

Report of:	Director of Finance (s151 Officer)
Relevant Executive Member:	Executive Member for Finance and Governance
Submitted to:	Executive
Date:	26 June 2024
Title:	2023/24 Revenue and Capital Outturn and development of MTFP
Report for:	Decision
Status:	Public
Strategic priority:	All
Key decision:	Yes
Why:	Decision(s) will incur expenditure or savings above £250,000 and have a significant impact in two or more wards
Subject to call in :	Yes
Why:	

Proposed decision(s)

That the Executive notes the Council's year-end financial outturn for the financial year 2023/24.

That the Executive **approves** revisions to the capital programme in relation to activity in Quarter Four (as outlined in paragraph 2.4).

The recommendations are detailed in Section 2 of the report.

Executive summary

This report summarises the Council's financial position for the financial year 2023/24 and enables the Executive to discharge its financial management responsibilities by setting out the following key areas of financial performance:

General Fund Net Revenue Budget Outturn (paragraphs 4.11 to 4.16)

The Council's General Fund net revenue financial position has improved substantially from the forecast overspend of £11.563m (9.2% of Net Revenue Budget (NRB) 2023/24 of £126.354m) reported at Quarter One. At Quarter Two the forecast overspend reduced to £8.556m and also reduced further to £5.544m at Quarter Three (which was the estimate factored into the 2024/25 budget setting assumptions). In Quarter Four the overspend has reduced by a further £1.95m, however the Council continues to spend more than its available revenue income streams with a **final year-end net revenue budget outturn expenditure of £129.948m, an overspend of £3.594m** (2.8% of NRB) in 2023/24.

The Council had originally budgeted to fund £3m of eligible revenue expenditure on transformation and efficiency initiatives from Flexible Use of Capital Receipts (FUOCR) during 2023/24. In January 2024, Council approved a revision to the FUOCR Strategy which included total eligible expenditure of up to £4.3m which could be capitalised subject to realisation of at least £4.3m of usable capital receipts by 31 March 2024. This would have the effect of reducing total revenue expenditure and therefore preserving critically low revenue reserves. However, the amount of **realised capital receipts from asset sales at 31 March 2024 was only £2.399m**. This adjustment has been reflected in the General Fund net revenue budget outturn of £129.948m. Details of the application of FUOCR to eligible revenue expenditure in line with government regulations is summarised in Table 9 and detailed at Appendix 5.

Reserves and Provisions (paragraphs 4.17 to 4.20)

The **General Fund Balance on 31 March 2024 is £10.986m**, a reduction of £1.055m from the £12.041m balance at 31 March 2023. The balance on **unrestricted usable earmarked reserves stood at £1.069m at 31 March 2024**, a reduction of £2.476m from the balance of £3.545m at 31 March 2023. The **combined balance on unrestricted usable reserves was therefore £12.055m at 31 March 2024 (9.5% of 2023/24 NRB of £126.354m)**, which was below the **opening balance of £15.586m at 31 March 2023** which was assessed as critically low at 2023/24 budget setting. This level is determined as inadequate by the s151 Officer.

However, as a result of the in-year detailed review of the balance sheet, a revised methodology for calculating bad debt provisions has been adopted in 2021/22 financial statements in order to comply with International Accounting Standard 37 (IAS37). This methodology uses long-term historical debt recovery performance data as a basis for estimating future debt write offs. This has resulted in a reduction in the calculated bad debt provision and combined with improved in-year collection performance during 2022/23, there is a **one-off usable cumulative Collection Fund surplus available to the Council at 31 March 2024 of £8.325m**, which cannot be realised under the Collection Fund legislation until the following year.

This surplus has been allocated in full in accordance with the approved 2024/25 budget and MTFP in order to replenish the **General Fund Balance** to the minimum recommended by the s151 Officer of **£11.1m**. The remaining balance has been allocated to the Financial Resilience Reserve within **unrestricted usable earmarked reserves** which collectively stand at **£9.280m** on 1 April 2024.

The combined level of these **unrestricted usable reserves at 1 April 2024 is £20.380m (14.2% of the 2024/25 NRB of £143.190m)**. This level remains low compared nationally to all unitary councils as illustrated in comparisons set out in the Reserves Policy approved by Council on 8 March 2024. Further measures to maintain and increase revenue reserves and therefore the Council's financial resilience are required during 2024/25 and over the medium term.

Dedicated Schools Grant (DSG) grant budget (paragraphs 4.21 to 4.29)

Local authorities receive a ring-fenced grant from central government each year, which can only be used to fund education. The DSG grant budget is accounted for separately to the main Revenue Budget.

There has been an **overspend of £7.729m (12.9%)** on the DSG budget against the available grant of £59.739m. This has increased **the cumulative deficit to £14.293m at 31 March 2024**. The overspend is due to an £8.058m deficit on the High Needs Block, offset by a total surplus of £0.329m on the Early Years and the Schools Blocks.

The Council is engaged in the Delivering Better Value Programme with the Department for Education (DfE) and CIPFA to deploy measures to reduce expenditure over time as part of national measures led by Government to address the financial pressures being experienced by local authorities. Government has implemented a statutory override on a temporary basis to the end of 2025/26 which directs local authorities not to fund the DSG deficit from the General Fund. The temporary nature of the statutory override presents a medium to long term risk to the Council. If a Government solution is not implemented before the statutory override is removed, then this deficit would fall to be met by General Fund balances. This is a significant financial risk that exists for Middlesbrough and many other upper tier local authorities with education responsibilities. Further focus is required during 2024/25 to address this issue given the significant increase in overspend during 2023/24.

Capital Programme Outturn and funding (paragraphs 4.30 to 4.44)

The Council approved a capital programme for 2023/24 of £71.211m (the original 2023/24 capital budget). This was revised to £80.474m at Quarter One to take account of 2022/23 programme slippage. The programme was reviewed on a quarterly basis with a revised budget of £67.631m at Quarter Three. Additional externally funded income has been added to the programme, resulting in a revised 2023/24 budget of £72.643m at Quarter Four.

The **final outturn at 31 March 2024 is capital expenditure of £47.714m**, an underspend of £32.760m (40%) against the original 2023/24 budget adjusted for 2022/23 slippage of £80.474m, £19.917m (29%) against the Quarter Three revised budget of £67.631m, and £24.929m (34%) against the final 2023/24 approved budget of £72.643m.

The £47.714m of expenditure was funded by:

- £26.846m (56%) grants and external funding
- £ 2.399m (5%) capital receipts
- £ 18.469m (39%) borrowing

During Quarter Four, external funding of £15.246m was received by the Council, of which £5.012m was expended within 2023/24, with the remainder being profiled for expenditure in 2024/25 and future years. This is presented for approval by the Executive into the approved programme as set out in Table 12 in paragraph 4.44, with the revised capital programme being included at Appendix 7.

Council Tax, Business Rates, Sundry Debt and Housing Benefit Overpayment balances at 31 March 2024 (paragraphs 4.45 to 4.58)

Council Tax and Business Rates represent around 66% of the Council's annual revenue income stream and are therefore significant funding sources that meet the cost of delivering all Council services. It is therefore essential that the Council operates a firm but fair approach to income collection and recovery that is in the interests of all taxpayers alongside the measures that are in place to support those residents and businesses who are financially vulnerable and are eligible for a range of support that is available through application to the Council.

Sundry debt is income owed by customers in relation to charges for 'paid for' services provided by the Council. Where the Council has overpaid housing benefits to claimants that is appropriate to recover, this is presented as a debt owed to the Council and is required to be recovered under government regulations.

At 31 March 2024 the balance on these debts owed to the Council was (see paragraph 4.58 for details):

- Council Tax £36.773m
- Business Rates £8.391m
- Sundry Debt £15.516m
- Housing Benefit Overpayments £6.741m

The Council's approach to improving debt recovery performance whilst maintaining appropriate support to residents and businesses who are entitled to available help, advice, and support, is set out in paragraphs 4.48 to 4.57.

Treasury Management Outturn

In a change from previous years, the Treasury Management Outturn report is a separate report on this agenda as the Council progresses to comply fully with the CIPFA Code of Practice on Treasury Management.

Actions to be taken to progress financial recovery and develop the 2025/26 MTFP (paragraph 4.51 and paragraphs 4.59 to 4.68)

The Council has achieved significant improvement in its financial position from that which existed at the start of the 2023/24 financial year. However, it continues to spend above its available income sources as reflected by the overspend of £3.594m in 2023/24. Further measures are required during 2024/25 and over the medium term as

detailed in paragraphs 4.61 to 4.68 to strengthen the grip upon the management of the Council's financial position.

Details of the work to be undertaken and the approach to be adopted in assessing the impact of the 2023/24 outturn upon the 2024/25 budget assumptions and the revision of the 2025/26 budget and MTFP is set out in paragraph 4.51 and Appendix 1 of this report. This work will inform the 2024/25 Quarter One forecast and the preparation of the 2025/26 budget and MTFP that will be considered by the Executive on 4 September 2024.

1. Purpose

1.1 This report:

- Summarises the General Fund revenue and capital outturn and reserves position for the financial year 2023/24 and highlights the areas of particular financial challenge.
- Summarises the financial position for Dedicated Schools Grant for 2023/24
- Summarises the debtors position at 31 March 2024 and highlights the work to be undertaken to increase recovery of debt owed to the Council.
- Seeks approval of the Executive in relation to revisions to the Capital Programme and approval of new grants into the budget framework.
- Sets out the further work to be undertaken to review the 2024/25 budget assumptions and development of the 2025/26 MTFP in light of the 2023/24 financial outturn.

2 Recommendations

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

- Note the 2023/24 net revenue budget **year-end outturn as of £129.948m** against an approved budget of £126.354m, a **final overspend of £3.594m (2.8%)** as analysed in Table 1 in paragraph 4.12.
- Note that an analysis of one-off vs ongoing variances, in 2023/24 has been undertaken as set out in paragraph 4.15 and Appendix 1, and this will be used to review and assess the 2024/25 budget allocation of growth and any revisions will be reported in Quarter One 2024/25 monitoring.
- Note that **£2.399m** of qualifying revenue expenditure has been funded from **Flexible Use of Capital Receipts (FUOCR)** in accordance with the FUOCR strategy approved by Council on 17 January 2024 (Table 9 and Appendix 5).
- Note a **bid of £0.199m** has been made by the Director of Childrens Services to **DfE for an additional improvement grant for 2024/25**. If successful, this will be incorporated into the relevant budget in order to support the funding of transformation and savings delivery for 2025/26 onwards as well as support practise improvements in progressing young people to permanence (paragraph 4.13).

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

- Note the **General Fund Balance of £10.986m and unrestricted usable earmarked reserves of £1.069m at 31 March 2024**

- Note the **cumulative usable Collection Fund surplus of £8.325m** at 31 March 2024 and the s151 Officer's action to apply this sum at budget setting 2024/25 in order to replenish the **General Fund Balance to the recommended minimum level of £11.1m and unrestricted usable earmarked reserves at £9.280m at 1 April 2024** in accordance with Council approvals on 8 March 2024.
- Note that the combined total of **unrestricted usable reserves at 1 April 2024 stand at £20.380m (14.2% of the 2024/25 Net Revenue Budget of £143.190m)** and that this level remains very low compared nationally to all unitary councils as illustrated in comparisons set out in the Reserves Policy approved by Council on 8 March 2024

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

- Note **the total in-year deficit of £7.729m** for 2023/24 mainly due to an overspend of £8.058m relating to the High Needs Block, which is an increase of £1.085m from the total £6.644m deficit reported at Quarter Three. The increase is mainly due to higher demand for specialist provision as inclusion of pupils within mainstream settings has remained a challenge.
- Note that a range of management actions are being taken to address the increase in expenditure alongside the DfE Delivering Better Value (DBV) programme (paragraph 4.27) which aims to support the financial recovery of the DSG position. This includes service plans on reviewing exceptional support funding, increasing pupil exclusion recharges and recoument of assessment places as part of reducing this over-spending in 2024/25 onwards.
- Note **the total cumulative deficit of £14.293m at 31 March 2024**, including £15.079m relating to the High Needs Block.
- Note that under current government regulations implementing a 'statutory override' in place to the end of 2025/26, 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 this position presents a potential significant risk in medium to long term relating to the Council's financial sustainability if no government solution is reached before the statutory override is removed and this is a national issue that requires resolution.

2.4 In respect of the Capital Programme the Executive is requested to:

- **Approve** the inclusion of additional expenditure budgets to the Capital Programme for 2023/24 totalling **£5.012m** (summarised in Table 8) which are externally funded. These adjustments have increased the approved 2023/24 Capital Programme budget to £72.643m
- Note the **2023/24 Capital Programme final outturn of £47.714m**, which is a favourable variance of £24.929m (34%) from the revised £72.643m budget for 2023/24 comprising:
 - An underspend on projects of £2.218m
 - Slippage on projects of £22.711m into 2024/25.

2.5 The Executive is requested to note the level of Collection Fund and General Fund Debtors at 31 March 2024 as follows;

- Council Tax £36.773m
- Business Rates £8.391m
- Sundry Debt £15.516m
- Housing Benefit Overpayments £6.741m

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

- note the approach to strengthening financial discipline during 2024/25 as set out in paragraphs 4.61 to 4.68.
- Note the actions being taken to improve budget management and forecasting in preparation for the development of the 2025/26 MTFP.
- Note the critical role that the development of a further pipeline of transformation projects and initiatives will have in relation to achieving financial recovery and rebuilding the Council's financial resilience.

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 following for the financial year ended 31 March 2024:

- General Fund Revenue Budget final outturn;
- Statement of the Council's revenue reserves and provisions;
- The Dedicated Schools Grant final outturn;
- Capital Programme final outturn
- The level of Collection Fund and General Fund debtors
- actions that the Council has taken and plans to take in order address the issues identified.

4.3 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

4.4 The Executive has considered quarterly reports projecting the 2023/24 Revenue and Capital Programme outturn during the course of the 2023/24 financial year. The context for the 2023/24 budget was considered by Council in setting the budget and MTFP in February 2023. This included 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.

4.5 The 2023/24 Quarter One revenue forecast an overspend of £11.563m and given the critically low level of usable General Fund reserves of £14.829m on 31 March 2023, this put the Council at risk of the s151 Officer being required to issue a s114 Notice during the financial year. The s151 Officer initiated a range of control and financial recovery measures that were effective from July 2023 to recover the financial position and to secure the return to financial resilience in the medium term. Measures included:

- Monthly budget monitoring including budget challenge sessions chaired by the s151 Officer and Quarterly challenge sessions led by the Executive Member Finance and Governance.;
- Vacancy control measures restricting recruitment to essential roles;
- Monthly management reports to enable directors to ensure compliance with non-essential spending controls on travel, expenses, purchase cards, expenditure over £5,000;
- Rationalisation and relaunch of purchase cards, with mandatory training and enhanced compliance monitoring through dashboard reporting;
- An in year increase of fees and charges to uplift for inflation from 1 December 2023 was approved by Executive on 21 November 2023.

4.6 On 21 August 2023 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.

4.7 Statutory Officers led the Council's progress in delivering its financial recovery plan within the wider Culture and Governance Improvement Plan (CGIP) and the s24 Recommendations action plan. There was regular engagement with DLUHC officials, the External Auditor and the Middlesbrough Independent Improvement Advisory Board (MIAB) throughout the year. The MIAB was established voluntarily by the Council on 18 September 2023 to support its improvement journey.

4.8 In relation to the s24 Recommendations, the 2024/25 budget development methodology focused upon the development of proposals to:

- Manage/ reduce service demand
- Service redesign
- Service transformation/efficiency
- Reduction/stopping service levels.

4.9 In addition, a review of budget modelling has identified opportunities to improve the robustness of demand and unit cost modelling and the need to develop more data driven forecasts and budget modelling over longer time horizons. This work will continue through 2024/25 underpinned by refinements to underlying financial systems and processes and reduction of manual processes. The development and review of service benchmarking data and establishing deep dive reviews of high cost and overspending areas is ongoing.

4.10 A number of transformational themes that will improve outcomes and deliver savings are included in the 2024/25 approved budget and MTFP and are being developed through the Recover, Reset, Deliver Transformation Portfolio, that is tasked with developing a further pipeline of programmes and projects to close the budget gap over the MTFP to return the Council to financial stability and build its financial resilience.

Revenue Budget Final Outturn 2023/24

4.11 The 2023/24 final outturn at 31 March 2024 (Quarter Four) is an overspend of £3.594m (2.8%) against the approved budget of £126.354m. This represents an improvement of £1.950m from that forecast at Quarter Three.

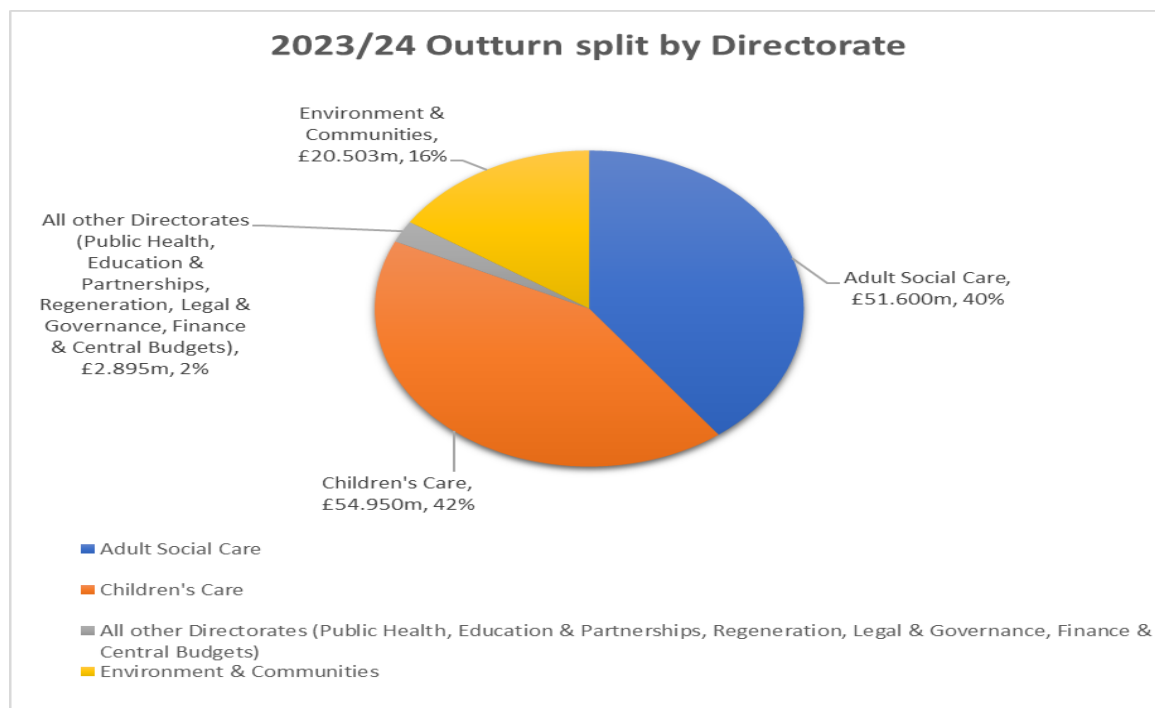
4.12 The analysis of the financial outturn by Directorate is set out in Table 1. This is also illustrated in Chart 1 which shows simply that 82% of the Council's expenditure in 2023/24 was spent on Social Care (Childrens and Adult).

Table 1 – Summary of Net Revenue Budget Final Outturn 2023/24

All Directorates	Original Budget Full Year	Current Budget Full Year	Outturn	Outturn Variance	Outturn Variance as % of Current Budget	Movement from Quarter Three (Outturn Variance)		Split of variance		
								£m	£m	£m
				Adv/(Fav)	%	Adv/(Fav)				
Adult Social Care	49.808	51.626	51.600	(0.026)	(0.1)	(1.384)	↑	0.000	(0.026)	(0.026)
Public Health	(3.280)	(0.944)	(0.944)	0.000	0.0	0.000	↔	0.000	0.000	0.000
Children's Care	54.649	52.184	54.950	2.766	5.3	(0.117)	↑	1.568	1.198	2.766
Education & Partnerships	5.494	5.470	6.551	1.081	19.8	(0.363)	↑	0.000	1.081	1.081
Regeneration	(1.987)	0.776	(0.094)	(0.870)	(112.1)	(0.535)	↑	0.000	(0.870)	(0.870)
Environment & Communities	20.228	19.487	20.503	1.016	5.2	0.073	↓	0.000	1.016	1.016
Legal & Governance	10.245	10.815	10.794	(0.021)	(0.2)	(0.075)	↑	0.000	(0.021)	(0.021)
Chief Executive	0.000	0.234	0.242	0.008	3.4	0.008	↓	0.000	0.008	0.008
Finance	4.429	4.230	3.340	(0.890)	(21.0)	(0.555)	↑	0.000	(0.890)	(0.890)
Total Directorates	139.586	143.877	146.941	3.064	2.1	(2.948)		1.568	1.496	3.064
Central Budgets	(13.232)	(17.523)	(16.993)	0.530	(3.0)	0.998	↓	0.000	0.530	0.530
Total Budget	126.354	126.354	129.948	3.594	2.8	(1.950)		1.568	2.026	3.594

Note: includes effects of Flexible Use of Capital Receipts in 2023/24

Chart 1 – Net Revenue Budget Final Outturn 2023/24 % split by Directorate



- 4.13 Table 1 shows that the overspend of £3.594m comprises non savings delivery of £1.568m in Childrens Care plus £2.026m of other income and expenditure pressures. These overspends are mainly driven by the continued financial pressures in Children’s Social Care (£2.766m), SEND transport costs within Education and Partnerships (£1.081m) and Environment and Communities (£1.016m) due to shortfalls in service demand at the crematorium as well as the forecast pressures in waste disposal costs. It should be noted that a bid of £0.199m has been made by the Director of Childrens Services to DfE for an additional improvement grant for 2024/25. If successful, this will be incorporated into the relevant budget in order to support the funding of transformation and savings delivery for 2025/26 onwards as well as support practise improvements in progressing young people to permanence.
- 4.14 The position in Adult Social Care has improved by £1.384m in the final quarter, resulting in a small underspend of £0.026m. The improvement during Quarter Four is mainly due to a combination of increased underspends on staff budgets of £0.337m from vacant posts in Quarter Four due to the nationwide difficulties in recruiting Social Care staff, and £1.166m net reduction of purchased care costs largely due to measures taken in the financial recovery plan in Quarter Four which have resulted in increased scrutiny of care package approvals (£0.650m), increased health contributions to care packages (£0.172m), an increase in Direct Payments surplus recovery (£0.080m), and identification and recovery of an overcharge by one care provider during Quarter Four (£0.106m).
- 4.15 An analysis of the main variances is included in Appendix 1 together with an assessment of the ‘one-off’ variances totalling a (£5.146m) net favourable variance and ‘ongoing’ variances totalling a £8.740m net adverse variance. This information will be used to reassess the 2024/25 budget assumptions as part of Quarter One 2024/25. It should be noted that ‘one off mitigations’ have a favourable impact only in 2023/24 and do not support the 2024/25 budget position. Those plans that have delivered ‘ongoing’ cost reductions or income generation may have a favourable

impact upon the 2024/25 budget position if they have not already factored into the 2024/25 budget assumptions.

Budget savings delivery

- 4.16 The approved 2023/24 revenue budget included savings totalling £9.383m in 2023/24 and a further £2.987m in 2024/25. The savings tracker included in Table 2 summarises performance in 2023/24 and the impact upon delivery for 2024/25, categorising the level of achieved savings at £7.814m (83%) and unachieved savings at £1.569m (17%). Table 3 shows performance for each Directorate against the 2023/24 savings, with further details of savings categorised as “Red” and “Amber” is attached at Appendix 2. Savings delivery plans were monitored via the Savings Programme Board that is chaired by the Head of Business, Strategy and Customer Services. The unachieved savings within the Children’s Directorate relate mainly to the internal residential provision schemes and were removed and reprofiled within the MTFP in setting the 2024/25 budget.

Table 2 – Savings Programme Delivery

Savings Programme and CS Financial Improvement plan - summary		2023/24	2024/25	Overall
Rag	Savings	£m	£m	£m
Blue	Saving Realised (delivered)	7.814	0	7.814
Green	Saving forecast to be realised as originally planned, or to be realised through alternative actions.	0	0.424	0.424
Amber	Medium risk to savings delivery, with mitigating actions being considered/worked on.	0	0.729	0.729
Red	High risk to savings delivery with limited scope of mitigation.	1.569	1.834	3.403
	Total Savings	9.383	2.987	12.370

Table 3 – 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	0	0	0.596	0.596
Environment and Commercial Services	0	0	0	2.043	2.043
Legal and Governance	0	0	0	0.241	0.241
Adult Social Care and Health Integration	0	0	0	0.502	0.502
Public Health	0	0	0	0.296	0.296
Education and Partnerships	0	0	0	0.313	0.313
Children's Care	0.056	0	0	0.698	0.754
Central	0	0	0	0.543	0.543
Finance	0	0	0	0.130	0.130
Fees and Charges	0	0	0	0	1.111
Children's Services Financial Improvement Plan	1.513	0	0	1.341	2.854
TOTAL (£m)	1.569	0	0	7.814	9.383
Overall Percentages	17%	0%	0%	83%	

Council Reserves and Provisions

- 4.17 Table 4 summarises the Council's General Fund reserves and provisions showing the movement between 31 March 2023 and 31 March 2024, with full details included in Appendix 3.

Table 4 – Summary of General Fund Balance, Reserves and Provisions

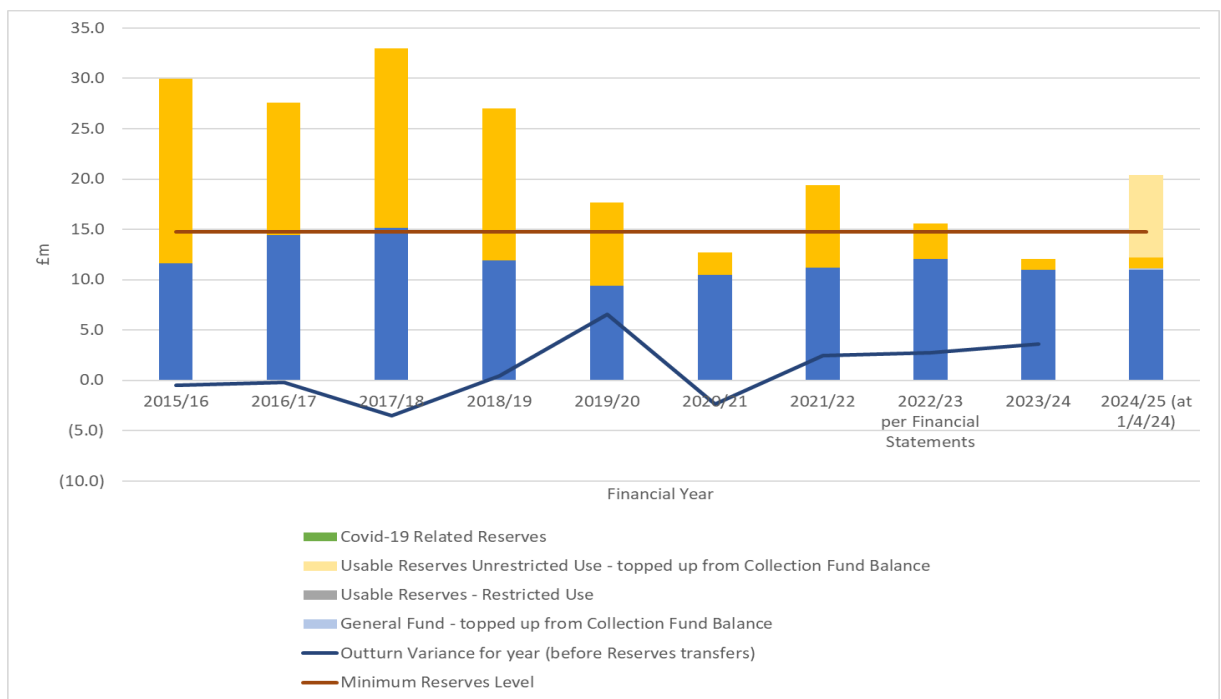
	ORIGINAL Closing Balance 31/03/23 / Opening Balance 01/04/23 £m	AMENDMENTS from Balance Sheet Review £m	REVISED Closing Balance 31/03/23 / Opening Balance 01/04/23 £m	Additional Contributions £m	Transfers between Reserves £m	Use in Year £m	Used for 23/24 Outturn Variance £m	BALANCE AT 31/03/24 £m	Allocation of Collection Fund Balance 01/04/24 £m	REVISED OPENING BALANCE 2024/25 £m
GENERAL FUND RESERVE	12.041		12.041				(1.055)	10.986	0.114	11.100
UNRESTRICTED USABLE EARMARKED RESERVES	2.788	0.757	3.545	0.730	(0.017)	(0.650)	(2.539)	1.069	8.211	9.280
Restricted Usable Earmarked Reserves	1.171		1.171	1.049	0.061	(0.401)	-	1.880	-	1.880
Unusable Earmarked Reserves	3.975	(5.664)	(1.689)	21.391		(28.587)		(8.885)	-	(8.885)
School Balances	3.641		3.641	3.539		(2.581)		4.599	-	4.599
RESTRICTED USE RESERVES TOTAL	8.787	(5.664)	3.123	25.979	0.061	(31.569)	-	(2.406)	-	(2.406)
PROVISIONS	5.194		5.194	0.646	(0.044)	(1.266)		4.530	-	4.530
TOTAL RESERVES & PROVISIONS	28.810	(4.907)	23.903	27.355	-	(33.485)	(3.594)	14,179	8.325	22.504

- 4.18 As a result of the detailed balance sheet review, the s151 officer has revised the methodology to calculate the Collection Fund Bad Debt provision in 2021/22 financial statements in order to comply with International Accounting Standard 37 (IAS37) which has adopted a long-term data driven methodology to forecast debt write offs, based upon actual collection performance. This, combined with collection

performance during 2022/23 has resulted in a usable cumulative collection fund surplus of £8.325m. This surplus has been applied to replenish the General Fund Balance to the recommended minimum level of £11.1m and unrestricted usable reserves at £9.280m at 1 April 2024 in accordance with Council approvals on 8 March 2024. This is reflected in Table 4.

4.19 Usable reserves remain at a very low level compared nationally to other unitary authorities. Further measures will be required over the period of the MTFP to maintain and increase revenue reserves and rebuild financial resilience. Figure 1 below shows the trajectory of Middlesbrough’s unrestricted usable Reserves from 2015/16 through to 2024/25 opening balance against both the recommended minimum reserves level and the reported outturn position.

Figure 1 - Middlesbrough Council - Unrestricted Reserves Balances from closing balance 2015/16 through to opening balance 2024/25 and reported outturn variance per year



Contingency Budget and Change Fund

4.20 Table 5 summarises the use of the 2023/24 Corporate Contingency budget and the Change Fund Reserve which are controlled under the delegated powers of the s151 Officer. A summary of the expenditure approved for utilisation of these budgets is set out at Appendix 4.

Table 5 – Summary of Use of Corporate Contingency Budget and Change Fund Reserve

	<u>Corporate Contingency</u>	<u>Change Fund Reserve</u>
	£m	£m
Starting Budget 2023/24	1.300	
Budgeted Contribution		0.730
Other adjustments	(0.265)	0.577
AVAILABLE FOR USE	1.035	1.307
Approved Corporate Governance Improvement Plan Interventions	0.252	
Invest to Save Transformation expenditure		0.271
BALANCE REMAINING UNCOMMITTED	0.783	1.036

Dedicated Schools Grant (DSG)

4.21 Local authorities receive a ring-fenced grant from central government each year, which can only be used to fund education. The DSG grant budget is accounted for separately to the main Revenue Budget. The Council received £182.421m (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). Alongside this, agreed place funding for academies and FE colleges is also deducted from the High Needs block for specialist places. Currently after deductions and recoupment the Council will receive DSG of £59.739m in 2023/24. The expenditure of £67.468m is a year-end overspend of £7.729m on DSG within 2023/24, which is an increase of £1.085m from the £6.644m reported at Quarter Three.

Table 6 - Dedicated Schools Grant (DSG) after recoupment and deductions

	2023/24 Income	2023/24 Expenditure	2023/24 Year-end Overspend	Balance as at 31/03/2023	Cumulative DSG Deficit as at 31/03/2024
	£m	£m	£m	£m	£m
Early years	12.121	11.908	(0.213)	(0.254)	(0.467)
Schools Block	16.597	16.481	(0.116)	(0.182)	(0.298)
High Needs	29.978	38.036	8.058	7.021	15.079
Central school services block	1.043	1.043	0.000	(0.021)	(0.021)
TOTAL	59.739	67.468	7.729	6.564	14.293

- 4.22 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 has increased during 2023/24 and there is a total cumulative DSG deficit of £14.293m at 31 March 2024, including £15.079m relating to the High Needs Block which is partly offset by £0.786m of surpluses across the other blocks.
- 4.23 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 £14.293m 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.
- 4.24 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.
- 4.25 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 a Stage 2 grant of £1m has been approved for the "Delivering Better Value" (DBV) programme that is supporting work to reduce the ongoing pressures within the High Needs Block using best practice and benchmarking across the country. Within this programme it has been identified that to be successful schools will need to be more inclusive. 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.
- 4.26 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.
- 4.27 As part of the Delivering Better Value (DBV) work detailed in paragraph 4.25, 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 for children with an Education, Health and Care Plan and alternative provision for those children and young people who are permanently excluded. This has resulted in over commissioned places which subsequently comes in financial pressure to provide place funding as well as banding funding to support needs. 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 total DSG deficit position for 2023/24 to approximately £7.7m, and as the Council were already reporting a previous deficit on the DSG reserve overall of approximately £6.6m at the end of 2022/23, this will mean a cumulative DSG deficit position at the end of 2023/24 of approximately £14.3m. A range of management actions are being taken alongside the DBV programme these include initiatives such as :

- Launch of SEND and Inclusion clinics in all schools to review how they are using their notional SEND budget as well as identifying training and support required within the setting.
- Work with health colleagues to identify health contributions where relevant
- On-going reviews of Education, Health and Care (EHC) Plans
- Dedicated training for school staff to ensure they are increasing inclusive practice
- On going work with school to support reintegration of excluded pupils into mainstream school where possible
- Review of the Inclusion and Outreach model
- Review of funding provided to schools including special schools
- Continued work with schools to reduce exclusions
- Review of maintained schools reserves and updated policy for challenging the use of those reserves
- Removal of Exceptional support funding to schools from September 2024
- Increase in recharges to schools for intervention, exclusion and hospital teaching places
- Recoupment charges of assessment places
- New Free School to be built by September 2026 which will support more children access local provision.
- Ongoing development of local provision to meet needs and reduce the number of out of area placements
- Greater support during transitions

4.28 Regular meetings take place with the DfE and the DBV lead to monitor the actions within our DBV plan. During these meetings the pressures on the High Needs Block are discussed to ensure the DfE are fully aware of the ongoing pressures within Middlesbrough.

4.29 The increasing pressure in DSG and in particular the High Needs Block is due to the fact that alongside social care, the Service has seen, and 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 and 1,804 in 2023 to a predicted level of 1,877 in 2024, a 13% increase from 2022 to 2024, and this is predicted to substantially increase further in the future (see Table 7). 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. Some children in Alternative Provision are also a factor in relation to home to school transport costs. In 2022 132 children accessed Alternative Provision and in 2023 the figure was 175. This figure has risen to 263. 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 7 below shows the actual and forecast Education, Health, and Care plans (EHCPs), and is periodically being updated and used to calculate the forecasted increase in required demand on alternative provision services and also the Council's SEND transport requirements.

Table 7 – 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 Final Outturn 2023/24

4.30 The Council approved a capital programme for 2023/24 of £71.211m (the original 2023/24 capital budget). This was revised to £80.474m at Quarter One to take account of 2022/23 programme slippage. The programme was reviewed on a quarterly basis with a revised budget of £67.631m at Quarter Three. Additional externally funded income has been added to the programme, resulting in a revised 2023/24 budget of £72,643m. The final outturn at 31 March 2024 is expenditure of £47.714m, an underspend of £32.760m (40%) against the original budget adjusted for 2022/23 slippage, £19.917m (29%) against the Quarter Three revised budget and £24.929m (34%) against the final 2023/24 budget.

4.31 The £47.714m of expenditure was funded by:

- £26.846m (56%) grants and external funding
- £ 2.399m (5%) capital receipts
- £ 18.469m (39%) borrowing

4.32 During Quarter Four, external funding of £15.246m was received by the Council as summarised in Table 8 which also breaks down the total additional funding of £15.246m by Directorate and the financial year to which the funds are programmed to be expended.

Table 8 – Additional external funding by Directorate received in Quarter Four 2023/24

Directorate	Total Value 2023/24 (£m)	Total Value Future Years (£m)
Regeneration	4.728	6.677
Environment and Community Services	0.276	0.598
Public Health	0.005	0.468
Education	0.003	2.491
Total	5.012	10.234

4.33 Of the £15.246m additional external funding received during Quarter Four, £5.012m was expended within 2023/24, with the remainder being profiled for expenditure in

2024/25 and future years. This is presented for approval by the Executive into the approved programme. Details of any new schemes or pre-existing schemes where funding has been increased by over £0.250m are provided in paragraphs 4.34 to 4.38 below.

- 4.34 On 14 February 2024, Executive approved the report “Levelling Up Partnership” report. The report provided details of £20m of grant provided by DLUHC and the specific schemes to which the grant would be expended on. The grant was to be paid in instalments, the first of which being officially confirmed by DLUHC totalling £9.900m. This tranche has been allocated to the following schemes:
- £5.900m provided to Middlesbrough College for the purchase of 100 Russell Street, Middlesbrough, for the creation of an adult learning centre and the improvement of current facilities to accommodate construction, high pressure welding and healthcare courses. £4.700m has been expended within 2023/24
 - £4.000m for the relocation of the Council’s Public Health Live Well Centre facility, to provide significantly improved facilities via the conversion of two long standing empty units at the Cleveland Centre. This additional funding is expected to be expended in 2024/25
- 4.35 A total of £1.477m of received developer contributions have been added to the Capital Programme, these funds will be used for the purpose of highways improvements in 2024/25 and future years.
- 4.36 On 14 February 2024, the Council received notification via Tees Valley Combined Authority of additional Highways Maintenance Allocation grant funding of £0.616m. £0.018m of the funds have been expended in 2023/24 with the remaining £0.598m being programmed to be spent in 2024/25.
- 4.37 The Council has successfully applied for £0.459m of funding from Sports England for the installation of photo voltaic (PV) panels at the Rainbow Leisure Centre, which it is planned to be fully spent in 2024/25. The grant fully funds the works, as such there is no requirement for match funding from the Council. Officers are undertaking due diligence to ascertain if there are any ongoing revenue liabilities prior to commencing the scheme.
- 4.38 In March 2024 the Council received additional grant funding from the Department for Education totalling £2.087m. The funding, detailed below, has been allocated to the 2024/25 programme for expenditure when individual schemes have been prioritised.
- £1.160m additional High Needs Provision Capital Allocation 2023/24
 - £0.472m High Needs Provision Capital Allocation 2024/25
 - £0.455m Schools Condition Allocation 2024/25
- 4.39 In addition to the above new schemes or pre-existing schemes where funding has been increased by over £0.250m, there are a number of new schemes or pre-existing schemes where funding has increased by under £0.250m.
- 4.40 The total amount of budgeted Transformational Expenditure Funded Through Flexible Use of Capital Receipts (FUOCR) was originally £3m. Council approved a revised FUOCR Strategy in January 2024 which increased the potential eligible expenditure to £4.3m subject to the realisation of sufficient capital receipts at 31

March 2024. A reduced level of receipts was realised totalling £2.399m at 31 March 2024. Therefore, in accordance with the approved Council policy, £2.399m of eligible revenue expenditure has been funded by FUOCR and included in the capital programme, therefore reducing total revenue expenditure. Table 9 summarises this with the detailed analysis of the application of FUOCR set out in Appendix 5.

Table 9 - Transformational Expenditure Funded through Flexible Use of Capital Receipts 2023/24

<u>Directorate</u>	<u>PLANNED USE*</u> FUoCR Potential Eligible Expenditure 2023/24 subject to receipt of cash by 31/03/24 £m	<u>ACTUAL USE</u> FUoCR applied in 2023/24 £m	<u>Difference</u> £m	<u>Reduction in original planned use of Change Fund</u> £m
Legal & Governance	0.271	0.026	(0.245)	(0.245)
Finance	0.847	0.549	(0.298)	(0.448)
Children's Services	2.980	1.769	(1.211)	(0.130)
Education & Partnerships	0.000	0.000	0.000	0.000
Adult Social Care	0.201	0.055	(0.146)	(0.201)
TOTAL	4.299	2.399	(1.900)	(1.024)

* As per Flexible Use of Capital Receipts Policy report to Council 17/01/24

4.41 Table 10 summarises the capital programme approved budget, outturn, and variance for 2023/24, including an explanation of the variances.

Table 10 - Summary of capital programme approved budget, outturn, and variance for 2023/24

Directorate	2023/24 Capital Programme Budget (as per 22/23 outturn)	2023/24 Capital Programme Budget (as per Quarter Three)	2023/24 New schemes (externally funded) or funded from requested virement from existing programme	2023/24 Adjustments relating to expenditure funded by Flexible Use of Capital Receipts	2023/24 Revised Capital Programme Budget (as at Quarter Four)	2023/24 Outturn	2023/24 Variance Compared To Quarter Three.	2023/24 Outturn Variance % Against Revised Quarter Three Budget	2023/24 Explanation Of Variance		2024/25 Impact Upon 2024/25 Capital Programme
									Slippage	Underspend	
	£m	£m	£m	£m	£m	£m	£m	%	£m	£m	£m
Regeneration	41.745	25.522	4.728	-	30.250	18.802	(11.448)	(37.84)	(11.433)	(0.015)	(11.448)
Environment and Community Services	23.560	21.995	0.276	-	22.271	17.508	(4.763)	(21.39)	(3.350)	(1.413)	(4.763)
Public Health	0.031	0.187	0.005	-	0.192	0.148	(0.044)	(22.92)	(0.044)	-	(0.044)
Education and Partnerships	7.852	7.001	0.003	-	7.004	2.878	(4.126)	(58.91)	(3.965)	(0.161)	(4.126)
Children's Care	2.141	5.103	-	(0.630)	4.473	1.949	(2.524)	(56.43)	(1.895)	(0.629)	(2.524)
Adult Social Care	1.447	3.732	0.000	0.055	3.787	3.344	(0.443)	(11.70)	(0.443)	-	(0.443)
Legal and Governance Services	3.120	3.713	0.000	0.026	3.739	2.536	(1.203)	(32.17)	(1.203)	-	(1.203)
Finance	0.578	0.378	0.000	0.549	0.927	0.549	(0.378)	(40.78)	(0.378)	-	(0.378)
Total	80.474	67.631	5.012	0.000	72.643	47.714	(24.929)	(34.32)	(22.711)	(2.218)	(24.929)

4.42 Capital slippage results from a delay in delivery of projects compared to the planned delivery. This results in an in year underspend which is required to be carried forward to the new financial year. This is called slippage. The amount of slippage is carried forward to 2024/25 and reprofiled to reflect revisions to the expected delivery and expenditure timescale. Details of capital slippage for 2023/24 from Quarter Three to

Quarter Four are shown in Appendix 6. Details of the slippage from Quarter One to Quarter Two were provided in the Quarter Two monitoring report and slippage from Quarter Two to Quarter Three provided in the Quarter Three monitoring report. The level of slippage at £22.711m (28%) against the original budget of £80.474m for 2023/24 combined with the level of 2022/23 slippage, indicates a requirement for more robust capital programme and project management. The Director of Finance will lead the development of strengthened governance and reporting arrangements during 2024/25, including the establishment of a strategic capital board. These will be reported alongside Quarter One 2024/25 monitoring to the Executive on 4 September 2024.

- 4.43 Table 11 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 £72.643m at Quarter Three, and a breakdown of the underspend of £24.929m in the capital programme for 2023/24.

Table 11 – 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 Quarter One (revised budget for 2023/24)	63.004
Approved amendments	4.330
Revised approved budget as at Quarter Two	67.334
Additions to existing schemes	0.197
New schemes	0.100
Revised budget as at Quarter Three	67.631
Additions to existing schemes	0.264
New schemes	4.748
Revised budget as at Quarter Four	72.643
Reductions to existing schemes	(2.218)
Slippage	(22.711)
2023/24 Final Outturn	47.714

- 4.44 The revised Capital Programme and how it is funded covering the period 2023/24 to 2026/27 is summarised in Table 12 below and detailed in Appendix 7 for noting by Executive.

Table 12 – Summary of Capital Programme 2023/24 to 2026/27

Directorate	2023/24 Actual £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m	TOTAL £m
Regeneration	18.802	27.428	32.498	11.276	90.004
Environment and Community Services	17.508	17.294	14.007	8.172	56.981
Public Health	0.148	0.519	-	-	0.667
Education and Partnerships	2.878	13.912	3.939	0.871	21.600
Children's Care	1.949	2.026	2.363	-	6.338
Adult Social Care	3.344	1.351	0.660	0.660	6.015
Legal and Governance Services	2.536	2.795	2.185	2.185	9.701
Finance	0.549	4.790	-	-	5.339
Transformation Programme	-	13.700	7.700	5.300	26.700
Exceptional Financial Support	-	13.400	-	-	13.400
Total EXPENDITURE	47.714	97.215	63.352	28.464	236.745
Funded by					
Borrowing	18.469	23.096	22.430	8.558	72.553
EFS Borrowing	-	13.400	-	-	13.400
Capital Receipts	-	6.000	6.000	6.000	18.000
Flexible Use of Capital Receipts	2.399	13.700	7.700	5.300	29.099
Grants	26.375	39.821	25.268	3.404	94.868
Contributions	0.471	1.198	1.954	5.202	8.825
Total FUNDING	47.714	97.215	63.352	28.464	236.745

Collection Fund - Council Tax and Business Rates income

4.45 Income received from Council Tax and Business Rates (NNDR) is a major source of revenue income for the Council and funds around 66% of its annual expenditure in delivering all Council services. 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 from the Quarter Three forecast do not immediately affect the General Fund position. By illustration, the impact of any final surplus or deficit variance on the Collection Fund for 2023/24 is fed into the development of the 2025/26 budget and MTFP and any cost/ benefit does not impact the 2024/25 financial year. Table 13 below shows the Collection Fund position for 2023/24, including the amount of £8.325m related to the review of the bad debt provision as detailed in paragraph 4.18.

Table 13 – Collection Fund 2023/24

COLLECTION FUND BALANCE	Council Tax (£m)	Business Rates (£m)	Total (£m)
Balance brought forward at 1 April 2023	(10.243)	(0.763)	(11.006)
Deficit / (Surplus) for the year (as above)	0.966	(0.946)	0.020
Balance carried forward at 31 March 2024	(9.277)	(1.709)	(10.986)
Allocated to:	83.3%	49%	
Middlesbrough Council	(7.727)	(0.837)	(8.564)
Bad Debt Provision adjustment to 2024/25	7.976	0.349	8.325
Additional surplus available for 2025/26	0.249	(0.488)	(0.239)

- 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 actual in-year collection rate for 2023/24 was 92.84% for Council Tax and 95.75% for Business Rates. Overall collection rates remain respectable and presents as a surplus on the collection fund as precept amounts have been prudently lower than actual collection rates. Over a period of time (c10years) Council Tax collection rates (pre welfare reform) were around 98.7%, (post welfare reform) are now around 97.6% with business rates hovering around 97.7%.
- 4.47 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.

Debt Recovery Performance

- 4.48 A key workstream within the plans to recover the Council's financial position is the renewed focus upon recovering monies owed to the Council from the following sources
- Council Tax
 - Business Rates
 - Sundry (general) debt
 - Housing Benefit Overpayments
- 4.49 The Council's approach to improving debt recovery performance whilst maintaining appropriate support to residents and businesses who are entitled to available help, advice and support, is set out in paragraphs 4.50 to 4.57 below. Progress will be incorporated into quarterly monitoring reports throughout 2024/25.
- 4.50 With high levels of deprivation, a proportionately high benefit caseload, alongside low levels of income, Council Tax collection across the town will remain a challenge. Council Tax Reduction is provided to around 18,300 households, with the maximum award of 90% to some the town's most financially vulnerable. There is a steady migration to Universal Credit and as such the amount of Housing Benefits

Overpayments created is a diminishing return with the debt becoming significantly more difficult to collect as the ability to deduct from ongoing benefit lessons.

- 4.51 Business Rates and Sundry Debt collection is considered less of a challenge provided that the debt is collected in-year. The likelihood of collecting aged debt is problematic, businesses can cease trading, wind up, become bankrupt, leaving the Council with very little recovery options and a strong likelihood that the debt will be written off.
- 4.52 Whilst overall collection rates over a period of time are respectable, a stronger focus on in-year debt and aged debt is fundamental in ensuring the council optimises cash collection thus further supporting the reduction in the provision which is assigned to bad debt.
- 4.53 Through a comprehensive collection strategy, underpinned by the Councils Welfare Strategy for both business and residents, the Council will pursue debt in a firm but fair way. Residents and businesses will be offered a range of support to resolve debt problems, such as maximising benefit, welfare advice and support, debt management, crisis support all of which form part of the support on offer.
- 4.54 Where payment is not forthcoming the Council will exercise its powers provided under the relevant legislation to enforce the debt. Some of these powers are significant and can lead to serious consequences such as attachment to earnings, removal of goods, forcing the sale of a property or even commitment to prison all of which are powers enshrined in law.
- 4.55 To support the increased focus, additional resource has been placed in all of the four areas above as approved in the budget by Council on 8 March 2024. This will mean that thousands more cases, where debt remains are being actively progressed. The increased activity will likely lead to many difficult conversations with Residents and Businesses some of which may result in member engagement, complaints, disputes and even the possibility of alleged fraud where residents and business have failed to report changes. This is anticipated/expected due to the increased focus and the thousands more cases that will be managed. Over more recent months, a number of aged debt business rates cases have been pursued, most gaining press coverage as the Council gives a strong message that outstanding debt will be collected.
- 4.56 Of the debt remaining, it is anticipated that some debt will not be enforceable and as such may be irrecoverable. Financial provision has been set aside to respond to this on the basis that where the propensity to pay is low and unlikely to be recovered, the Council has the ability to write debt off. Write offs should be routinely undertaken as part of good debt management allowing for a more accurate bad debt provision and greater financial management of debts owed to the Council.
- 4.57 The Council's approach to improving its debt position will be based on the following principles:
- Resolve Debt Problems –By providing Welfare Advice and Support
 - Where Debt Remains a Problem - Exercise the powers provided in law.
 - Where Debt is Irrecoverable – Write the debt off.
- 4.58 The movement in debt balances between 31 March 2023 to 31 March 2024 is summarised below:

Table 14 – Debt Collection Performance 2023/24

Category of Collectable Debt	Balance at 1/4/23 (£m)	Movement in-year (£m)	Balance at 31/3/24 (£m)
Council Tax	34.667	2.106	36.773
Business Rates	5.775	2.616	8.391
Sundry Debt	10.002	5.514	15.516
Housing Benefits Overpayments	6.741	-	6.741
Total	57.185	10.236	67.421

Actions to be taken to progress financial recovery and develop the 2025/26 MTFP

- 4.59 The Council has achieved significant improvement in its financial position from that which existed at the start of the 2023/24 financial year. However, it continues to spend above its available income sources as reflected by the overspend of £3.594m in 2023/24.
- 4.60 The 2024/25 approved budget was balanced at £143.190m after adjusting for the capitalisation of £4.7m of revenue expenditure that is planned to be funded by one off borrowing under Exceptional Financial Support (EFS) approved in principle by the Department for Levelling Up Housing and Communities (DLUHC). That means that projected revenue expenditure for 2024/25 is £147.890m for the year of which £4.7m will be funded by borrowing under EFS. The Council is expected by DLUHC to take all available measures to control its expenditure and reduce its reliance upon EFS in year. It is also in the Council's long term financial interests to mitigate the use of EFS as there is an estimated long term annual revenue cost of approximately £0.403m if the Council does draw upon the £4.7m of borrowing to fund its expected revenue expenditure in the year. This can be mitigated by underspending against the approved budget.
- 4.61 Further measures are required during 2024/25 and over the medium term to strengthen the grip upon the management of the Council's financial position which include in summary but are not restricted to:
- Modernising and transforming service delivery through the Recover, Reset, Deliver Transformation Portfolio, to deliver improved service outcomes from a financially sustainable cost base.
 - Delivering all approved savings included within the Transformation Portfolio
 - Develop a pipeline of new transformation projects that deliver savings to meet the forecast budget gap over the period of the MTFP
 - Exercising more robust budgetary control underpinned by standard budget management procedures and consistent system driven reporting
 - Directors and their management teams becoming more engaged in the operational management of their budgets
 - Directors continuing to exercise stringent financial control of budgets and restraint on non-essential spending during 2024/25 together with full delivery of approved savings.

Further details are provided in paragraphs 4.64 to 4.67 below.

- 4.62 Members will be aware that a budget gap of £7.474m remains in 2025/26, rising to £7.965m in 2026/27 and this may increase upon review of the MTFP over the summer. The Transformation Portfolio is tasked with developing new programmes and projects to address this funding gap under the leadership of the Chief Executive.
- 4.63 As reflected by the overspend of £3.594m in 2023/24 and the requirement for £4.7m of EFS to balance the 2024/25 budget, together with the remaining budget gap of £7.965m up to 2026/27, the Councils current operating model and service delivery models are driving annual expenditure in excess of the annual income available to the Council. Therefore, it is critical that the Council deploys further measures during 2024/25 and future years to modernise and transform to enable it to deliver improved outcomes for residents, businesses and visitors to the town within a financially sustainable cost envelope.
- 4.64 A corporate approach to delivering within the approved 2024/25 budget is essential and robust budget management and control practices must be complied with. This includes but is not limited to:
- Expenditure and income will be managed within approved budgets and subject to virement rules in accordance with Financial Procedure rules and specifically [18.32 to 18.42](#).
 - For the avoidance of doubt, the overachievement of income against approved income budgets must not be used to offset overspending on an approved expenditure budget.
 - The over achievement of individual savings/income targets associated with approved budget proposals, should be 'banked' and reported in full through the Transformation Portfolio savings tracker and via corporate budget monitoring and forecasting reports.
 - Individual budget surpluses generated through savings deliver and/or business as usual activity will be considered by directors, LMT and the Executive as in relation to the securing the achievement controlling directorate net expenditure and the wider total general fund net expenditure for 2024/25 within the approved budget. Underspending against the approved budget of £143.910m will serve to mitigate the call upon £4.7m of EFS, thereby reducing the long term cost of financing this borrowing.
 - Any new or unplanned expenditure within approved council policies, will require Directors to reprioritise approved revenue or capital budgets in accordance with established virement rules and financial limits. Exceptional expenditure that could not be planned for, should be discussed with the s151 Officer for consideration of application of the Corporate Contingency Budget.
 - New or unplanned expenditure that is outside the approved budget and policy framework is reserved for a decision by Council in accordance with the [Constitution](#).
- 4.65 The successful delivery of approved savings within the Recover, Reset, Deliver Transformation Portfolio, is critical to delivering within the approved 2024/25 budget. The Transformation Portfolio is required to develop of a further pipeline of new projects that will deliver further income growth and/or expenditure reduction to balance the 2025/25 budget and MTFP to secure the longer term financial sustainability of the Council.

4.66 Further strengthening of budgetary control is required in 2024/25, including improvement of management information and financial processes and systems to enable increased use of data driven demand and cost modelling. Increased use of the Council's corporate financial management system is necessary by budget holders, supported by the finance team to deliver 'one version of the financial truth' for use in budget management and reporting throughout the organisation. The work that will be undertaken during 2024/25 to contribute to achieving the required improvement includes:

- Integrating transformation portfolio savings tracking via the Corporate Transformation Board within corporate budget management and forecasting arrangements
- Continuation of monthly budget management challenge via Departmental Management Teams (DMTs), Leadership Management Teams (LMT), s151 Officer and Member led budget challenge sessions,
- Further development of demand and cost modelling with support from data analytics team in order to focus upon and develop activity based costing within service areas that are subject to significant financial pressures, i.e. adult and children's social care, SEND transport and waste disposal.
- Improvements to management and financial information systems and processes to provide integrated operational and financial data to inform operational and strategic decision making.
- Roll out of and training of budget managers in use of Power BI budget management dashboard to enable more user-friendly access to the Business World financial management system.
- Further training in the use of Business World to process orders and invoices to improve data quality within the finance system.
- Extended compliance monitoring in relation to all procurement activity and control of non-essential expenditure.
- Review and strengthen capital programme governance, management and reporting arrangements in order to address programme slippage and improve the transparency of reporting.

4.67 These measures will be incorporated into the updated Culture and Governance Improvement Programme.

4.68 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.

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: Quarter Four 2023/2024, Year End 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 in 2024/25.	Director of Finance	31/3/25
Amendments to the capital programme for 2023/24 to be actioned, subject to approval	Head of Financial Planning & Support	30/6/24

Appendices

1	Analysis of the main variances including assessment of the 'one-off' or 'ongoing' nature of the variances
2	Detailed savings tracker of savings categorised as "Red" and "Amber" by Directorate
3	Detailed Reserves and Provisions Movements between 31/3/23 and 1/4/24
4	Summary of projects approved for utilisation of Contingency Budgets and Change Fund
5	Transformational Expenditure Funded through Flexible Use of Capital Receipts 2023/24
6	Capital Programme Outturn 2023/24 – details of capital slippage
7	Revised Capital Programme to 2026/27

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
Council	Flexible Use of Capital Receipts Policy	17/1/24
Executive	Revenue and Capital Budget – Forecast Outturn position at Quarter Three 2023/24	14/2/24
Executive	2024/25 Revenue Budget, Medium Term Financial Plan, and Council Tax setting	28/2/24
Executive	Prudential Indicators and Treasury Management Strategy Report – 2024/25	28/2/24
Council	2024/25 Revenue Budget, Medium Term Financial Plan, and Council Tax setting, and Treasury Management Strategy 2024/25	8/3/24

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