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| Report of: | Director of Finance (s151 Officer) |
| Relevant Executive Member: | Executive Member for Finance and Governance |
| Submitted to: | Executive |
| Date: | 4 September 2024 |
| Title: | Revenue and Capital Budget – Forecast Year-end Outturn position at Quarter One 2024/25 |
| 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 forecast year-end financial outturn as at Quarter One 2024/25 and measures being taken to control expenditure within approved budgets.

That the Executive approves budget virements within the revenue budget (Appendix 3), and revisions to the capital programme in relation to activity in Quarter One (Appendix 9 and paragraph 4.37).

Executive summary

This report advises the Executive of the Council's forecast year-end financial outturn as at Quarter One 2024/25, and seeks approval of budget virements within the revenue budget and revisions to the capital programme in relation to activity in Quarter One.

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

- General Fund Revenue Budget forecast outturn at Quarter One;
- Statement of the Council's reserves and provisions at Quarter One;
- Capital Programme forecast outturn at Quarter One;
- statement of the Council's borrowing and prudential indicators;
- statement to monitor the level of debt owed to and to be recovered by the Council;
- 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 2024/25 revenue outturn as at Quarter One is a year-end overspend of £3.742m (2.6%), and there is a need to take management action in consultation with Executive Members to control expenditure within the approved budget of £143.190m
- Financial Recovery Plan savings of £1.877m have currently been identified which if fully assured and delivered could potentially reduce the forecast year-end overspend to £1.865m
- the forecast outturn of £3.742m at Quarter One currently includes £2.498m of net savings where there is a high risk that they will not be deliverable in 2024/25. If these remain unachievable at year end the £3.5m Exceptional Financial Support (EFS) agreed in-principle for this would need to be utilised, and as this is borrowing there would be costs of borrowing associated with this which are factored into the MTFP.
- the remaining element of the forecast overspend not linked to savings delivery (£1.244m) would need to be funded from reserves .
- Based upon the Quarter One forecast, this would mean that the General Fund Balance would be £11.100m whilst the balance on usable unrestricted reserves would reduce to £6.570m at 31 March 2025. This would be lower than that recommended by the Director of Finance in the Reserves Policy approved by Council on 8 March 2024.
- the 2024/25 Capital Programme forecast year-end outturn of £99.698m at Quarter One, which is a reduction of £6.490m from the revised £106.188m budget for 2024/25 and work is taking place to establish improved programme management and control arrangements to achieve more effective management and forecasting of the capital programme going forward.

1. Purpose

- 1.1 This report is to discharge the responsibilities of the Executive to manage and control the revenue budget, capital programme and overall reserves position of the Council.

2. Recommendations

2.1 The Executive is requested to:

- **Approve** the proposed revenue budget virements over £250,000 as detailed in paragraph 4.13 and Appendix 3.
- **Approve** the inclusion of additional expenditure budgets to the Capital Programme totalling £8.973m for 2024/25 which are externally funded (detailed in Appendix 9). Subject to approval this will increase the approved 2024/25 Capital Programme budget to £106.188m.
- **Approve** proposed virements over £250,000 between schemes in the 2024/25 Capital Programme approved by Council in March 2024 which are funded from within existing Council resources (detailed in Appendix 9 and paragraph 4.37).
- Note the forecast 2024/25 revenue outturn as at Quarter One of £146.932m against an approved budget of £143.190m, a forecast year-end overspend of £3.742m (2.6%) summarised below as follows and detailed in Table 1:

| | £m |
|---|--------------|
| Adult Social Care – unachieved savings | 0.817 |
| Adult Social Care – other - mainly by maximising a one-off grant | (0.387) |
| Children’s Social Care – increased numbers and complexity of external residential placements | 2.424 |
| Children’s Social Care –unachieved savings | 1.330 |
| Other variances (ECS, Education & Partnerships, Regeneration, Legal and Governance, Finance, and Central) | (0.442) |
| Total | 3.742 |

- Note the progress on savings delivery set out in Tables 2 and 3 and Appendix 4.
- Note that the Council is dependent upon Exceptional Financial Support (EFS) in 2024/25 approved in principle by the Ministry of Housing, Communities & Local Government (MHCLG) of up to £13.4m of one-off borrowing, the costs which are factored into the MTFP. Of this sum £4.7m has been utilised to achieve a balanced budget in 2024/25. (paragraph 4.5)
- Note that it is essential that all available measures are taken by management to control revenue expenditure within the approved budget, given that the Quarter One forecast overspend, if realised will require further £2.498m of EFS borrowing to fund slippage in savings delivery and £1.244m call upon revenue reserves. Both EFS and reserves can only be used once, and the financial pressure will remain in 2025/26 to be addressed.

- Note that based upon the Quarter One forecast outturn, the forecast revenue balances at 31 March 2025 would be lower than recommended in the approved Reserves Policy at £17.670m:
 - General Fund Reserve of £11.1m (minimum recommended)
 - Council's unrestricted usable earmarked reserves of £6.570m
- Note the 2024/25 Capital Programme forecast year end outturn of £99.698m at Quarter One, which is a reduction of £6.490m (6.1%) from the revised £106.188m budget for 2024/25 comprising:
 - An underspend on projects of £3.223m
 - Slippage on projects of £3.267m into 2025/26 and 2026/27
- Note that a full review and reprofiling of the Capital Programme will be undertaken during Quarter Two including the establishment of a Capital Programme Board to provide improved management of the Council's Capital Programme and its financing.
- Note the Treasury Management forecast outturn position with respect to the Council's prudential indicators as set out in paragraphs 4.46 to 4.54.
- Note the current forecast deficit of £5.501m for 2024/25 relating to the High Needs Block with the Dedicated Schools Grant which increases the forecast cumulative deficit to £19.794m at 31 March 2025. Note the recovery actions and risks to the Council's financial resilience set out in paragraph 4.30 to 4.33 and Appendix 8.
- Note the level of Collection Fund and General Fund Debtors at 30 June 2024 as follows (paragraph 4.57 to 4.59):
 - Council Tax £35.790m
 - Business Rates £6.731m
 - Sundry Debt £11.565m
 - Housing Benefit Overpayments £6.427m

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 the Council's 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 One;
- Statement of the Council's projected reserves and provisions at Quarter One
- Capital Programme forecast outturn at Quarter One;
- statement of the Council's borrowing and prudential indicators;
- statement to monitor the level of debt owed to and to be recovered by the Council;
- 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 3.

Revenue Budget

4.4 Section 25 of the Local Government Act 2003 requires the Chief Finance officer to report on the robustness of the budget estimates and the adequacy of the financial reserves to Council in agreeing its annual budget and precept for the forthcoming financial year. The Chief Finance Officer is as defined in S151 of the Local Government Act 1972 and is fulfilled by the Director of Finance.

4.5 The Director of Finance (S151 Officer) presented her Section 25 Report to the Executive as part of the 2024/25 Revenue Budget, Medium Term Financial Plan, and Council Tax setting report to Executive on 28 February 2024 which was then approved by Council on 8 March 2024. The report set out the basis upon which the revenue budget was considered to be robust and the basis upon which reserves were considered adequate, being dependent upon the approval of Exceptional Financial Support (EFS) by the Ministry of Housing, Communities and Local Government (MHCLG) (formerly DLUHC) as summarised below:

Exceptional Financial Support 2024/25

| Directorate | 2024/25 £m |
|---|---------------|
| Required to balance 2024/25 budget | 4.700 |
| Contingency for non-delivery of budgeted 2024/25 savings risk | 3.500 |
| Contingency for capital receipts delivery risk | 4.600 |
| General contingency | 0.600 |
| TOTAL | 13.400 |

4.6 The Council's financial position remains critical and its ability to control expenditure within the approved 2024/25 budget whilst developing further savings and income generating opportunities through the Recover, Reset, Deliver Transformation Portfolio in order to balance the MTFP will be crucial to stabilising the Council's financial position and rebuilding its financial resilience. This requires the delivery of all approved £13.9m of 2024/25 savings plans in full.

4.7 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 forecast year end overspend of £3.742m for 2024/25, after using £4.7m of EFS to balance the budget. The further challenges of delivering a balanced budget in 2025/26 to 2028/29 are set out in the Medium-Term Financial Plan (MTFP) report elsewhere on this Executive agenda with a projected budget gap currently of £7.864m in 2025/26 rising to £8.749m in 2028/29.

Both reports should be read together to fully understand the context within which the Council is operating and the challenges it faces.

- 4.8 The 2024/25 forecast year end outturn at 30 June 2024 (Quarter One) is an overspend of £3.742m (2.6%) against the approved budget of £143.190m and is summarised by Directorate in Table 1. A summary of the key issues and variances is included in Appendix 1a with details of Directorate variances in Appendix 1b. Table 1 includes any potential non-delivery of required budget savings as detailed in paragraphs 4.16 to 4.21 and Appendix 4.

Table 1 - Summary of Revenue Budget Forecast Outturn 2024/25 at Quarter One

| All Directorates | Original Budget Full Year | Current Budget Full Year | Forecast Outturn | Forecast Variance | Financial Recovery Plan | Forecast Outturn Variance (If Financial Recovery Plan Assured) | MEMO FORECAST VARIANCE SPLIT | |
|---------------------------|---------------------------|--------------------------|------------------|-------------------|-------------------------|--|------------------------------|-----------------|
| | | | | | | | Savings Delivery Variance | Other variances |
| | | | | | | | £m | £m |
| | | | | Adv/(Fav) | | | Adv/(Fav) | Adv/(Fav) |
| Adult Social Care | 52.075 | 52.075 | 52.505 | 0.430 | (0.650) | (0.220) | 0.817 | (0.387) |
| Public Health | 0.006 | 0.006 | 0.006 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Children's Care | 54.038 | 54.038 | 57.792 | 3.754 | (0.877) | 2.877 | 1.330 | 2.424 |
| Education & Partnerships | 7.992 | 7.992 | 7.260 | (0.732) | 0.000 | (0.732) | 0.000 | (0.732) |
| Regeneration | 2.023 | 2.023 | 1.742 | (0.281) | (0.350) | (0.631) | 0.080 | (0.361) |
| Environment & Communities | 20.176 | 20.176 | 20.259 | 0.083 | 0.000 | 0.083 | (0.319) | 0.402 |
| Legal & Governance | 10.387 | 10.387 | 10.631 | 0.244 | 0.000 | 0.244 | 0.148 | 0.096 |
| Finance | 3.121 | 3.121 | 3.121 | 0.000 | 0.000 | 0.000 | 0.198 | (0.198) |
| Chief Executive | 0.242 | 0.242 | 0.242 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| | | | | | | | | |
| Total Directorates | 150.060 | 150.060 | 153.558 | 3.498 | (1.877) | 1.621 | 2.254 | 1.244 |
| Central Budgets | (6.870) | (6.870) | (6.626) | 0.244 | 0.000 | 0.244 | 0.244 | 0.000 |
| Total Budget | 143.190 | 143.190 | 146.932 | 3.742 | (1.877) | 1.865 | 2.498 | 1.244 |

NOTE – Environment & Communities includes an overachievement of £0.444m against the savings for the implementation of Green Waste charging. This reduces the savings delivery variance from £2.942m to £2.498m.

- 4.9 The forecast overspend of £3.742m comprises potential overspends due to delayed or undeliverable savings of £2.498m and other variances of £1.244m. Further analysis of progress on savings delivery that is being managed through the Transformation Portfolio is set out at Tables 2 and 3 and Appendix 4.
- 4.10 Directorates have identified £1.877m of Financial Recovery Plans (see Appendix 2). These will require further Director and Finance assurance to confirm deliverability together with the identification of further mitigations to deliver the financial outturn within the approved budget by the year end. Subject to satisfactory assurance the recovery plans will be factored into the year-end forecast.
- 4.11 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 to protect critically low reserves and provide an opportunity to start to rebuild them over the period of the MTFP as set out in the approved Reserves Policy.

- 4.12 £20.764m of budgetary growth was provided in setting the 2024/25 budget to Directorates presenting forecast demand pressures primarily in Adults, Children's Integrated Transport Unit, and Waste Disposal. Upon reviewing the 2023/24 financial outturn and performance in Quarter One, the requirement for this growth has been reviewed.
- 4.13 The Director of Finance proposes that where it is determined that the allocated growth is not required in full (and underspending within Directorates is arising directly from a surplus of budgetary growth provided) that the surplus budget is transferred (vired) from Directorates in 2024/25 to be held centrally. The Director of Finance will then assess how this budgetary provision can be applied to best effect in order to offset the financial pressures arising elsewhere in the Council to meet forecast pressures. The review will be undertaken quarterly throughout the year as refinements to demand and cost modelling are progressed. The budget adjustments proposed in Quarter One are summarised below and are set out in more detail in Appendices 1a and 1b and include the following:
- Concessionary Fares £0.414m
 - Waste Disposal £0.673m
 - Integrated Transport Unit £0.732m

The above will be actioned for 2024/25 only with any ongoing adjustments being included in the 2025/26 MTFP report to this Executive.

- 4.14 Financial Procedure Rule 1.37 requires the Executive's approval of the proposed revenue budget virements set out in Appendix 3. The above adjustments are included as virements, and the current Directorate budgets will be revised in the Quarter Two monitoring report subject to approval of the recommendations in this report.
- 4.15 As part of the approved 2024/25 budget a budget of £1.550m was provided to cover the effects of contractual inflation on a number of services. A review of the requirements against this budget is currently being undertaken and technical adjustments will be made and reported in the Quarter Two report. Contractual inflation will only be provided where there is a contractual commitment for inflation and will not be provided for general inflation relating to supplies and services.

Budget savings delivery

- 4.16 The approved revenue budget includes savings totalling £15.302m in 2024/25, a further £5.151m in 2025/26 and a further £1.967m in 2026/27 arising from the 2023/24 and 2024/25 approved budgets. The savings tracker included in Table 2 summarises performance in 2024/25 and the impact upon delivery for 2024/25, categorising the current expected achievability of the savings. Table 3 shows performance for each Directorate against the 2024/25 approved savings. Savings delivery plans are monitored via the Thematic and Corporate Transformation Boards.
- 4.17 The forecast year-end overspend shown in Table 1 includes £2.942m (19%) of savings for 2024/25 categorised as "Red" within the savings tracker. There are currently no savings categorised as "Purple" within the savings tracker which have

been deemed unachievable and require alternative savings. Those categorised as “Amber” £1.749m (11%) are not factored into the forecast overspend. They have mitigation in play, or in development and are being monitored through the Programme Management Office to get delivery back on track (“Green”).

- 4.18 Those categorised as “Green” £9.466m (62%) and considered to be on track are being further tested and challenged to gain further assurance. £1.145m (8%) have been delivered and classed as ‘Blue’. There is also an over achievement of £0.444m from the implementation of charging for Green Waste Collection. Currently whilst this is shown in Table 1 above the savings tracker in Tables 2 and 3 do not account for overachievement of savings as they are focused on highlighting non-delivery of savings. This will be addressed at Quarter Two, so both the financial and savings tracker are aligned.
- 4.19 If the £2.942m of savings rated “Red”, where there is currently a high risk that they will not be deliverable in 2024/25, remain unachievable up to £3.5m EFS agreed in-principle for this would need to be utilised in order to contain expenditure within the approved budget and protect critically low revenue reserves. There is a long-term cost of borrowing associated with use of EFS which is factored into the MTFP.
- 4.20 Directors are required to develop mitigation plans for those savings which are categorised as “Red” where there is significant risk to delivery, and “Amber” where there is medium risk to delivery. Also, there is a need to ensure full achievement of savings categorised as “Green”.

Table 2 – Savings Programme Assurance Summary

| RAG | Savings | 24/25 (£m) | 25/26 (£m) | 26/27 (£m) | Total (£m) | Total (%) |
|--------|--|-----------------|----------------|----------------|-----------------|--------------|
| | Approved Budget | (15.302) | (5.151) | (1.967) | (22.420) | |
| Blue | Benefits and / or saving(s) realised, with evidence provided. | (1.145) | 0.000 | 0.000 | (1.145) | 5% |
| Green | Benefits and / or saving delivery on-track, with assured plans in place. | (9.466) | (3.165) | (0.260) | (12.891) | 58% |
| Amber | Medium-risk to benefits and / or saving(s) delivery. Mitigation in-play, or in development. | (1.749) | (0.971) | (0.757) | (3.477) | 16% |
| Red | High-risk to benefits and / or saving(s) delivery. Limited scope for mitigation. | (2.942) | (1.015) | (0.950) | (4.907) | 22% |
| Purple | Benefits and / or saving(s) are undeliverable. Alternative plan / saving required, for Executive approval. | 0.000 | 0.000 | 0.000 | 0.000 | 0% |
| | Total Savings | (15.302) | (5.151) | (1.967) | (22.420) | 100% |

Table 3 – Savings Programme Assurance for 2024/25 by Directorate

| | | Benefits and / or saving(s) realised, with evidence provided. | Benefits and / or saving delivery on-track, with assured plans in place. | Medium-risk to benefits and / or saving(s) delivery. Mitigation in-play, or in development. | High-risk to benefits and / or saving(s) delivery. Limited scope for mitigation. | Benefits and / or saving(s) are undeliverable. Alternative plan / saving required, for Executive approval. | |
|--|-----------------|---|--|---|--|--|-----------------|
| Directorate | Approved Budget | Blue | Green | Amber | Red | Purple | 24/25 (£m) |
| Adult Social Care and Health Integration | (5.757) | (0.902) | (3.047) | (0.991) | (0.817) | 0.000 | (5.757) |
| Children's Care | (5.080) | 0.000 | (3.220) | (0.530) | (1.330) | 0.000 | (5.080) |
| Education and Partnerships | (0.285) | 0.000 | (0.153) | (0.132) | 0.000 | 0.000 | (0.285) |
| Environment and Community Services | (1.522) | (0.105) | (1.196) | (0.096) | (0.125) | 0.000 | (1.522) |
| Regeneration | (0.607) | 0.000 | (0.527) | 0.000 | (0.080) | 0.000 | (0.607) |
| Finance | (1.379) | (0.138) | (1.043) | 0.000 | (0.198) | 0.000 | (1.379) |
| Legal and Governance | (0.672) | 0.000 | (0.280) | 0.000 | (0.392) | 0.000 | (0.672) |
| TOTAL (£m) | (15.302) | (1.145) | (9.466) | (1.749) | (2.942) | 0.000 | (15.302) |
| Overall Percentages | | 7% | 62% | 11% | 19% | 0% | |

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

Budgetary Control Measures required in 2024/25

4.22 Further measures are required during 2024/25 and over the medium term to strengthen the grip upon the management of the Council’s financial recovery 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 detail on measures to be adopted is set out in Appendix 5

Quarter One Budget challenge agreed actions

4.23 During Budget Challenge Sessions held at Quarter One it was agreed that a number of fundamental service reviews be required in order to develop plans to address forecast financial pressures and control expenditure within the approved budget.

- Children's Social Care (see para 4.24)
- Adult's Social Care – Develop and assure financial recovery plan
- Crematorium - Reduced income due to falling demand for service, to consider options for reducing operational costs to align to reduced activity and to assess the business case for replacement cremators which are approaching the end of their useful life.
- Waste Services - zero based budget to be prepared reflecting the change in service operations following implementation of fortnightly collection
- Fleet Services - review of strategic options for sustainable service delivery arising from operation due to recruitment and retention issues and other financial pressures.
- Integrated Transport Unit / Special Educational Needs & Disabilities (SEND) transport – baseline budget and development of MTFP forecast to assess demand and unit cost modelled using Special Educational Needs (SEN) data

4.24 As a result of Children's Budget Challenge meetings it was noted that whilst care placement panels were resulting in children being stepped down from external residential care into more appropriate and lower cost placements, additional measures in social care practice are required to manage and reduce the demand into external residential by using more appropriate categories of care wherever possible. As increased demand is flowing into this category of care. Whilst step down measures to date have helped to avoid further overspending, the planned savings delivery is at risk due to more children being placed in external residential care. A number of measures were agreed to help improve the financial position within Childrens Care as follows and the financial effects of these and the financial recovery plan will be included in future quarterly budget monitoring reports when financially assured :

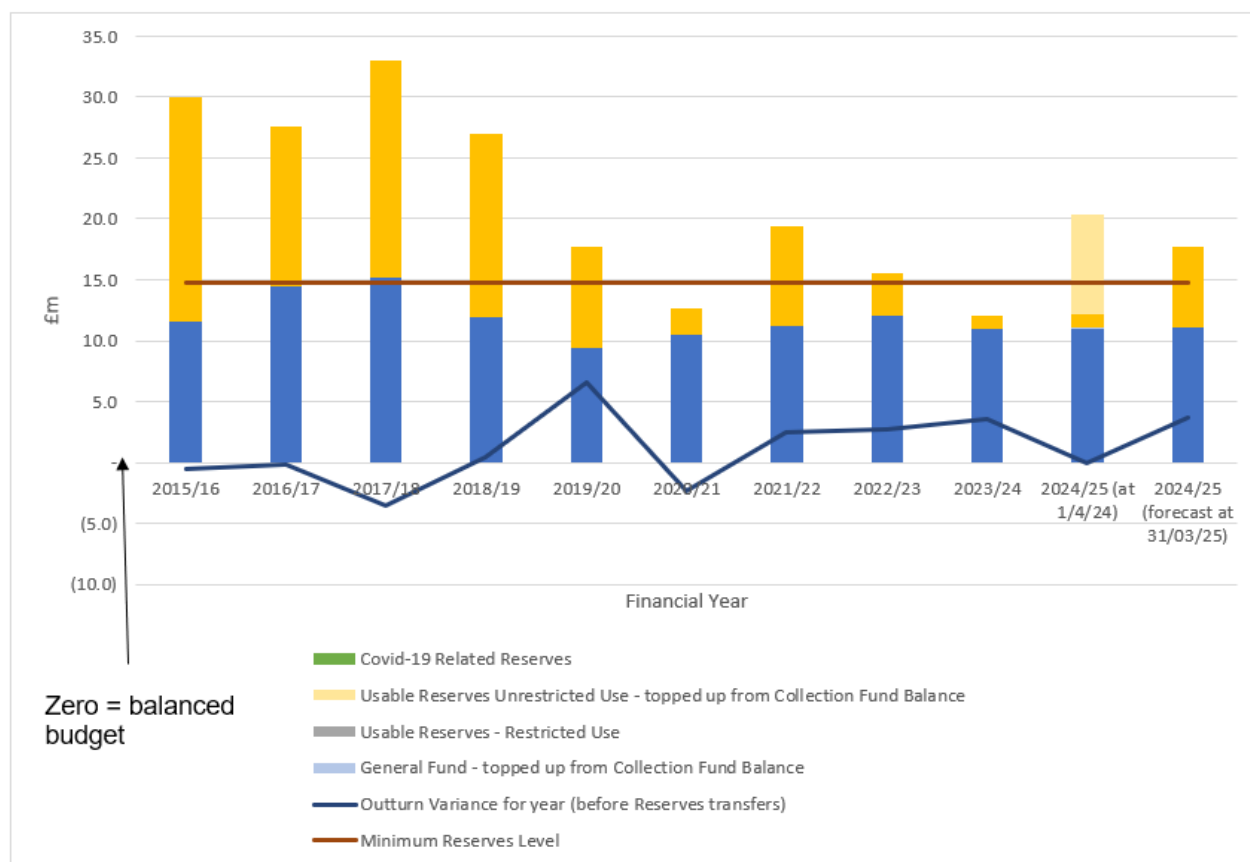
- Further permanent recruitment of staff to replace agency staff by using specialist recruiting agencies
- Review of plans for internal residential provision
- Research into why Middlesbrough is in a worse position financially than its neighbours (both local and statistical neighbours)
- Review of Edge of Care provision
- Continuation of Reunification project (initially funded by DfE grant)
- Further review of the Children's Service structure
- Potential expansion of SHIFT project
- Review of locations occupied by services within Childrens Services to ensure they are fit for transformed services provided
- Options appraisal within Fostering to increase recruitment of foster carers employed by the Council and increase internal capacity, including specialist provision. This will include redesigning the website to make more attractive and provide greater clarity of benefits to potential fosterers.

The above agreed actions will be incorporated into the Transformation Portfolio as required.

Council Reserves and Provisions

- 4.25 It is critical that expenditure is contained in 2024/25 as far as possible within the approved budget of £143.190m and that there is no unplanned drawdown on critically low revenue reserves to meet overspending. It is essential that the Council's financial position is stabilised and reserves are rebuilt from the current critically low level.
- 4.26 As a result of a detailed balance sheet review undertaken during 2023/24, the s151 officer 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 resulted in a usable cumulative collection fund surplus of £8.325m at 31 March 2024. This surplus was 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.
- 4.27 As detailed in paragraph 4.19 the £2.498m of net unachieved savings contained within the £3.742m forecast overspend at Quarter One would be funded on a one off basis from EFS if they remain unachievable and cannot be substituted in year. The remaining element of the forecast overspend not linked to savings delivery (£1.244m) would need to be funded from reserves and this would mean that the General Fund Balance would be £11.100m whilst the balance on usable unrestricted reserves would reduce to £6.570m at 31 March 2025. This would mean that the total unrestricted usable revenue reserves would be forecast to be £17.670m at 31 March 2025. This would be lower than the level recommended by the Director of Finance in the Reserves Policy approved by Council on 8 March 2024. Appendix 6 provides an analysis of restricted and unrestricted reserves together with General Fund Provisions
- 4.28 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 forecast closing 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 forecast closing balance 2024/25 and reported outturn variance per year



Contingency Budget and Change Fund

4.29 Table 4 summarises the 2024/25 budget and commitments against the central budgets controlled under the delegated powers of the s151 Officer (and deputy s151 Officers) in relation to the Contingency Budget and the Change Fund Reserve at 30 June 2024. A summary of the expenditure approved for utilisation of these budgets is set out at Appendix 7.

Table 4 – Summary of 2024/25 budget and commitments against central budgets

| | Corporate Contingency £m | Change Fund Reserve £m |
|--|-----------------------------|---------------------------|
| Starting Budget 2024/25 | 1.422 | 1.053 |
| Budgeted contribution 2024/25 | - | 0.730 |
| Additional contributions in year | - | 1.000 |
| Permanent adjustment to Regeneration budget (New Homes Bonus grant adjustment) | (0.081) | - |
| Permanent adjustment to LGS budget (previous years savings adjustment) | (0.014) | - |
| Available for use | 1.327 | 2.783 |
| Allocated/Committed to date | (0.441) | (0.017) |
| BALANCE REMAINING UNCOMMITTED | 0.886 | 2.766 |

Dedicated Schools Grant (DSG)

4.30 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's allocation in July 2024 is to receive £197.453m (before deductions and recoupmnt) of Dedicated Schools Grant (DSG) for 2024/25. The funding comprises of a number of blocks:

- Schools Block
- Central School Services Block
- High Needs Block
- Early Years Block

A large proportion of the Schools Block is passported directly to academies (known as recoupmnt). 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 recoupmnt the Council will receive DSG of £63.776m in 2024/25 including an agreed disapplication of £0.699m transfer from Schools block to High Needs block.

4.31 The forecast expenditure of £69.277m is a year-end overspend of £5.501m on DSG within 2024/25 as summarised in Table 5.

Table 5 - Dedicated Schools Grant (DSG) after recoupmnt and deductions

| | 2024/25 Forecast Income | 2024/25 Forecast Expenditure | 2024/25 Forecast Year-end Overspend | Balance as at 31/03/2024 | Forecast Cumulative DSG Deficit as at 31/03/2025 |
|-------------------------------|--|---|--|---|---|
| | £m | £m | £m | £m | £m |
| Early years | 17.692 | 17.692 | (0.000) | (0.467) | (0.467) |
| Schools Block | 14.387 | 14.387 | (0.000) | (0.298) | (0.298) |
| High Needs | 30.651 | 36.152 | 5.501 | 15.079 | 20.580 |
| Central school services block | 1.046 | 1.046 | 0.000 | (0.021) | (0.021) |
| | | | | | |
| TOTAL | 63.776 | 69.277 | 5.501 | 14.293 | 19.794 |

*(**July 2024 issued allocations for 2024-25 –note these figures can change post these allocations)*

4.32 There was a £14.293m total cumulative deficit on the DSG grant at the end of 2023/24, which included £15.079m attributed to the High Needs Block. The DSG deficit is forecast to increase during 2024/25 and there is a forecast cumulative DSG deficit of £19.794m at 31 March 2025. This includes £20.580m relating to the High Needs Block which is partly offset by £0.786m of surpluses across the other blocks.

4.33 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 forecast balance at 31 March 2025 is £19.794m which would be required to be met from the General Fund resources if the statutory override was removed by Government without providing a funding solution. 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. Further information relating to DSG and the work being undertaken by the Council with the DfE is set out in Appendix 8.

2024/25 Capital Programme Forecast Outturn as at Quarter One

- 4.34 The Council on 8 March 2024 approved a capital programme for 2024/25 of £88.549m (the original 2024/25 capital budget). This was revised to £97.215m as approved by Executive within the 2023/24 Revenue and Capital Outturn and Development of MTFP report of 26 June 2024 to take account of 2023/24 programme slippage and some new externally funded schemes.
- 4.35 The budget has been further revised at Quarter One by the addition of a total of £8.973m in 2024/25 in order to add new externally funded schemes / additional external funding to existing schemes (detailed in Appendix 9). Subject to Executive approval of incorporating these within the Capital Programme, the revised budget for 2024/25 is £106.188m as summarised in Table 6.
- 4.36 There are also some virements requested for approval by Executive between schemes in the 2024/25 Capital Programme approved by Council in March 2024 which are funded from within existing Council resources and where there is no increase in planned expenditure above that approved by Council for funding by capital receipts and borrowing (details are provided in Appendix 9).
- 4.37 The capital programme currently includes £2.589m budget assigned to Middlesbrough Development Company. This is funded by £2.014m of Council funding and £0.575m of Towns Fund grant funding. There is an outstanding dispute with the main contractor at the Boho Bright Ideas project. When this dispute is settled approval is requested from Executive that any balance remaining against the £2.589m budget will be vired to the Housing Growth and De-Risking Sites budgets to replenish this budget for use in future Housing Growth schemes, in order to maximise the value of future land disposals.
- 4.38 The 2024/25 projected outturn on capital expenditure is £99.698m at Quarter One, the revised projection includes new and additions to existing schemes, reductions in existing schemes and programme slippage.
- 4.39 The £99.698m of planned expenditure is expected to be funded by:
- £47.919m (48%) grants and external funding
 - £19.700m (20%) capital receipts
 - £32.079m (32%) borrowing
- 4.40 Table 6 summarises the capital programme approved budget, outturn, and variance for 2024/25.

Table 6 - Summary of capital programme approved budget, outturn, and variance for 2024/25

| Directorate | 2024/25 | 2024/25 | 2024/25 | 2024/25 | 2024/25 | 2024/25 | MEMO | | MEMO |
|------------------------------------|--|--|--|------------------|---------------------------|--|--|------------------|-----------------------|
| | Capital Programme Budget (as approved by Council 8/3/24) | Revised Capital Programme Budget (as per Executive report 26/6/24) | Revised Capital Programme Budget (as at Quarter One) | Forecast Outturn | Forecast Outturn Variance | Forecast Outturn Variance % Against Budget | Explanation of Forecast Outturn Variance | | Actuals as At 30/6/24 |
| | £m | £m | £m | £m | £m | % | Slippage £m | Underspend £m | £m |
| Regeneration | 21.582 | 27.428 | 29.578 | 25.478 | (4.100) | (13.86) | (4.100) | - | 2.291 |
| Environment and Community Services | 17.396 | 17.294 | 21.297 | 22.452 | 1.155 | 5.42 | 1.155 | - | 1.490 |
| Public Health | 0.043 | 0.519 | 0.689 | 0.689 | - | - | - | - | 0.027 |
| Education and Partnerships | 12.040 | 13.912 | 14.036 | 13.915 | (0.121) | (0.86) | - | (0.121) | 2.646 |
| Children's Care | 2.035 | 2.026 | 2.026 | 2.084 | 0.058 | 2.86 | 0.060 | (0.002) | - |
| Adult Social Care | 1.213 | 1.351 | 3.877 | 3.827 | (0.050) | (1.29) | (0.050) | - | 0.822 |
| Legal and Governance Services | 2.350 | 2.795 | 2.795 | 2.863 | 0.068 | 2.43 | 0.068 | - | 2.186 |
| Finance | 4.790 | 4.790 | 4.790 | 1.290 | (3.500) | (73.07) | (0.400) | (3.100) | - |
| Transformation Programme | 13.700 | 13.700 | 13.700 | 13.700 | - | - | - | - | - |
| Exceptional Financial Support | 13.400 | 13.400 | 13.400 | 13.400 | - | - | - | - | - |
| Total | 88.549 | 97.215 | 106.188 | 99.698 | (6.490) | (6.11) | (3.267) | (3.223) | 9.462 |

- 4.41 Capital slippage results from a delay in delivery of projects compared to the planned delivery. Whilst expenditure remains within the approved project budget, 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 (currently forecast at £3.267m) is reprofiled and carried forward to 2025/26 and 2026/27 to reflect revisions to the expected delivery and expenditure timescale. Details of capital slippage for 2024/25 as at Quarter One are shown in Appendix 10.
- 4.42 The major reason for the forecast underspend of £3.223m is that the Capitalisation of Property Finance Lease Arrangements scheme has been reduced by £3.100m of Council resources from a budget of £4.500m. Work has been undertaken to assess contracts and leases in place within Middlesbrough with the number of arrangements impacted by the new IFRS16 accounting rules being significantly lower than the original estimate. It should be noted that this project is in relation to the Chartered Institute of Public Finance Accountancy's (CIPFA) advice in relation to the accounting treatment of leases. The reduction has no consequences in relation to the delivery of physical capital projects. Any revenue saving arising from this will be reported within the Capital Financing budget.
- 4.43 The level of actual spend at Quarter One is currently low at £9.462m (9% of budget) and this will be closely monitored during Quarter Two and the rest of the financial year. It should be noted that there is transformation expenditure that currently has not been allocated to the capital programme in relation to Transformation investment. It is currently being held in revenue holding accounts and will be transferred to capital expenditure budgets during Quarter Two. Also it should be noted that any expenditure on EFS will be incurred at the year-end once the need to use EFS is confirmed and agreed with MHCLG.

- 4.44 Table 7 summarises and Appendix 11 details updated forecast expenditure for the period 2024/25 to 2026/27 split over the various schemes and the proposed funding. Since the Capital Programme for the period 2024/25 to 2026/27 was approved by Council on 8 March 2024, there has been forecast slippage from 2024/25 and increased externally funded schemes as detailed above, and there is therefore a need to revise the forecasts for the period 2024/25 to 2026/27. Any changes to the budgets approved by Council in March 2024 for 2025/26 and future years, will be formally approved by Council as part of 2025/26 budget setting in February 2025.

Table 7 – Summary of Forecast Capital Programme 2024/25 to 2026/27

| Directorate | 2024/25 Forecast £m | 2025/26 Forecast £m | 2026/27 Forecast £m | TOTAL £m |
|------------------------------------|---------------------------|---------------------------|---------------------------|----------------|
| Regeneration | 25.478 | 46.915 | 7.785 | 80.178 |
| Environment and Community Services | 22.452 | 15.102 | 8.172 | 45.726 |
| Public Health | 0.689 | - | - | 0.689 |
| Education and Partnerships | 13.915 | 3.927 | 0.871 | 18.713 |
| Children's Care | 2.084 | 0.600 | 1.703 | 4.387 |
| Adult Social Care | 3.827 | 0.710 | 0.660 | 5.197 |
| Legal and Governance Services | 2.863 | 2.117 | 2.185 | 7.165 |
| Finance | 1.290 | 0.200 | 0.200 | 1.690 |
| Transformation Programme | 13.700 | 7.700 | 5.300 | 26.700 |
| Exceptional Financial Support | 13.400 | - | - | 13.400 |
| | | | | |
| Total EXPENDITURE | 99.698 | 77.271 | 26.876 | 203.845 |
| | | | | |
| Funded by | | | | |
| Borrowing | 18.679 | 24.859 | 9.867 | 53.405 |
| EFS Borrowing | 13.400 | - | - | 13.400 |
| Capital Receipts | 6.000 | 6.000 | 6.000 | 18.000 |
| Flexible Use of Capital Receipts | 13.700 | 7.700 | 2.865 | 24.265 |
| Grants | 46.746 | 36.189 | 3.404 | 86.339 |
| Contributions | 1.173 | 2.523 | 4.740 | 8.436 |
| | | | | |
| Total FUNDING | 99.698 | 77.271 | 26.876 | 203.845 |

- 4.45 The Director of Finance will lead the development of strengthened governance and reporting arrangements during 2024/25. A full review of the Capital Programme will be undertaken during 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. In addition, a Capital Programme Board will be established in Quarter Two to provide improved management of the Council's Capital Programme.

Treasury Management - Borrowing & Prudential Indicators

- 4.46 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 before the start of the financial year.
- 4.47 Treasury Management activity is governed by the Prudential Indicators which are set within the TMS. The Council uses external expert treasury advisers (Arlingclose) to inform the development of its strategy and operational in year decisions. The budgeted and forecast position as at Quarter One 2024/25 are summarised in Table

8 below. A half yearly review of the Council's TMS and prudential indicators will take place at Quarter Two and a specific report is planned to be submitted to Executive on 11 November 2024 alongside the capital and revenue budget monitoring positions.

4.48 Investment and borrowing decisions are taken to manage the short, medium, and long-term cash needs of the Council and these are driven primarily by the following:

- 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, and.
- current short to long term interest rate forecasts.

Table 8 – Prudential Indicators – Quarter One 2024/25

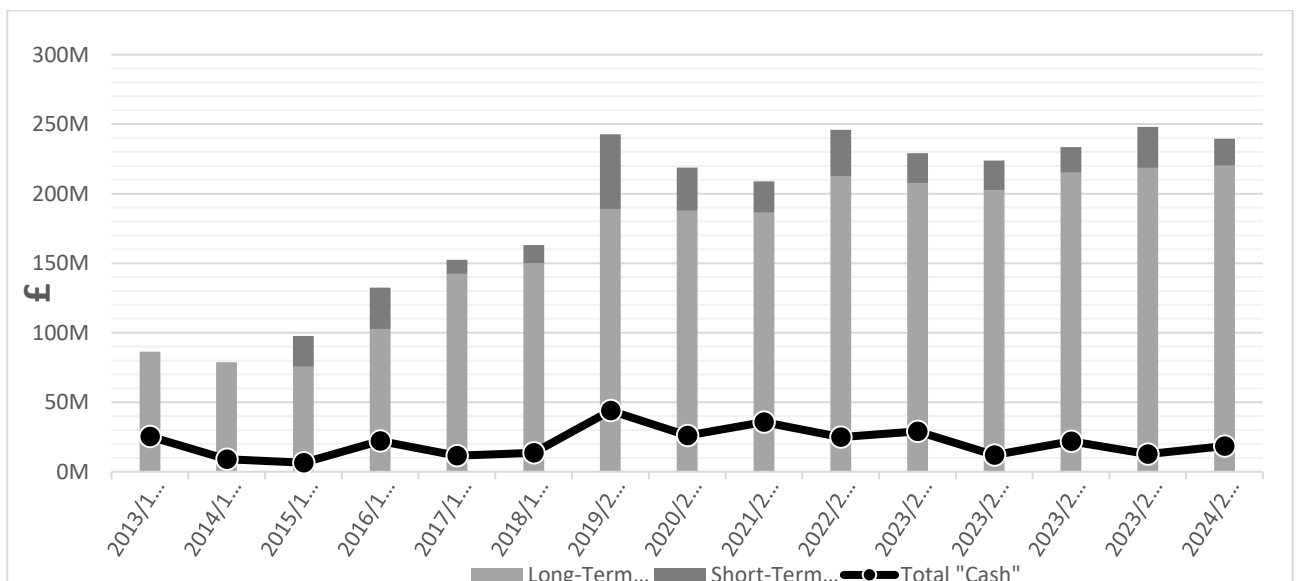
| | <u>2024/25 Budget (as per 2023/24 outturn)</u> | <u>Forecast at Quarter One</u> | <u>Variance</u> | <u>Variance as % of Budget</u> |
|-------------------------------|--|--|-----------------|--|
| | <u>(£M)</u> | <u>(£M)</u> | <u>(£M)</u> | <u>%</u> |
| Capital Expenditure | 97.215 | 99.698 | 2.483 | 2.55 |
| <u>Financing</u> | | | | |
| External Sources | 41.019 | 47.919 | 6.900 | 16.82 |
| Own Resources | 19.700 | 19.700 | 0.000 | 0.00 |
| Debt | 36.496 | 32.079 | (4.417) | (12.10) |
| | <u>97.215</u> | <u>99.698</u> | <u>2.483</u> | <u>2.55</u> |
| Capital Financing Requirement | 322.157 | 318.020 | (4.137) | (1.28) |
| External Debt borrowed | 248.104 | 239.430 | (8.674) | (3.50) |
| Cash Balances | 15.000 | 18.300 | 3.300 | 22.00 |
| Capital Financing cost | 11.154 | 11.154 | 0.000 | 0.00 |
| Revenue Budget | 143.190 | 143.190 | n/a | n/a |
| Cost as a % of Revenue Budget | 7.79% | 7.79% | 0.00% | |

4.49 The Council's forecast Capital Expenditure outturn at Quarter One is £99.698m compared to a revised original approved budget of £97.215m, an overspend of £2.483m (2.55%). The increase in capital expenditure is because of new schemes funded by grants and contributions (£6.900m), offset by slippage on schemes funded by borrowing of £4.417m.

4.50 During the first quarter of 2024/25, external borrowing decreased from £248.104m on 31 March 2024, to £239.430m on 30 June 2024. This decrease of £8.674m reflects the repayment of £5.000m in total on short term borrowing, plus £3.674m of annuity principal repayments. No new borrowing was required during the period.

- 4.51 Cash balances have increased from £12.723m to £18.300m between the end of March and the end of June 2024. 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 stayed around 4.75% during the first quarter. This is slightly above the target borrowing rate of 4.50% for the financial year. As cash levels have remained healthy, there has been no need to take any external borrowing to help with liquidity. Any borrowing decisions required will be discussed in detail with our treasury advisers, to ensure that they are consistent with the Council's debt portfolio and TMS.
- 4.52 The ratio of long-term to short-term borrowing has therefore remained stable during the quarter given that repayments only have been made to date. The Council's total under borrowed position (external debt compared to the capital-financing requirement – or underlying need to borrow for the financial year) is £78.590m on 30 June 2024, or 24.7%. Total borrowing of between £40m - £50m is required over the remainder of the financial year to finance the forecast spend on the capital programme and to keep liquidity balances at a sustainable level. The review and reprofiling of the capital programme will affect the need to borrow. This will move the under-borrowed position to a level in keeping with previous financial years. The over-riding objective continues to be to demonstrate value for money and affordability from any borrowing decisions taken over the medium term.

Figure 2 – Borrowing and cash held from 2013/14 to date



- 4.53 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/March each year. CIPFA and Government view this approach as best practice in ensuring resources are allocated prudently to capital schemes and achieve value for money in the use of resources.
- 4.54 The amount of external debt at £239.430m and the total underlying need to borrow of £318.020m, are both below the Council's authorised debt limit of £372.000m for the year. This is the threshold above which any borrowing would be unlawful. The cost of capital financing to the Council is in line with budget expectations, although

the risk is to the upside given the level of borrowing required and the existing volatility on borrowing rates at present. The total annual cost of financing the Council's capital investment plans being forecast is £11.154m, or 7.79% of the current net revenue budget.

Collection Fund - Council Tax and Business Rates income

- 4.55 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 2024/25 income collection variances 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.
- 4.56 It is too early to provide an update of the Collection Fund position for 2024/25 and this will be provided as part of the Quarter Two budget monitoring report when further information is available.

Debt Recovery Performance

- 4.57 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
- 4.58 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 Appendix 12. Progress will be incorporated into quarterly monitoring reports throughout 2024/25, with the position at Quarter One 2024/25 (30 June 2024) shown in paragraph 4.58.
- 4.59 The debt collection performance for 2024/25 together with the movement in debt balances between 31 March 2024 to 30 June 2024 is summarised below:

Table 9 – Debt Collection Performance Quarter One 2024/25 (as at 30 June 2024)

| Category of Collectable Debt | Balance at 01/04/2024 (£m) | Movement in-year (£m) | Balance at 30/06/2024 (£m) |
|-------------------------------|----------------------------|-----------------------|----------------------------|
| Council Tax | 36.773 | (0.983) | 35.790 |
| Business Rates | 8.391 | (1.660) | 6.731 |
| Sundry Debt | 15.516 | (3.951) | 11.565 |
| Housing Benefits Overpayments | 6.535 | (0.108) | 6.427 |
| Total | 67.215 | (6.702) | 60.513 |

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, grant and capital resources for the financial year 2024/25 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 One 2024/25 report.

6.4 *Human Rights, Equality and Data Protection*

6.4.1 The complete overall impact assessment included in Appendix 3 of the budget report to Council on 8 March 2024 , along with all the individual impact assessments 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 | 31/3/25 |
| Service Reviews to be undertaken in following areas as detailed in para. 4.23 & 4.24 <ul style="list-style-type: none"> Children's Care Adults Social Care Crematorium Waste Services Fleet Services Integrated Transport Unit / SEND transport | Director of Childrens Services Director of Adult Social Care Director of Environment & Community Services Director of Environment & Community Services Director of Environment & Community Services Director of Education & Partnerships | 30/9/24 |
| Revenue budget virements detailed in Appendix 3 to be actioned, subject to approval | Head of Financial Planning & Support | 30/9/24 |
| Amendments to the capital programme for 2024/25 to be actioned, subject to approval | Head of Financial Planning & Support | 30/9/24 |

Appendices

| | |
|----|---|
| 1a | Summary of key variances and financial recovery plans Quarter One 2024/25 |
| 1b | Details of Directorate variances Quarter One 2024/25 |
| 2 | Directorate Financial Recovery Plan Savings Quarter One 2024/25 |
| 3 | Proposed revenue budget virements above £250,000 at Quarter One 2024/25 |
| 4 | Detailed savings tracker of savings categorised as "Red" by Directorate at Quarter One 2024/25 |
| 5 | Budgetary and Financial Control Measures required in 2024/25 |
| 6 | Reserves and Provisions |
| 7 | Summary of projects approved for utilisation of Contingency Budgets and Change Fund at Quarter One 2024/25 |
| 8 | Dedicated Schools Grant |
| 9 | Capital Programme Quarter One 2024/25 - additional external funded schemes / additional external funding to existing schemes, and transfers between schemes |
| 10 | Capital Programme Quarter One 2024/25– details of capital slippage |
| 11 | Revised Capital Programme Forecasts 2024/25 to 2026/27 |
| 12 | Council's approach to debt recovery |

Background papers

| Body | Report title | Date |
|-----------|---|---------|
| 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 | 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 |
| Executive | 2025/26 Budget and MTFP Approach and Timetable | 22/5/24 |
| Executive | 2023/24 Revenue and Capital Outturn and development of MTFP | 26/6/24 |
| Executive | 2025/26 Medium Term Financial Plan | 4/9/24 |

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(deputy s151 Officer)

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