

Report of:	Executive Member for Environment and Finance & Governance - Councillor Barrie Cooper Director of Finance - Ian Wright
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Submitted to:	Overview & Scrutiny Board – 7 December 2021
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Subject:	Revenue and Capital Budget - Projected Outturn position as at Quarter Two 2021/22
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Summary

Proposed decision(s)

- That OSB notes the 2021/22 revenue budget Quarter Two total projected outturn of £4.155m, representing a £2.605m (2.2%) overspend on non-Covid-19 elements, and the estimated financial effect of Covid-19 in 2021/22 of £1.550m, and the proposed actions to address this.
- That OSB notes the proposed use of the following Reserves to fund the total projected overspend of £4.155m in 2021/22 :
 - Social Care Demand Reserve (£0.5m)
 - Children's Services Demand Reserve (£0.732m)
 - Covid Recovery Reserve (£2.923m)
- That OSB notes the 2021/22 capital budget Quarter Two predicted outturn of £64.814m against a budget of £82.029m, and notes the proposed revised Investment Strategy to 2023/24 at Appendix 1.

Report for:	Key decision:	Confidential:	Is the report urgent?
Noting	NA	No	No

Contribution to delivery of the 2021-24 Strategic Plan

People	Place	Business
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Quarterly monitoring, review and action planning plays a central role in ensuring that the Strategic Plan is delivered effectively.

Ward(s) affected

None.

What is the purpose of this report?

1. This report advises the Overview & Scrutiny Board of the Council's financial position at Quarter Two 2021/22, including the projected effect of Covid-19 on the Council's finances.

Why does this report require a member decision?

2. The Council's Scheme of Delegation gives collective responsibility for corporate strategic performance and financial management / monitoring.
3. This report provides the necessary information to enable the Overview & Scrutiny Board to discharge its overview responsibilities, setting out:
 - projected revenue and capital budget outturns as at Quarter Two 2021/22;
 - position statements in relation to the Council's borrowing and prudential indicators, and its reserves and provisions; and
 - actions that the Council has taken and plans to address the issues raised.
4. Standing Orders and Financial Procedures require the Executive to approve any proposed revenue budget virements over £150,000. There were no virements over £150,000 which required Executive approval at Quarter Two.
5. A revised Investment Strategy for the period to 2023/24, as approved by Executive on 9 November 2021, is attached at Appendix 1.

Report Background

Revenue Budget Quarter Two Outturn 2021/22

6. As reported in previous reports, the Covid-19 pandemic is continuing to have a significant impact on the Council's financial position. This has made the management of the Council's finances more difficult due to the constantly evolving situation and also the level of uncertainty regarding the financial effects of Covid-19 in 2021/22 and future years. Covid-19 financial pressures are being monitored separately from the normal non-Covid-19 financial position, and these are reported separately in paragraphs 50 to 78 below.
7. The 2021/22 Revenue budget for the Council is £116,492,035. During Quarter One there were a number of transfers of services between Directorates due to managerial changes, and the financial position is reported against the new Directorate budgets. The Council's outturn position for 2021/22 for non-Covid-19 elements is projected to be an overspend of £2.605m (2.2%). The split by Directorate is shown in the table below, with the Quarter One position also included for information :

Directorate	2021/22 Full Year Budget £'000s	2021/22 Q2 Projected Outturn (excluding Covid-19) £'000s	2021/22 Q2 Projected Over / (under) spend (excluding Covid-19) £'000s	FOR INFORMATION Q1 Projected Over / (under) spend (excluding Covid-19) £'000s
Regeneration and Culture	3,464	2,579	(885)	(910)
Environment and Community Services	18,773	19,990	1,217	1,036
Public Health	(2,820)	(3,229)	(409)	(459)
Education & Partnerships	480	574	94	11
Children's Care	38,209	46,094	7,885	7,043
Adult Social Care and Health Integration	41,336	41,443	107	15
Legal and Governance Services	9,429	9,576	147	127
Finance	33	(1,186)	(1,219)	(625)
Central Budgets	7,588	3,256	(4,332)	(4,521)
Revenue Outturn	116,492	119,097	2,605	1,717

8. This when added to the estimated Covid-19 pressures of £1.550m detailed in paragraphs 50 to 78 results in a total projected outturn pressure at year-end 2021/22 of £4.155m, an increase of £402,000 from the position reported at Quarter One.
9. It is proposed that the total projected overspend in 2021/22 will be covered by the full utilisation of the Social Care Demand Reserve of £0.5m and the Children's Services Demand Reserve of £0.732m, which were created at the end of 2020/21. It is proposed that the remaining £2.923m of the total projected outturn pressure is funded from the £4.512m Covid Recovery Reserve, which was created during 2020/21 to cover the potential costs arising from the Covid-19 recovery in 2021/22 and future years.
10. The level of Reserves remaining after the use of these Reserves is shown in the Reserves and Provisions Section of this report (paragraphs 113 and 114) and in Appendix 2.

Progress against budget savings

11. £1.9m of additional budget efficiency savings were approved by Council on 24 February 2021 as part of the 2021/22 budget setting. There were also approximately £1m of savings approved in previous years relating to 2021/22.
12. As reported at Quarter One it has not been possible to achieve one of the budget savings due to Covid-19 and this is detailed in paragraph 65 below.
13. In addition, as reported at Quarter One there are £1,094,000 of planned Digital project savings and a £180,000 saving to reduce staff mileage rates across the Council, which are likely to not be fully achieved in 2021/22, due to delays in implementing the projects partly caused by the effects of Covid-19. These savings were approved in previous years and are part of the budget set for 2021/22. These savings have been allocated to Directorates. A total of £265,000 of the Digital project and mileage savings are projected to be achieved in 2021/22. The remaining £1,009,000 of the savings required will be fully covered by temporary one-off efficiency savings for 2021/22 that have been proposed by Directorates. These savings do not have a material effect on service delivery, and include the following main areas:

- Keeping posts vacant / delaying recruitment to vacant posts
- Further reducing the use of agency staff within Children's Care
- Reducing discretionary supplies and services and exam and courses fees expenditure
- Reviewing the amounts charged to grants in line with grant conditions
- Maximising the amounts that are charged to corporate Ofsted Improvement Fund and Change Fund funding within Children's Services
- Utilising surpluses held in joint arrangements budgets
- Savings arising from predicted reduced demand for services during 2021/22 following further analysis
- Deferring expenditure relating to Streetworks permit set up costs until 2022/23, where they can be covered by income to be received
- Utilising up to £233,000 of the Adult Social Care Recovery Reserve, which was created at year end 2020/21 for the potential effects of increased service demand, as it is currently predicted that the full amount will no longer be required

14. The above temporary one-off efficiency savings for 2021/22 will mean that there is no financial effect on the projected outturns for Directorates in 2021/22 due to the unachieved Digital and mileage savings.
15. It should be noted that it is expected that the full amount of savings relating to Digital will be fully achieved from 1 April 2022 as per the original intended methods. A decision was made by Executive regarding the £180,000 saving to "reduce staff mileage rates across the Council" as part of the MTFP Update report considered by Executive on 9 November 2021 and Council on 24 November 2021.

Directorate variances

16. The detail of the variances contained in the table in paragraph 7 are set out below. At Quarter Two, 29 areas are projected to be spent +/- £150,000 of the agreed budget. Where appropriate, the on-going effects of variances will be considered as part of future updates of the Council's Medium Term Financial Plan.

Regeneration and Culture

17. As reported at Quarter One, car parking income is projected to be below budget in 2021/22 due to the effects of Covid-19 lockdown and the recovery period throughout the rest of the year following the removal of lockdown restrictions. The pressure arising from this in 2021/22 is shown in the Covid-19 Reduction of Income section of the report (paragraph 62).
18. Grant income of £850,000 is predicted to be received from the Tees Valley Combined Authority (TVCA) in 2021/22 for the provision of 2 to 3 hour free parking across the Tees Valley. £68,000 of the TVCA grant relating to the Captain Cook Car Park, where the Council provides 3 hour free parking, has been used, as per the scheme guidance, to mitigate the effects of the lost income for the first quarter of 2021/22 to be reported under the Covid-19 Sales, Fees and Charges lost income scheme.

Environment and Community Services

19. The Property Services budget is currently projected to be overspent by £611,000 at year-end. Within this budget there is an anticipated pressure against the Running Costs budget of £150,000, primarily due to the rising costs of energy. This is subject to change and the final pressure at year-end will be funded from the Central Pay and Prices Contingency budget. A shortfall in income due to a decrease in the number of cremations following the opening of a crematorium in Stockton is expected to result in a pressure totalling £200,000. In addition, an overspend of £170,000 is currently predicted against the Integrated Transport Unit, an increase from the £60,000 pressure reported at Quarter One. This is due to an increase in demand during the school year commencing September 2021. In addition, there is a predicted increase in external contract prices caused by a shortage of drivers which is increasing wages, and due to a rise in fuel prices. In some cases, external providers have pulled journeys, resulting in a requirement to seek more expensive alternative providers. This pressure could further increase or decrease as the year progresses.
20. The Environment Services budget is currently showing an anticipated pressure totalling £651,000. This is mainly as a result of the need to secure an alternative contractor to process kerbside recycling material following the previous contractor entering into administration. Currently, the increased cost is predicted to be £500,000 in this financial year, but this may change following the tender process for a new contractor, which is planned to be completed by the end of October 2021. The final pressure at year-end will be funded from the Central Pay and Prices Contingency budget. There also a number of other pressures within the Service below £150,000, including Catering (£66,000) due to the rising cost of food & drink supplies, Pest Control (£68,000) due to an income shortfall, and Waste Collection (£66,000) due to the purchase of vehicle wraps as part of the initiative to improve recycling rates in line with the Council's Green Strategy. These pressures have been partially offset by salary savings elsewhere within the Service.

Public Health

21. There are projected savings on Public Health budgets totalling £409,000, with £208,000 of the projected savings being due to reduced activity for some demand led services, such as Stop Smoking, NHS Healthcheck programme, rehabilitation, and prescribing costs as a result of Covid-19, and the remainder being due to staff and supplies and services savings.

Children's Care

22. The projected overspend on the Children's Care budget has increased by £842,000 from that reported at Quarter One to a projected overspend of £7,885,000 as at Quarter Two. The split of the projected overspend between the individual budgets within Children's Care and the changes from the Quarter One reported position are detailed in the paragraphs below.
23. The external residential agency placements budget is currently projected to be £2,482,000 (25%) overspent at year-end. This is an increase of £840,000 from the Quarter One projection. The number of external residential placements has significantly reduced to 48 at the end of Quarter Two from 65 at the end of 2020/21,

due to various initiatives introduced such as the Innovate Team, the Futures for Families Programme, and Daniel Court. There has however been increased costs for some of the remaining placements due to the complex nature of the remaining young people, and also rising costs within the market generally.

24. There was also an increased pressure due to the assumption for the re-opening of the internal provision at Rosecroft that was made at Quarter One being more optimistic than the actual position that was achieved. This has led to some increased costs than forecast at Quarter One being incurred until young people were placed in Rosecroft.
25. It should be noted that this increase should not affect the on-going plan to reduce Children's Care expenditure in future years, as a large proportion of the current increased cost is short-term in nature whilst reduced cost long-term permanent placements are being finalised, and also some of the young people involved will turn 18 years old soon and therefore should not result in any further cost to the Children's Care budget. In addition, Phase 2 of the Innovate programme has started, but it will take time to fully progress the placement moves of the complex young people and achieve further financial savings.
26. The above has however been partly offset by projected additional income from the Clinical Commissioning Group (CCG) of £220,000 (18%) above the budget for the contribution from Health towards the increased cost of placements due to the complex needs of the young people.
27. Further work is also being led by the Directors within Children's Services to review all the young people in Residential Agency Placements and ensure that appropriate levels of funding are received from both the CCG for Health and from Dedicated Schools Grant (DSG) for Education contributions. Due to the fact that the complexity of the Council's young people has increased along with the average placement costs, the Health and Education contributions should therefore also increase appropriately. This should improve the position in the remainder of the year, and this will be reported as part of the Quarter Three budget monitoring report.
28. The in-house fostering services budget is currently projected to be £985,000 (34%) overspent at year-end, broadly similar to the Quarter One projection. There has been an increased number of placements/cases by 12 from the start of the year (from 164 to 176 currently). An increase in this budget should be positive as a whole as the cost per child is less expensive than other demand budgets, and the Service are working to further increase capacity over the next few years.
29. The Independent Fostering Agency (IFA) placements budget is projected to be £1,190,000 (22%) overspent at year-end, again broadly similar to that reported at Quarter One. The number of placements / cases has reduced to be currently at 156, but this is still significantly above the budget. Whilst capacity has been maximised within the internal in-house fostering service, an overspend will still exist on this budget to ensure that higher cost external residential placements are minimised. Without the increase in places in in-house fostering provision, the Independent Fostering Agency budget pressure would have increased significantly more than it has.

30. There has been a significant reduction in the projected overspend on the Family and Friends Allowances budget with the overspend now currently projected to be £717,000, which is a reduction of £415,000 from the projected overspend of £1,132,000 reported at Quarter One. It should be noted that demand on this budget is expected to continue to grow over the next few years as the Council continue to improve outcomes for Middlesbrough young people and make improvements to services. The costs associated with payments made under this budget are however significantly lower than those in other budgets, such as those in external residential agency placements or Independent Fostering Agency (IFA) placements. A working group is continuing to investigate processes and payments, and there is a plan to increase benefit claim checks in order to attempt to mitigate this pressure.
31. There is currently a predicted overspend of £1,412,000 (24%) on the Safeguarding, Care Planning and Referral and Assessment teams budget, which is a minor increase of £37,000 from that reported at Quarter One. Despite charging some costs to Covid-19, the projected overspend is mainly due to staff agency costs in 2021/22 to cover sickness and vacant posts. It remains a challenge to recruit and retain social workers, and a strategy for this is included within the Ofsted Improvement Plan, and supported by the Council's management team. The recruitment of permanent social work staff is a major challenge to the Council, with the continued reliance on the use of significant levels of agency staff being a significant risk to long-term finances of the Council.
32. The projected overspend on the Review and Development budget has slightly reduced from the £359,000 reported at Quarter One to a current projection of £327,000 overspend. The pressure on this budget is due to increased staffing costs to support the reduction in caseloads of social workers to more manageable levels, and the recruitment of agency staff to fill vacant posts due to challenges in recruiting to social worker positions across Children's Services.
33. Children Looked After teams are projecting a £398,000 (17%) overspend at year end. Similar to Safeguarding, Care Planning and Referral and Assessment teams budget, this is mainly due to agency staffing costs to fill vacancies and cover absences, and to support the Ofsted Improvement Plan. This is a slight reduction of £34,000 from the projected overspend reported at Quarter One. As stated in paragraph 31 the reliance on agency staff, is a significant risk to the Council in the medium to longer term.
34. The Internal Residential Services budget is currently projecting an overspend of £298,000 (11%) at year-end, an increase of £120,000 from the £178,000 reported at Quarter One. The pressure is mainly due to increased staffing costs required to staff the Fir Tree extension for a complex young person. This will avoid a significant external residential cost for this young person. There have also been the need to recruit agency staff due to challenges in recruiting permanent staff.
35. It should be noted that the pressures reported on the Directorate's management budgets in previous years have now been removed following senior staff moving from agency contracts to permanent contracts.

Adult Social Care and Health Integration

36. There are projected staff savings across the Service totalling £348,000 mainly due to staff turnover and delayed recruitment to vacancies. Similar to Children's Care (as detailed in paragraph 31), there are emerging difficulties within Adult Social Care relating to the recruitment of permanent social work staff, and the Service are having to consider recruiting agency staff to fill vacant posts.
37. Quarters One and Two of 2021/22 have seen a net growth in purchased care costs (mainly residential care) of £763,000, with further growth of £450,000 forecast to the year-end. It should be noted that this forecast could vary significantly as Covid-19 restrictions ease and overdue reviews of care packages are undertaken during the remainder of the financial year. This pressure is offset by a corresponding increase in service user's contributions to care of £500,000 in excess of budgeted income. Other projected savings of £204,000, including additional health income and reductions in the cost of some care packages, are predicted to reduce the total overall pressure on the purchasing budget to £509,000.
38. In addition, there are a number of budget areas within Adult Social Care which have variances below £150,000, and these account for the overall £107,000 total projected overspend on the Adult Social Care budget.

Legal and Governance Services

39. As reported at Quarter One there is an overspend expected against the budget for Middlesbrough's contribution to the Coroners Service, currently projected by £157,000. This is due to a rise in the number of cases, and also an increase in pathology and post-mortem costs.

Finance

40. As reported at Quarter One continued successful lettings at Tees Advanced Manufacturing Park (TAMP) have resulted in unbudgeted net additional revenue income, currently estimated to be £332,000. This is now reported under the Commercial Rents income budget which, following the inclusion of the additional income from TAMP, is projecting an overall surplus of £83,000 at year-end, which is an improved position from the £39,000 pressure reported at Quarter One.
41. There is additional unbudgeted income of £500,000 estimated to be received by year-end due to rental income from the recent purchase of the Captain Cook Shopping Centre. This is an increase from the £300,000 surplus income reported at Quarter One due to successful recovery of rent owed from a number of tenants.
42. The Revenues and Benefits budget is projected to be underspent by £425,000 at year-end, an increase of £45,000 from that reported at Quarter One, mainly due to an increase in unbudgeted new burdens grant funding from the Government for additional work arising from the distribution of Covid-19 grants to business and individuals.
43. There is a projected pressure of £100,000 on the Insurance budget for Middlesbrough's contribution to the potential cost of historic claims relating to Cleveland County Council.

44. In addition, there are a number of budget areas within Finance which have variances below £150,000, and these account for the overall £1,219,000 total projected underspend on the Finance budget.

Central Budgets

45. As part of the budget for 2021/22 approved by Council on 24 February 2021 a central contingency budget of £3m was created in 2021/22 only, to provide for the potential continuing effect of Covid-19 and recovery in 2021/22 above the funding provided by the Government. Pressures have been reported against individual Directorates and within the Covid-19 costs, and therefore the £3m is reported as a projected saving in Central Budgets.
46. The central contingency budget for Pay and Prices is currently projected to underspend by £931,000 at year-end based on the current expected calls on the budget during 2021/22. However, this may change dependant on the outcome of the final settlement of the local government pay award for 2021/22 for which 2% (equating to £1.8m) has been provided in 2021/22, and where negotiations between employers and the trade unions are still continuing, and also if any other calls on the budget come to light for the remainder of the year. It should also be noted that it is expected that the pressures currently reported within Environment and Community Services relating to Kerbside Recycling and Energy will be funded from the Pay & Prices budget by year-end. This budget will be closely monitored and updates will be provided in future reports.
47. The Capital Financing budget is currently projected to be underspent by £87,000 at year-end, due to expected delays on projects and reduced interest rates. This budget will be closely monitored during the remainder of 2021/22 and updates will be provided in future reports.
48. There is predicted rental income of £310,000 above the budget for Centre Square Buildings 1 and 2 following the successful lettings of these buildings. However, there are non-rent pressures of £47,000 predicted in 2021/22 relating to business rates and service charges for Centre Square Buildings 1 and 2, which the Council will have to incur in 2021/22 whilst tenants are not in place. The total net excess rental income on Centre Square Buildings 1 and 2 is therefore currently projected to be £263,000 in 2021/22, based on confirmed tenants for the buildings. Tenants who have signed contracts but have not yet occupied the buildings will do so throughout the remainder of the financial year following fit out of the buildings.
49. There is a potential £183,000 saving on the remaining £322,000 ongoing contingency pressures budget in 2021/22, due to Legal Services not requiring all the available funding in 2021/22 allocated for increased childcare cases demand. This budget will be fully utilised in 2022/23.

Covid-19

50. As reported during 2020/21 in the quarterly budget monitoring and year-end reports and the Medium Term Financial Plan Update and Budget reports to Executive and Council and in the 2021/22 Quarter One budget monitoring report to Executive on 7 September 2021, the Covid-19 pandemic has had and will continue to have a significant impact on the financial position of all local authorities, including

Middlesbrough. The ongoing pandemic continues to pose a number of challenges and uncertainties for local authorities going forwards. Whilst the service and financial risk is not fully known and it could be potentially be severe for the country and local government sector, the Council is well prepared for these risks as part of its financial planning over the medium term.

51. The paragraphs below provide an update of the position as at Quarter Two 2021/22 detailing the current estimated costs of Covid-19 and the grant funding provided by the Government in 2021/22. The table contained in Paragraph 75 summarises the overall projected financial position for 2021/22, along with a breakdown of the funding split between the Government grant funding and the Council. It should be noted that this is a constantly changing position and therefore estimates are subject to change, and are dependent on any potential further outbreaks and the impact of any potential further local and/or national lockdowns which currently are not expected to occur but will further increase the Covid-19 costs if they occur.

Government funding

52. As reported previously the financial impact of Covid-19 on local authorities has been recognised by the government and they have responded by making a number of announcements about supporting local authorities financially.
53. The Revenue Budget, Council Tax, Medium Term Financial Plan and Capital Strategy 2021/22 report to Council on 24 February 2021 detailed the funding likely to be available to Middlesbrough in 2021/22 relating to the Covid-19 pandemic. This is summarised below:
- Covid-19 Expenditure Pressure Grant, which provides general support funding totalling £5.310m for 2021/22.
 - Sales, fees and charges (SFC) – the SFC compensation scheme for lost income is to be continued for the first three months of 2021/22, using 2020/21 budgeted income as the baseline. It is currently estimated that Middlesbrough will receive funding of approximately £733,000 in 2021/22 from the scheme. It should be noted that the SFC scheme does not cover commercial income lost from investment activities and rental income.
 - A further allocation of Contain Outbreak Management Fund (COMF) funding of £1.370m in 2021/22 to provide funding to local authorities to support public health activities, such as local enforcement and contact tracing.
 - Local Tax Income Guarantee – the Government also confirmed that Government funding would be provided to compensate councils for an element of the Collection Fund deficit, based on a methodology which was provided to councils that 75% of any losses below a pre-determined level would be funded. However, due to improved collection rates later in 2020/21, under the method of the calculation Middlesbrough Council will not qualify for any compensation funding from this in 2021/22.
 - Local Council Tax Support Grant – The allocation for Middlesbrough is £2.592m in 2021/22. In the Revenue Budget, Council Tax, Medium Term Financial Plan and Capital Strategy 2021/22 report to Council on 24 February 2021 it was

approved that this funding would be used over the MTFP period to mitigate pressures on the council tax base.

Costs

54. It is currently estimated that there will be approximately £4.6m of additional costs associated with Covid-19 in 2021/22 and these cover a wide range of areas and services. It should be noted that this is a constantly changing position and therefore estimates are subject to change, and are dependent on any potential further outbreaks and the impact of any potential further local and/or national lockdowns which currently are not expected to occur but will further increase the Covid-19 costs if they occur.
55. Adult Social Care – there are total projected additional costs of approximately £0.4m, mainly due to the additional staffing that is required in Social Care to deal with the effects of the Covid-19 recovery on services provided.
56. Children’s Social Care Costs – there are currently estimated to be approximately £1.9m of total additional costs within Children’s Social Care, mainly due to delays in placements of children (approximately £0.2m) and increased staffing and agency staffing costs (approximately £1.5m) to deal with an increased number of cases and case backlogs caused by Covid-19. There is also some emerging evidence that following the end of restrictions there may be further increases in numbers of children requiring support, but these are currently not known and will be updated in future reports.
57. Other expenditure relating to Children’s Services is predicted, in particular around Legal Childcare case backlogs (estimated to be £0.03m) and costs within Education & Partnerships (estimated to total £0.4m) which mainly relate to additional Education Psychologists that are required to provide additional capacity for mental health support to young people and various additional costs relating to early years support.
58. Environment and Community Services – there are projected total additional costs estimated to be approximately £0.4m for a wide range of areas, including estimated increased costs of £0.1m relating to increased costs of waste collection and disposal due to increased tonnages of waste.
59. Direct Covid-19 Costs - a number of direct costs associated with the current situation are predicted in 2021/22, such as the procurement of various expenditure within marketing and communications relating to additional signage and leaflets in order to provide messages to the public relating to the Covid-19 pandemic (currently estimated to be £0.07m), and other costs of approximately £0.1m relating to the storage of Personal Protective Equipment (PPE). There has also been increased payments to providers of Bed & Breakfast accommodation, estimated to be £0.04m, due to the requirements to house people during the Covid-19 pandemic.
60. Other Covid-19 costs –Additional staff costs of approximately £0.12m are estimated within Legal Services due to the need to recruit agency staff to help with backlogs in cases and difficulties in recruiting permanent staff caused by the Covid-19 pandemic. Additional staff costs of approximately £0.11m are predicted within HR for additional counselling and Health and Wellbeing services for staff following the Covid-19

pandemic. There is also additional IT expenditure for additional equipment and licences, currently estimated to be approximately £0.075m.

61. SLM Leisure Trust – As detailed in 2020/21 in previous quarterly and year-end reports and in the Quarter One budget monitoring report, significant payments have been made to SLM, the Council's provider of leisure facilities. Following the reopening of leisure facilities SLM have not been able to operate to their normal subsidy, with the effects of a restricted operation following the end of lockdown restrictions and the post Covid-19 recovery period impacting on their current levels of income. It is currently estimated that payments to SLM will total approximately £872,000 in 2021/22. The Department of Culture, Media and Sport (DCMS) announced the "National Leisure Recovery Fund" to which the Council were awarded a grant of £305,542. £164,473 of the grant was utilised in 2020/21 and therefore £141,069 of grant is remaining for use in 2021/22 to offset any payments to be made to SLM, meaning that currently there is predicted to be a net pressure of approximately £731,000 in 2021/22. This is an improvement of £128,000 on the position reported at Quarter One. Detailed discussions are currently taking place with SLM in order to reduce as far as possible the financial pressure to the Council in 2021/22 and any potential pressures in future years, and updates will be provided in future reports regarding this.

Reduction in income

62. The impact of the lockdown and closure of facilities and services and the recovery period following the end of restrictions has resulted in for the first two quarters of 2021/22 and will result in for the rest of 2021/22, a loss of income across a broad range of areas. The following list shows the main areas and the estimated loss for each main area in 2021/22:

- Car Parking (£1.0m)
- Cultural activities (Town Hall, Middlesbrough Theatre, Museums, Newham Grange Country Park, Parks) (£0.5m)
- Catering income from schools (£0.1m)
- Adult Social Care - In house day centre care provision (£0.5m)
- Libraries and Community Hubs – room hire, book sales, and fines (£0.1m)
- Council run Nurseries (£0.2m)
- Bus station – departure charges and loss of income from toilets (£0.1m)
- Capital Finance – Rent and Interest (£0.1m)
- SLM – expected loss of profit share in 2021/22 (£0.2m)

63. The overall pressure due to a reduction of income will be linked to the recovery of Council services, and in some areas economic activity, and it is currently estimated to total approximately £2.9m in 2021/22.

64. As mentioned in paragraph 53 it is currently estimated that the Council will receive approximately £0.7m from the SFC scheme in 2021/22.

Unachievable savings

65. It has not been possible to fully achieve a budget saving of £313,000 relating to a review of cleaning, caretaking, security and facilities management (ECS02), due to the inability to reduce cleaning hours and standards and additional cleaning required

because of Covid-19. It is currently projected that £82,000 of the saving is at risk of not being achieved, and it is proposed that this be charged to Covid-19 costs in 2021/22.

Council Tax and Business Rates Income

66. Income from Council Tax and Business Rates (NNDR) is accounted for within the Collection Fund. Because of the way that this works in relation to the General Fund, the financial impact of any reduction in income does not immediately affect this year's financial position, it is effectively a shortfall to be resolved next year and will need to be reflected in an updated Budget and Medium Term Financial Plan (MTFP) at the appropriate time.
67. During 2020/21, there were a number of issues, which resulted in significant pressures on Council Tax and Business Rates income. Within the Revenue Budget, Council Tax, Medium Term Financial Plan and Capital Strategy 2021/22 report to Council on 24 February 2021 it was noted that the overall financial impact of Covid-19 on Council Tax and Business Rates income to the Council in 2020/21 was estimated to be £3.696m. It is normal practice that any arising deficit would need to be fully funded in 2021/22. However, the Government announced that this could be spread over the next three years meaning that it was estimated that there would be an effect of £1.232m p.a. in 2021/22, 2022/23, and 2023/24. The final outturn positions for Council Tax and Business Rates were much improved from the statutory amounts incorporated into the budget setting in February 2021 by approximately £0.4m per year over the 3-year spread period to 2023/24. The improved amounts will be incorporated into the next refresh of the Council's Medium Term Financial Plan.
68. As mentioned in paragraph 53 Government funding was provided to compensate councils for an element of the 2020/21 deficit, based on a methodology which was provided to councils that 75% of any losses below a pre-determined level would be funded. However, due to improved collection rates later in 2020/21, under the method of the calculation Middlesbrough Council will not qualify for any compensation funding from this in 2021/22.
69. Whilst full complete information is not yet available this financial year it is already clear that there are a number of issues which may result in pressures continuing on Council Tax and Business Rates income during 2021/22 and potentially in future years.
70. The phasing out of the furloughing scheme from the start of July 2021 and the ending at the end of September 2021 may mean that there are a number of residents who will struggle to pay their Council Tax bills in the future. This may mean that there will be an increase in people claiming Local Council Tax Support (LCTS) as the economic impact of the pandemic increases the number of households eligible for LCTS support. This will lead to a reduction in the overall amount of Council Tax assessed/collected compared to the level budgeted. This will be closely monitored through 2021/22.
71. Our budgeted Council Tax base includes assumptions on housing growth. If there is reduced growth in housing numbers, this will impact on income levels.
72. The Government provided support for businesses through increased business rates reliefs and grants in 2020/21. These largely remained in place during the first quarter of 2021/22 but will reduce throughout the remainder of 2021/22. Following the

reduction in the level of this support, businesses may struggle to pay their business rates, and therefore there is a risk that Business Rates revenue reduces if businesses fail or are unable to pay.

73. In addition, the level of outstanding Council Tax and Business Rates debt is likely to rise and the Council will need to review the potential to collect that debt.
74. The position relating to Council Tax and Business Rates income for 2021/22 and the effects on the Collection Fund are being closely monitored, and updates will be provided in future budget monitoring reports.

Summary of Covid-19 Financial Pressures

75. The projected financial impact of the Covid-19 pandemic in 2021/22, based on experience in the first six months of the financial year, is summarised below along with a breakdown of the estimated funding split between the Government grant funding and the Council, based on assumptions made following the Government announcements detailed in paragraph 53:

<u>see also note on Other Covid Grants below</u>			
	<u>Grant Allocation</u> <u>2021/22</u>	<u>Projected</u> <u>2021/22</u>	<u>Projected Council</u> <u>Cost 21/22</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Extraordinary costs incurred		4.636	
Commercial income losses		0.080	
Non-SFC income losses		0.172	
Unachievable Change Programme savings		0.082	
Total Covid-19 Main grant (2021/22)	5.310	4.970	-0.340
Sales, Fees and Charges (SFC) income loss grant (2021/22) (note only receive grant for 1st quarter of 2021/22)	0.733	2.623	1.890
DRAFT PROJECTED NET COST OF COVID TO COUNCIL 2021/22			1.550

<u>NOTE - OTHER COVID GRANTS</u>			
	<u>Grant Allocation</u> <u>2021/22</u>	<u>Projected Spend</u> <u>2021/22</u>	<u>Projected Grant</u> <u>Remaining 2021/22</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Clinically Extremely Vulnerable (CEV) - see Note 1	0.198	0.198	0.000
Test And Trace - see Note 2	0.341	0.341	0.000
Contain Outbreak Management Fund (COMF) - see Note 3	1.246	1.246	0.000
Total Other Covid Grants	1.785	1.785	0.000
<u>NOTE 1</u> For CEV Grant - no new allocation in 2021/22, but £198k of remaining grant from 2020/21 was carried forward for use in 2021/22.			
<u>NOTE 2</u> For Test & Trace - no new allocation for 2021/22 but £687k of remaining grant from 2020/21 was carried forward for use in 2021/22 (£530k) and 2022/23 (£157k) .			
<u>NOTE 3</u> For COMF - the Council received £1.37m for 2021/22, however £124k of funding is likely to be required in 22/23 for the continuation of Public Protection schemes.			

76. The overall financial position is being regularly reviewed to assess impact across all areas and it is likely that this will identify additional pressures and also some potential savings. It should also be noted that this is a constantly changing position and

therefore estimates are subject to change, and are dependent on any potential further outbreaks and the impact of any potential further local and/or national lockdowns which currently are not expected to occur but will further increase the Covid-19 costs if they occur.

77. The above table indicates that there will be a potential financial pressure due to Covid-19 of £1.550m in 2021/22, which is a decrease of £486,000 from the £2.036m pressure reported at Quarter One, mainly due to a grants review exercise undertaken recently, and a review of the amounts estimated to be paid to SLM following further information being received (as detailed in paragraph 61).
78. It is intended that this pressure will be funded from the Covid Recovery Reserve of £4.512m set aside for this.

Revenue budget spending controls

79. As previously reported, a number of controls were implemented from 2019/20 to minimise overspending across the Council in-year and these remain in place for 2021/22, specifically:
- a vacancy control process overseen by the Leadership Management Team;
 - checks against proposed expenditure of over £5,000 by the procurement team; and
 - strong controls over staff travel, the ordering of stationery and use of first class post.
80. The Council is continuing to minimise the use of agency staff where it is appropriate to do so, but it is acknowledged that currently there will be a need for the use of agency staff within Children's Care, principally to support the Ofsted Improvement Plan and also due to the impact of Covid-19. The use of additional recruitment and retention packages to support the reduction of use of agency staff in future years. Monthly reports on agency costs are reported to senior managers for consideration.
81. A number of plans have been put in place for 2021/22 to mitigate overspending within Children's Services. These are outlined below :
- Subjecting cases of children looked after by the Council to ongoing audit, consistent decision making processes and a solutions panel chaired by the Director of Children's Care.
 - Development of Stronger Families teams within Early Help and Prevention to increase skills to support additional work and complexity at this level to prevent future young people entering care.
 - Development of the Middlesbrough Multi Agency Children's Hub to secure the consistency of thresholds and increasing step-downs to early help and more timely support for children and young people.
 - Utilising two specialist project teams to support referral and assessments at the front door of Children's Care.
 - Continuing to keep internal residential places at a high occupancy level. Re-opening Rosecroft in late summer, once registered, will produce a further 5 places. Plans to increase Fir Tree by 1 place later in 2021/22. Other Internal Residential opportunities are to be reviewed as invest to save models when

identified and assessed. Potential sale of any spare places that are not occupied with Middlesbrough young people to neighbouring Tees Valley Local Authorities.

- All external residential placements are being reviewed by a specialist project team set up by the Director of Children's Services to ensure that no children are in residential care who can be fostered or safely returned to their families or the care of relatives. In addition this team will look at all cases that are nearing requirement for residential care with the aim of making sure that all alternative options for support are fully explored before residential provision is approved.
- Work continues to build on increasing the number of internal foster placements achieved over the past 2 years, allowing children to be placed in high quality, local authority foster care as an alternative to more expensive agency placements.
- An in depth review is taking place of the processes around the placement of children with friends and family to ensure that these are only made where necessary and that financial support represents value for money.
- Maximising, where appropriate, health contributions from Clinical Commissioning Group (CCG) and education contributions from the Dedicated Schools Grant.

82. While the mitigations above will be progressed, the experience in 2020/21 suggests that whilst efficiencies may have been made in placement methods these will not have a positive effect on the bottom line position unless the overall numbers of children in care are brought under control.

83. The position around our numbers of children in care has been specifically referenced by the DfE Commissioner, and it is clear that for both quality of practice and financial reasons the number needs to be safely reduced. This will entail improvement of edge of care provision to support families and prevent children needing to become looked after and crucially improving practice and care planning to allow those children who are able to return home, be placed with family or friends or be adopted in as timely a manner as possible. This work is interdependent on our overall improvement journey and will not be a short term fix, however prioritisation in these areas is crucial to ensuring that our resources, both human and financial, are sufficient to deliver improvement. The position is constantly monitored and in future MTFP reviews an informed and prudent view will be taken of the length of time that will need to be allowed for this work to deliver results as well as the monitoring arrangements required.

84. As mentioned in the budget report to Council of 24 February 2021 the Council has set aside approximately £1.6m of Council funding for 2021/22, to support the Ofsted Improvement Plan. This will be combined with £188,000 of unspent funding carried forward from 2020/21, and funding from a separate Childrens Services Improvement Reserve of £175,000 created at the end of 2020/21 to further improve Childrens Services. Progress against the plan is being monitored by the Multi Agency Strategic Improvement Board, and any variances from the budgets contained in the Ofsted Improvement Plan will be detailed in future budget monitoring reports.

Capital budget Quarter Two Outturn 2021/22

85. As part of the Quarter One report to Executive on 7 September 2021, Executive approved a revised capital budget for 2021/22 of £82.029m. Following a further review and the inclusion of new additional schemes, increases to existing schemes,

and the reductions to existing schemes (as detailed in paragraphs 87 to 90), it is currently predicted at Quarter Two that the Council will spend £64.814m at year-end.

86. The revised Investment Strategy to 2023/24 is included at Appendix 1 for information. It should be noted that capital receipts assumptions have been re-evaluated in light of Covid-19 and the Revised Investment Strategy takes accounts of this.
87. No schemes were proposed to be removed from the Investment Strategy. Also, no schemes over the £150,000 threshold were transferred between Directorates.
88. It was proposed to add the following scheme above £150,000, to the revised Investment Strategy, set out at Appendix 2 and approved by Executive on 9 November 2021:
 - On 11 May 2021 Executive approved the report “Teesside Archives”, specifically;
 - The transfer of Teesside Archives stock to commercial storage
 - The relocation of Teesside Archives staff to the Dorman Museum
 - Approval of up to £325,000 from any subsequent sale of Exchange House to be used for the relocation of Teesside Archives staff
 - Approval for the pursuit of external funding for the longer term development of new archive storage attached to the Dorman Museum.

The Archives function is a joint arrangement with Hartlepool Council, Redcar and Cleveland Council and Stockton Council, and the £325,000 cost is shared amongst the authorities, with the direct cost to Middlesbrough Council being £81,000.

89. The following addition to schemes in the current Investment Strategy which have been recently approved by Executive were also included in the revised Investment Strategy, set out at Appendix 1 for information:
 - On 5 October 2021 Executive approved the “Fountain Court Refurbishment and Fit-Out” report. This follows the Executive report of 16 March 2021 “Council Future Office Accommodation – Preferred Option”, which identified Fountain Court as the preferred option whilst highlighting that detailed due diligence was required with respect to the building and if required an secondary report would be prepared requesting any additional funding required. The due diligence has been undertaken resulting in the need for additional capital investment to refurbish and fit-out the building to enable Council staff to relocate there in 2022. £4,438,000 of additional funds have been added to the Investment Strategy within the New Civic Centre Campus budget. Savings of £300,000 as described in paragraph 90 have reduced the overall request to £4,138,000.
90. One scheme within the current Investment Strategy has been reduced by over £150,000:
 - £900,000 of the De-Risking Sites scheme includes an allocation for the demolition of the Civic Centre should it be determined that this is the correct course of action for the building. The estimations have been revisited and revised to £600,000, which has enabled £300,000 to be removed from the

Derisking Sites allocation within the Investment Strategy as part contribution to the additional funds required for the refurbishment and fit-out of Fountain Court.

91. The split by Directorate is shown in the table below, which also shows the “real” projected outturn variance if all of the additional new schemes, increased schemes, reduced schemes, and transfers between directorates are excluded. Explanations for variances of +/- £150,000 across sixteen schemes are set out in the following paragraphs. These variances require movement within the Council’s four-year Investment Strategy, but do not affect the overall investment or cost of borrowing.

Directorate	2021/22	2021/22	2021/22	MEMO	
	Investment Strategy Budget (as per 21/22 Q1 report to Executive) £'000	Projected Investment Strategy Outturn £'000	Projected Investment Strategy Outturn Variance £'000	New, increased & reduced Schemes / transfers £'000	Real outturn variance excluding new, increased, & reduced schemes / transfers £'000
Regeneration and Culture	46,145	43,820	(2,325)	325	(2,650)
Environment and Community Services	11,823	10,920	(903)	0	(903)
Public Health	0	0	0	0	0
Education & Partnerships	12,224	3,238	(8,986)	0	(8,986)
Children’s Care	690	690	0	0	0
Adult Social Care and Health Integration	3,621	3,517	(104)	0	(104)
Legal and Governance Services	3,685	2,288	(1,397)	0	(1,397)
Finance	3,841	341	(3,500)	(300)	(3,200)
Total	82,029	64,814	(17,215)	25	(17,240)

Regeneration

92. Town Centre Related Projects – £364,000 of funds expected to be expended in 2021/22 are now required to be re-profiled into 2022/23 primarily due to the following;
- Delays in the design stage of the Grange Road project delaying the tender process, which will result in the project now completing in 2022/23.
 - The Middlesbrough Mural project has been cancelled, and the planned expenditure of £120,000 has been returned to the block budget and will be reallocated as and when required in 2022/23.
93. Linthorpe Road Cycleway – The Council has undertaken extensive consultation with local stakeholders and businesses in respect of the project. This has resulted in a delay in the originally planned programme with the works now expected to conclude in Spring 2022, consequently £498,000 of grant funding has been re-profiled into 2022/23.
94. Housing Growth – A total of £701,000 of anticipated expenditure has been re-profiled into 2022/23. The majority of the re-profiling is with regard to the following two sites
- Nunthorpe Grange – The Council continues to be in negotiations with the housing developers with respect to an agreement for the allocation of costs for the construction of the required roundabout. The works will commence by the

end of this financial year in order to comply with the planning application, however, due to the extended negotiations the greater majority of the works are now anticipated to complete in 2022/23, and £551,000 of resources have therefore been transferred into 2022/23 accordingly.

- Newham Hall – Work on this project is dependent upon the decision regarding the construction of the Stainsby spine road. £161,000 of funds, predominantly associated with the master plan have been re-profiled into 2022/23.

95. New Civic Centre Campus – Preliminary works on the building, such as window replacements were going to be undertaken outside of the main contractual works. However, due to a lead in time of twelve weeks the decision has been made to include them within the main contract. This decision has resulted in £575,000 of planned expenditure being transferred into 2022/23.
96. Local Transport Plan – Due to cost volatility within the construction industry a number of small scale projects have been held back to ensure that the cost of the current programme remain within the wider Local Transport Plan budget. This, coupled with minor delays, has resulted in £248,000 of funds slipping into 2022/23.

Environment and Community Services

97. Street Lighting Maintenance – The Council will undertake a full evaluation of the street lighting columns prior to works associated with column replacements. This will result in a delay in previously planned expenditure with £185,000 of funds being redirected into 2022/23.
98. Bridges and Structures (non Local Transport Plan) – A delay in the principal inspections of some larger projects have resulted in the need to defer works until 2022/23. Some of these delays were as a result of Covid-19 due to a backlog within the external company the Council employs to carry out the inspections. In addition, complications around tenders and joint working with Redcar and Cleveland Borough Council have also contributed towards the requirement to re-profile £886,000 of resources.
99. Local Transport Plan – Highways Maintenance – A grant bid to the Tees Valley Combined Authority has been submitted, the success of the bid will determine the extent of works of the A66, and this has delayed expenditure. Additionally plans for certain other works require finalising. Both of these issues combined have resulted in the need to transfer funds of £300,000 into 2022/23.
100. Purchase Of New Vehicles – In order to meet the increased demand on the Integrated Support Unit it was proved to be more cost effective to purchase additional buses for the service as opposed to contracting out to external providers. In addition, following the decision to bring the Street Lighting service back in-house it has been necessary to purchase vans for officer's use rather than continue with the more expensive hiring of vehicles. In order to fund the acquisitions, £400,000 has been brought forward into 2021/22 from 2022/23 and future years.

Education and Partnerships

101. Block Budget Grants – The 2021/22 programme of works for grant funded projects within Education has been agreed and fully costed. The following balances of block budget grants are not required to fund in-year expenditure and have been re-profiled to fund expenditure in 2022/23 and future years;
- £5,883,000 of the Basic Needs grant
 - £760,000 of the High Needs Provision Capital Allocation grant
 - £696,000 of the School Condition Allocation grant
102. Schemes In Special Schools - £150,000 of funds have transferred into 2022/23 in relation to the Relocation of the Cleveland Unit project. The date of relocation has been deferred, due to the extension of the lease of the building currently occupied.
103. Schemes In Secondary Academies - £1,465,000 of funds relating to the Kings Academy Expansion Scheme have been transferred into 2022/23. This scheme, managed by the school, but fully funded by the Council, is to address a shortage of school places. At the time of agreeing the funding the phasing of the scheme had not been fully worked through. In order to minimise disruption to learning, the school has determined to undertake the bulk of the work in Summer 2022, without impacting on the supply of places required by the Council.

Legal and Governance Services

104. ICT Essential Refresh & Licensing – The ongoing effects of the Covid-19 pandemic have impacted upon planned expenditure, in particular the refreshing of networks and amendments to some server hardware refresh roadmaps, resulting in £1,032,000 being transferred into 2022/23.

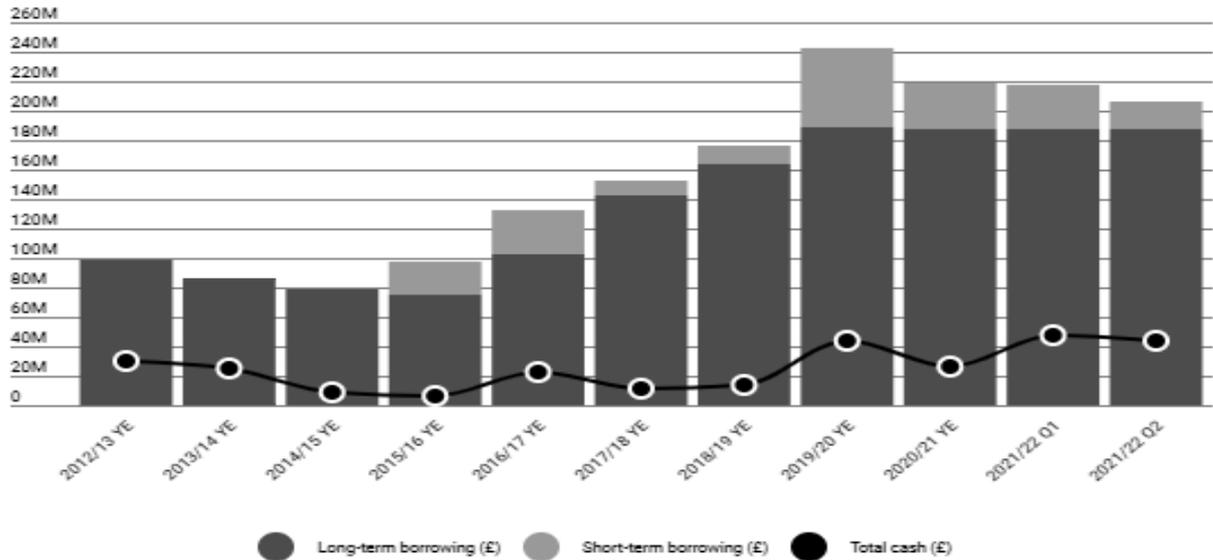
Finance

105. Capitalisation of Property Finance Lease Arrangements - The Chartered Institute of Public Finance and Accountancy (CIPFA) has deferred the requirement to capitalise finance lease arrangements in their statement of accounts by one financial year, due to pressures on local finance teams due to Covid-19. This has resulted in £3,500,000 as the initial implementation cost for the change in accounting policy delayed into 2022/23.

Borrowing and prudential indicators

106. The Council's total borrowing decreased from £217.8m at 30 June 2021 to £206.2m at 30 September 2021. This decrease of £11.6m reflects the repayment of short-term borrowing of £10m out of current cash balances, plus principal amounts on existing annuity loans held by the Council. No external borrowing was required for the Investment Strategy or cash flow purposes during the quarter. This is due to cash balances still being healthy with residual Covid-19 funding available for use plus other income in advance balances yet to be spent during the financial year.
107. The ratio of short-term to long-term borrowing has changed slightly during the quarter. £10m of short-term loans were repaid on 31 July 2021 plus some other loan maturities later in the year, which has eliminated most of this short-term element from

the debt portfolio. This is in line with the Treasury Management Strategy for the Council that is to lock in as much long term borrowing as possible whilst interest rates remain low.



108. The affordability and sustainability of the Investment Strategy and its total level of external borrowing and capital financing costs is self-regulated by the Council through a set of prudential indicators. These thresholds are set as part of the integrated annual budget setting process in late February each year. CIPFA and Government view this approach as best practice in ensuring resources are allocated prudently to capital schemes.
109. The table below gives a summary comparison of the budget against the actual position as at Quarter Two 2021/22 on each of the prudential indicators adopted by the Council.

Prudential Indicators - 2021/22 Quarter 2		
	<u>Budget</u> <u>(£m)</u>	<u>Actual</u> <u>(£m)</u>
Capital Expenditure	93.716	64.814
<u>Financing</u>		
External Sources	57.114	41.695
Own Resources	12.103	13.382
Debt	24.499	9.737
Capital Financing Requirement	255.164	250.612
External Debt	248.100	206.203
Investments	15.000	44.660
Capital Financing	9.518	9.431
Cost as a % of revenue budget	8.2%	8.1%

110. The total capital spend & level of financing has reduced by £28.9m since the original budget was set for 2021/22. This is explained in more detail in the Investment Strategy section of the report but essentially reflects reprofiling of scheme requirements to later years due to the ongoing impact of the pandemic, changing needs on individual schemes and low contractor availability. The reduction is a mix of borrowing and grant funding being deferred into future years.
111. The Council's total under borrowed position (external debt compared to the capital-financing requirement – or underlying need to borrow) is £44.4m at 30 September 2021. As cash balances reduce during the remainder of the financial year, with Covid-19 amounts and reserves planned to be spent, plus the borrowing requirements within the Investment Strategy. Around £35m of this under borrowing will be required to ensure the Council has enough liquidity to meet its cash commitments over the last six months of the year.
112. The amount of external debt at £206.2m and the total underlying need to borrow of £250.6m are both well below the Council's authorised debt limit of £320m. This is the threshold above which any borrowing would be illegal. The cost of capital financing to the Council is slightly lower than set as part of the budget process as interest rates continue to remain at low levels. The levels of borrowing are also lower than the original budget assumptions. Any impact of this will be managed in future years as part of the medium term financial plan due to how minimum revenue provision charges are calculated.

Reserves and Provisions

113. The table below sets out a summary of the balance of reserves and provisions at the start of 2021/22 and the projection as at year-end and further detail is provided in Appendix 2. The projected year-end balance assumes the use of Reserves (as detailed in paragraphs 9 and 116) to cover the projected total 2021/22 revenue budget overspend.

Reserves and Provisions	Opening Balance	Proposed Use in Year	Additional Contributions	Transfers between reserves	Transfers from General Fund	Proposed Transfers to fund projected outturn	Projected Balance at Year End
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
General Fund Reserve	10,500	0	695	(195)	0	0	11,000
Covid Recovery Reserve	4,512	0	0	0	0	(2,923)	1,589
Earmarked Reserves	28,970	(12,576)	275	382	0	(1,232)	15,819
Earmarked Reserve - Dedicated Schools Grant (DSG)	(3,291)	0	0	0	0	0	(3,291)
School balances	4,864	0	0	0	0	0	4,864
Provisions	2,555	0	0	(187)	0	0	2,368
TOTAL	48,110	(12,576)	970	0	0	(4,155)	32,349

114. It should be noted that Full Council approved on 20 October 2021 a Flexible Use of Capital Receipts Strategy which if fully utilised would potentially increase the Council's level of Reserves by approximately £5.2m. Full details of the effect of this on the levels of Reserves will be included in the Quarter Three budget monitoring report following approval by Full Council.

What decisions are being asked for?

115. That OSB notes the 2021/22 revenue budget Quarter Two total projected outturn of £4.155m, representing a £2.605 m (2.2%) overspend on non-Covid-19 elements, and the estimated financial effect of Covid-19 in 2021/22 of £1.550m, and the proposed actions to address this.

116. That OSB notes the proposed use of the following Reserves to fund the total projected overspend of £4.155m in 2021/22 :

- Social Care Demand Reserve (£0.5m)
- Children's Services Demand Reserve (£0.732m)
- Covid Recovery Reserve (£2.923m)

117. That OSB notes the 2021/22 capital budget Quarter Two predicted outturn of £64.814m against a budget of £82.029m, and notes the proposed revised Investment Strategy to 2023/24 at Appendix 1.

Why is this being recommended?

118. To enable the effective management of finances, in line with the Council's Local Code of Corporate Governance, the Scheme of Delegation and agreed corporate financial regulations.

Other potential decisions and why these have not been recommended

119. Not applicable.

Impact(s) of recommended decision(s)

Legal

120. The proposed recommendations are consistent with and will promote the achievement of the Council's legal duty to achieve Best Value.

Financial

121. The Council's revenue outturn position for 2021/22 for non-Covid-19 elements is projected to be an overspend of £2.605m (2.2%). This, when added to the estimated Covid-19 pressures of £1.550m, detailed in paragraphs 50 to 78 results in a total projected outturn pressure at year end 2021/22 of £4.155m. It is proposed that the total projected overspend in 2021/22 will be covered by the full utilisation of the Social Care Demand Reserve of £0.5m and the Children's Services Demand Reserve of £0.732m, which were created at the end of 2020/21. It is proposed that the remaining £2.923m of the total projected outturn pressure is funded from the £4.512m Covid Recovery

Reserve, which was created during 2020/21 to cover the potential costs arising from the Covid-19 recovery in 2021/22 and future years.

122. The predicted 2021/22 capital budget outturn at Quarter Two is £64.814m, and as approved by Executive on 9 November 2021 this will become the revised Investment Strategy budget.

Policy framework

123. The revenue and capital budgets form part of the Council's Policy Framework. All variations set out in this report were approved by Executive on 9 November 2021, in line with authority delegated to the Executive.

Equality and diversity

124. As reported to Council on 24 February 2021, no negative differential impact on diverse groups and communities are anticipated from the Council's planned budgetary expenditure.

Risk

125. In line with the Council's Risk Management Policy, the corporate Strategic Risk Register will be reported to OSB as part of the Strategic Plan 2021-24 – Progress at Quarter Two 2021/22 report.

Actions to be taken to implement the decision(s)

126. Mitigating activity set out in the main body of the report will continue to be applied by Directorates as stated.
127. The actions outlined within the body of the report in relation to overspending within Children's Services will continue to be implemented.
128. The revised Investment Strategy, as approved by Executive on 9 November 2021, included at Appendix 1 has been adopted.

Appendices

- 1 Revised Investment Strategy to 2023/24
- 2 Detail of projected reserves and provisions as at Quarter Two 2021/22

Background papers

24/02/21	Council	Strategic Plan 2021-24
24/02/21	Council	Revenue Budget, Council Tax, Medium Term Financial Plan and Capital Strategy 2021/22
07/09/21	Executive	Revenue and Capital Budget – Projected Outturn position as at Quarter One 2021/22
09/11/21	Executive	Revenue and Capital Budget – Projected Outturn position as at Quarter Two 2021/22

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Appendix 1: Revised Investment Strategy to 2023/24

	Total Funding Required					Council Funding £'000	External Funding £'000
	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	TOTAL £'000		
Regeneration and Culture							
Town Centre Related Projects	592	1,508	1,200	204	3,504	2,625	879
Middlehaven Related Projects	139	65	500	-	704	704	-
Housing Growth	91	823	2,845	-	3,759	3,708	51
BOHO X	1,112	8,724	16,111	-	25,947	1,362	24,585
BOHO 8	2,428	34	-	-	2,462	-	2,462
Brownfield Housing Fund	-	3,320	3,972	630	7,922	-	7,922
Towns Fund	-	3,451	18,140	309	21,900	-	21,900
Future High Streets Fund	-	8,170	6,000	-	14,170	-	14,170
Acquisition of Town Centre Properties	9,619	6	1,000	-	10,625	10,625	-
New Civic Centre Campus	1,863	1,500	5,513	-	8,876	8,876	-
Middlesbrough Development Company	865	9,229	14,076	-	24,170	19,203	4,967
Teesside Advanced Manufacturing Park	1,533	855	-	-	2,388	2,005	383
Local Authority Delivery 2 Green Homes Grant	-	1,091	-	-	1,091	-	1,091
Capitalisation Of Major Schemes Salaries	530	530	530	530	2,120	2,120	-
Capitalisation of Planning Services Surveys	-	40	40	40	120	120	-
Affordable Housing Via Section 106	-	-	1,339	-	1,339	830	509
Highways Infrastructure Development Section 106	-	-	2,010	-	2,010	-	2,010
Stainton Way Dixon Bank Junction - Section 106	15	-	-	-	15	15	-
The Big Screen	-	20	-	-	20	20	-
A66 Throughabout	2,630	2	-	-	2,632	-	2,632
Mandale Interchange	397	62	-	-	459	-	459
Tees Amp Footway / Cycleway	293	-	-	-	293	-	293
Linthorpe Road Cycleway	-	1,496	498	-	1,994	-	1,994
Replacement of Ticket Machines	-	-	189	-	189	189	-
LED Street Lighting Upgrade (Phase 2)	348	69	-	-	417	417	-
Joint Air Quality Unit (JAQU) - All schemes	529	-	-	-	529	-	529
Members Small Schemes	26	38	-	-	64	29	35
Grove Hill Joint Venture Projects	-	14	-	-	14	-	14
Gresham Projects	779	16	-	-	795	795	-
North Ormesby Housing Joint Venture - Section 106 funded	66	355	-	-	421	-	421
Empty Homes 2015 to 2018	-	281	-	-	281	-	281
Local Transport Plan	900	1,313	546	-	2,759	-	2,759
Town Hall Venue Development	48	59	-	-	107	107	-
Cultural Transformation	-	8	13	-	21	21	-
Theatre Winches / Lifts	4	20	19	-	43	43	-
Dorman Museum	2	19	-	-	21	21	-
Contribution To Public Arts Projects	-	17	-	-	17	17	-
Public Art Work	23	35	-	-	58	58	-
Newham Grange Leisure Farm	113	-	-	-	113	113	-
Leisure Trust Investment - Equipment	-	75	-	-	75	75	-
Town Hall Telephone Kiosks Upgrade	15	-	-	-	15	15	-
Stewart Park Section 106	-	-	45	-	45	-	45
Investment In Parks	-	50	50	-	100	100	-
Teessaurus Park	-	200	50	-	250	250	-
Archives Relocation	-	325	-	-	325	81	244
Total Regeneration and Culture	24,960	43,820	74,686	1,713	145,179	54,544	90,635

	Total Funding Required				
	2020/21	2021/22	2022/23	2023/24	TOTAL
Environment and Community Services	£'000	£'000	£'000	£'000	£'000
Purchase of New Vehicles	298	1,330	600	1,200	3,428
Capitalisation of Wheeled Bin Replacement	100	100	100	100	400
Capitalisation of Street Furniture / Dog Fouling & Litter Bins	55	55	55	55	220
Capitalisation of Highways Maintenance	575	575	575	575	2,300
Property Services Building Investment	340	340	340	340	1,360
Parks Improvement	-	83	-	-	83
Nunthorpe Playing Fields Section 106	57	-	-	-	57
Local Transport Plan - Highways Maintenance	1,412	3,147	300	-	4,859
Street Lighting-Maintenance	401	460	653	468	1,982
Urban Traffic Management Control	202	291	-	-	493
Flood Prevention	237	11	-	-	248
Department For Transport Pothole Fund	1,100	-	-	-	1,100
Members Small Schemes	2	139	60	60	261
Property Asset Investment Strategy	1,177	797	761	1,200	3,935
Nunthorpe Sports Facilities	-	100	-	-	100
East Middlesbrough Community Hub	178	851	-	-	1,029
Christmas Lights	350	-	-	-	350
Section 106 Ormesby Beck	-	15	-	-	15
Section 106 Cypress Road	-	20	-	-	20
Hostile Vehicle Mitigation	196	374	-	-	570
Transporter Bridge	476	251	-	-	727
Bridges & Structures (non Local Transport Plan)	-	1,140	886	-	2,026
Henry Street	-	13	-	-	13
CCTV	-	50	-	-	50
Captain Cook Public House	-	538	-	-	538
Outer Area Shopping Centres	-	40	-	-	40
Waste Procurement Project	368	-	-	-	368
Lighting Up The Town	-	200	-	-	200
Total Environment and Community Services	7,524	10,920	4,330	3,998	26,772

Council Funding	External Funding
£'000	£'000
3,428	-
400	-
220	-
2,300	-
1,360	-
83	-
-	57
-	4,859
1,982	-
-	493
-	248
-	1,100
261	-
3,870	65
-	100
1,029	-
350	-
-	15
-	20
570	-
364	363
2,026	-
-	13
50	-
538	-
40	-
368	-
200	-
19,439	7,333

	Total Funding Required				
	2020/21	2021/22	2022/23	2023/24	TOTAL
Public Health and Public Protection	£'000	£'000	£'000	£'000	£'000
Health & Wellbeing Hub	-	-	756	-	756
Total Public Health and Public Protection	-	-	756	-	756

Council Funding	External Funding
£'000	£'000
679	77
679	77

	Total Funding Required				
	2020/21	2021/22	2022/23	2023/24	TOTAL
Education and Partnerships	£'000	£'000	£'000	£'000	£'000
Block Budget (Grant) Devolved Formula Capital - Various Schools	-	157	-	-	157
Block Budget (Grant) Section 106 Avant Low Gill	-	-	35	-	35
Block Budget (Grant) School Condition Allocation	-	-	696	-	696
Block Budget (Grant) Basic Needs	-	-	5,883	1,645	7,528
Block Budget (Grant) High Needs Provision Capital Allocation (HNPCA)	-	300	760	-	1,060
Schemes in Maintained Primary Schools	2,387	1,481	198	-	4,066
Schemes in Primary Academies	195	395	-	400	990
Schemes in Secondary Academies	865	321	1,658	414	3,258
Schemes in Special Schools	544	473	333	-	1,350
Capitalisation of Salary Costs	102	104	-	-	206
Contribution to New School at Middlehaven	-	-	1,700	-	1,700
Block Budget (Grant) EFA Early Years 2 Year olds Entitlement (Trajectory)	-	7	-	-	7
Total Education and Partnerships	4,093	3,238	11,263	2,459	21,053

Council Funding	External Funding
£'000	£'000
-	157
-	35
-	696
-	7,528
-	1,060
843	3,223
-	990
-	3,258
459	891
-	206
700	1,000
-	7
2,002	19,051

	Total Funding Required				
	2020/21	2021/22	2022/23	2023/24	TOTAL
	£'000	£'000	£'000	£'000	£'000
Children's Care					
Edge Of Care Project (Hub)	347	35	-	-	382
Edge Of Care Project (Spencerfield 117-120)	18	-	-	-	18
Edge Of Care Project (3 Broadwell)	10	-	-	-	10
Rosecroft renovations	35	150	20	-	205
34 Marton Avenue, Fir Tree - Garage Conversion	1	249	25	-	275
Contact Centre - Bus Station Unit 1	3	234	17	-	254
Willow Tree - Bathroom Refurbishment	-	22	-	-	22
Total Children's Care	414	690	62	-	1,166

Council Funding	External Funding
£'000	£'000
382	-
18	-
10	-
205	-
275	-
254	-
22	-
1,166	-

	Total Funding Required				
	2020/21	2021/22	2022/23	2023/24	TOTAL
	£'000	£'000	£'000	£'000	£'000
Adult Social Care and Health Integration					
Chronically Sick & Disabled Persons Act - All schemes	533	792	650	610	2,585
Disabled Facilities Grant - All schemes	2,285	2,419	999	-	5,703
Capitalisation of Staying Put Salaries	50	50	50	50	200
Home Loans Partnership (Formerly 5 Lamps)	29	50	29	-	108
Small Schemes	15	68	60	-	143
Connect / Telecare IP Digital Switchover	100	138	-	-	238
Total Adult Social Care and Health Integration	3,012	3,517	1,788	660	8,977

Council Funding	External Funding
£'000	£'000
2,513	72
816	4,887
200	-
-	108
-	143
238	-
3,767	5,210

	Total Funding Required				
	2020/21	2021/22	2022/23	2023/24	TOTAL
	£'000	£'000	£'000	£'000	£'000
Legal and Governance Services					
Desktop Strategy / Device Refresh	307	346	-	-	653
Enterprise Agreements	353	805	135	-	1,293
Customer Relationship Manager	19	47	49	-	115
IT Refresh - Network Refresh	4	239	-	-	243
IT Refresh - Lights On	241	320	-	-	561
IT Refresh - LCS Development Capture	7	-	25	-	32
IT Refresh - Business Intelligence	-	-	3	-	3
ICT Essential Refresh & Licensing	233	368	3,137	2,185	5,923
ICT Innovation Budget	326	20	140	-	486
GIS Replacement	38	36	93	-	167
Civic Centre Device Refresh	8	-	-	-	8
Prevention & Partnership Tablets	-	70	-	-	70
HR Pay	-	37	-	-	37
Dashboards	60	-	-	-	60
Total Legal and Governance Services	1,596	2,288	3,582	2,185	9,651

Council Funding	External Funding
£'000	£'000
653	-
1,293	-
115	-
243	-
561	-
32	-
3	-
5,923	-
468	18
167	-
8	-
70	-
37	-
60	-
9,633	18

	Total Funding Required				
	2020/21	2021/22	2022/23	2023/24	TOTAL
Finance	£'000	£'000	£'000	£'000	£'000
Former Partnership Investment (ICT Infrastructure Revenues & Benefits)	37	202	195	-	434
Business World Upgrade	30	35	-	-	65
Derisking Sites	412	104	200	1,442	2,158
Capitalisation of Property Finance Lease Arrangements	-	-	3,500	1,000	4,500
Total Finance	479	341	3,895	2,442	7,157

Council Funding	External Funding
£'000	£'000
434	-
65	-
2,158	-
4,500	-
7,157	-

	Total Funding Required				
	2020/21	2021/22	2022/23	2023/24	TOTAL
ALL DIRECTORATES	£'000	£'000	£'000	£'000	£'000
Total ALL DIRECTORATES	42,078	64,814	100,362	13,457	220,711

Council Funding	External Funding
£'000	£'000
98,387	122,324

	Total Funding				
	2020/21	2021/22	2022/23	2023/24	TOTAL
FUNDED BY:	£'000	£'000	£'000	£'000	£'000
Borrowing	18,228	9,737	32,012	2,115	62,092
Finance Leases	-	-	3,500	1,000	4,500
Capital Receipts	6,374	12,838	5,015	6,895	31,122
Grants	16,418	36,448	56,019	3,047	111,932
Contributions	1,052	5,247	3,693	400	10,392
Revenue Resources	6	544	123	-	673
Funding from Reserves	-	-	-	-	-
Total FUNDING	42,078	64,814	100,362	13,457	220,711

Council Funding	External Funding
£'000	£'000
62,092	-
4,500	-
31,122	-
-	111,932
-	10,392
673	-
-	-
98,387	122,324

Appendix 2: Detail of projected reserves and provisions as at Quarter Two 2021/22

Reserves and Provisions	Opening Balance	Proposed Use in Year	Additional Contributions	Transfers between reserves	Transfers from General Fund	Proposed Transfers to fund projected outturn	Projected Balance at Year End
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
General Fund Reserve	10,500		695	(195)			11,000
Covid Recovery Reserve	4,512					(2,923)	1,589
Earmarked for specific purposes							
Public Health Reserves	438	(201)					237
Adult Social Care Covid Recovery Reserve	1,598	(303)					1,295
Ofsted Support Reserve	188	(188)					0
Children's Services Improvement Reserve	175	(175)					0
Children's Services Demand Reserve	732					(732)	0
Social Care Demand Risk Reserve	500					(500)	0
Business Rates Deficit Reserve	10,555	(10,555)					0
Business Rates Risk Reserve	1,670						1,670
Business Rates Relief Reserve	49						49
Change Fund	445	(1,102)	275	382			(0)
Investment Fund	0						0
Insurance Fund (MBC)	270						270
CCC Insurance Fund	35						35
Insurance Fund (Fire)	0						0
Capital Refinancing Reserve	175						175
Other Reserves & Provisions	12,140	(52)					12,088
Earmarked Reserves	28,970	(12,576)	275	382	0	(1,232)	15,819
Earmarked Reserve - Dedicated Schools Grant (DSG) Reserve	(3,291)						(3,291)
School balances	4,864						4,864
Provisions	2,555			(187)		0	2,368
TOTAL	48,110	(12,576)	970	0	0	(4,155)	32,349