2024-25 Budget and MTFP – Application for Exceptional Financial Support	17/1/24
Executive	Middlesbrough Independent Improvement Advisory Board: First Update Report	17/1/24
Council	Corporate Governance Improvement Plan and Section 24 Action Plan progress report	17/1/24

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