CABINET

19 March 2024

Title: Revenue Budget Monitoring 2023/24 (Period 10, January 2024)	
Report of the Cabinet Member for Finance, Growth and Core Services	
Open Report	**For Information**
Wards Affected: None	**Key Decision:** No
Report Author: Nurul Alom, Finance Manager David Dickinson, Investment Fund Manager	**Contact Details:** E-mails: nurul.alom@lbbd.gov.uk david.dickinson@lbbd.gov.uk
Accountable Executive Team Director: Jo Moore, Interim Strategic Director, Resources	

Summary

This report sets out the Council's revenue budget monitoring position for 2023/24 as at the end of January 2024 (Period 10), highlighting key risks and opportunities and the forecast position.

At the end of January, forecast expenditure after transfers to and from reserves of £2.366m is now £200.476m resulting in a forecast overspend of £6.016m. This represents a positive movement of £3.320m from Period 9. This is a significant positive movement and a result of management actions and spending control measures that have now been in place since the Summer, and which has overall resulted in the forecast overspend of £15m at Q1 reducing by almost £9m. However, it is important that spending restraints continue to minimise any drawdown on the Council's reserves to balance the 2023/24 outturn.

The Council continues to be impacted by needs and increasing care costs related to social care. Continued mitigations and cost reductions will be pursued to ensure the Council limits the overspend by year end. In addition to the reserve drawdown of £2.366m, the base budget has £15.01m of budgeted drawdown and it is also expected that £10.3m Be First dividend will be funded from reserves. This will take the total reserve drawdown to £27.68m before covering any overspends.

There is also the inherent risk that demand costs increase and other unforeseen costs materialise which result in additional expenditure or shortfalls of income not currently include within the P10 forecast.

At the end of January, there is also a projected overspend of £5.396m on the HRA. This level of overspend is not sustainable and work is currently underway to reduce this level of overspend going forward.

Currently corporate funding is expected to be in line with the budget but this year's dividend from Be First (estimated at c£10.3m) is planned to be drawn down from reserves. Last year an exceptional return was made from the Muller deal, and this year Be First will not be able to meet their dividend target and therefore the Muller Reserve will be used to cover the dividend budget. This drawdown is in addition to the £2.366m indicated above.

If the forecast level of overspend continues, this will result in the use of earmarked reserves to balance the budget for 2023/24 and/or potentially drawing of funds down from the General Fund balance which is currently c£17m. This will reduce the financial resilience of the Council and curtail future ability to meet cost pressures. It is important to maintain a strong level of the general balance to meet any unknown future risks and all efforts must be made to reduce in year overspends to nil and deliver services within existing budgets. The position will continue to be closely monitored.

Recommendation(s)

Cabinet is recommended to:

(i) Note the projected £6.016m revenue overspend forecast at Period 10 for the General Fund for the 2023/24 financial year, as set out in sections 2 and 3 and Appendix A of the report and note the net projected year end drawdown of £2.366m reserves to support the in-year position;

(ii) Note the projected £5.396m revenue overspend forecast for the Housing Revenue Account, as set out in section 6 and Appendix A of the report;

(iii) Note the projected returns for the Investment and Acquisition Strategy as set out in section 4 and Appendix A of the report;

(iv) Note the movement in Reserve drawdown as indicated in section 5 of the report and that the Cabinet shall be asked to approve the drawdown of reserves to support any overspends at final outturn (post March 2024), subject to finalisation of the actual spend against budget; and

(v) Note the Q3 Capital Monitoring update as set out in section 7 and Appendix B of the report

Reason(s)

As a matter of good financial practice, the Cabinet should be regularly informed about the Council's in-year financial position including financial risks, spending performance and budgetary position. This will assist in holding officers to account and inform further financial decisions and support the objective of achieving Value-for-Money.

Chapter 2 of Part 4 of the Council's Constitution requires regular reporting to Cabinet on the overall financial position of each service and the current projected year-end outturn together with corrective actions as necessary.

1. Introduction and Background

1.1 This budget monitoring report to Cabinet reflects the forecast position for the end of the 2023/24 financial year as at end of January 2024 (Period 10).

1.2 This financial year continues to see the high level of financial risk realised in 2022/23 outturn feeding into 2023/24 together with new financial pressures. Rising inflation and interest rates not only drives increases in demand for Council services and support as the cost living increases but also directly impacts the costs paid by the Council to staff and suppliers. The financial performance of the Council's companies has also been impacted which. in turn. impacts on their ability to pay dividends to the Council.

1.3 The overspend identified in this report is significant will contain both one-off and permanent budget pressures and has been factored into the Council's Budget and MTFS Planning process in terms of long-term financial implications on the Council. It is important that the Council begins to significantly reduce the forecast overspend in order to ensure the Council remains financially sustainable over the coming years.

1.4 Using reserves is only a temporary form of funding and permanent solutions will need to be found for ongoing budget pressures. Significant earmarked reserves were utilised in closing off the 2022/23 and the continued drawdown of reserves to support budget pressures is unsustainable. As using reserves is only a temporary funding source, viable solutions will still need to be identified to deliver permanent budget savings and in a relatively short space of time.

2. Overall Financial Position - General Fund

2.1 The 2023/24 budget was approved by the Assembly in March 2023 and was £199.002m – a net increase of £16m from the previous year. Growth funding was supplied to most services to meet known demand and cost pressures and a central provision was made for the expected Local Government pay award. In addition, there were £7.049m of savings included in the budget. On 19th February 2024 Cabinet approved the transfer of Capitalised Interest budget of £4.542m from funding to Central Expenses, resulting in a revised net budget of £194.460m.

2.2 As **Appendix A** shows, the expenditure forecast is £200.476m, after planned transfers to and from reserves, resulting in a net overspend of £6.016m. Approved transfers to and from reserves are not normally considered to be overspends since they are planned and agreed spending for which funding sources has been identified – often grant income brought forward from previous years. The table below summarises the overall financial forecast for the Council followed by an explanation highlighting the key drivers behind the forecasts. More detail is given in Appendix A.

Table 1: Overall Financial Forecasted Position by Directorate

		This Years Budget	Actuals/Forecast		Reserves	Variances Inc Reserves		
	Outturn 2022/23	Revised Budget	YTD Actuals	Current Forecast	Net Movement in Reserves	Variance	Last Period Variance	Movement from Last Period
PEOPLE & RESILIENCE	117,190,113	119,643,783	97,067,294	135,983,115	(3,087,285)	13,252,047	13,624,371	(372,324)
LAW AND GOVERNANCE	(5,174,523)	3,841,849	4,322,541	3,722,520	(30,000)	(149,329)	(68,573)	(80,756)
STRATEGY	3,546,790	10,174,884	8,608,509	9,339,295	(497,510)	(1,333,099)	(492,849)	(840,250)
INCLUSIVE GROWTH	2,229,661	1,269,247	874,890	2,767,905	(1,625,860)	(127,203)	(46,468)	(80,734)
COMMUNITY SOLUTIONS	25,021,966	15,645,248	15,181,546	17,641,649	(4,721,772)	(2,725,371)	(2,462,006)	(263,365)
MY PLACE	15,247,563	9,290,250	41,876,993	3,493,529	3,109,000	(2,687,721)	(1,719,443)	(968,278)
CORPORATE MANAGEMENT	52,696,852	16,986,077	18,571,274	17,389,548	(178,294)	225,177	953,596	(728,419)
SUB-TOTAL DIRECTORATES	**210,758,420**	**176,851,338**	**186,503,047**	**190,337,561**	**(7,031,721)**	**6,454,502**	**9,788,628**	**(3,334,126)**
CENTRAL EXPENSES		6,074,015	(2,668,297)	6,182,613		108,597	280,104	(171,506)
INTEREST PAYABLE		14,681,085	5,041,414	3,625,040		(11,056,045)	(11,057,085)	1,040
INTEREST PAYABLE ON ST BORROWG			(490,661)	3,714,385		3,714,385	3,688,901	25,484
CAPITALISED INTEREST		(4,542,000)				4,542,000	4,542,000	
INTEREST RECEIVED		(6,502,960)	(1,559,701)	(4,040,977)		2,461,983	2,462,208	(225)
MRP		10,034,004		10,034,004				()
LEVIES PAID		15,445,900	16,385,177	15,445,900				
SUB-TOTAL CORPORATE EXPENSES		***35,190,044***	***16,707,932***	***34,960,965***		***(229,079)***	***(83,872)***	***(145,207)***
GENERAL FUND I&E (EXC. IAS)	**210,758,420**	**212,041,382**	**203,210,980**	**225,298,526**	**(7,031,721)**	**6,225,423**	**9,704,756**	**(3,479,333)**
IAS COMMERCIAL (NET OPERATING RETURN)		(2,442,654)	(4,287,378)	(2,635,095)		(192,441)	(750,664)	558,223
IAS RESIDENTIAL (RESIDE SCHEME SURPLUS)		(2,810,000)		(3,765,000)		(955,000)	545,000	(1,500,000)
IAS OTHER				(4,666,000)	4,666,000		(1,127,000)	1,127,000
IAS INTEREST PAYABLE				14,073,000		14,073,000	14,294,000	(221,000)
INTEREST PAYABLE ON ST BORROWG				6,193,000		6,193,000	4,865,000	1,328,000
CAPITALISED INTEREST				(12,000,000)		(12,000,000)	(11,291,000)	(709,000)
IAS INTEREST RECEIVED				(7,328,000)		(7,328,000)	(6,904,000)	(424,000)
IAS MRP		1,182,000		1,182,000				
SUB-TOTAL IAS		***(4,070,654)***	***(4,287,378)***	***(8,946,095)***	***4,666,000***	***(209,441)***	***(368,664)***	***159,223***
NET COST OF SERVICES	**210,758,420**	**207,970,728**	**198,923,602**	**216,352,431**	**(2,365,721)**	**6,015,982**	**9,336,092**	**(3,320,110)**
TECHNICAL - Movement in Reserves		***(13,510,475)***	***(13,510,475)***	***(13,510,475)***				
GENERAL FUND I&E	**210,758,420**	**194,460,253**	**185,413,127**	**202,841,956**	**(2,365,721)**	**6,015,982**	**9,336,092**	**(3,320,110)**

Directorate key movements

2.21 **My Place: (£0.968m) decrease in forecast expenditure**:
The P10 My Place forecast movement includes £309k from Enforcement which transferred to My Place in January 2024. The Enforcement positive movement is largely due to unfilled vacant posts. Homes and Assets moved positively by £195k due also to vacant posts, and improved income forecasts on rent from depot and recharges to schools. Public Realm also moved positively by £489k, again due to vacancies and revised expenditure estimates for vehicle fleet costs and higher trading income based on trend to date.

2.22 **Strategy: (£0.840m) decrease in forecast expenditure.**
The two main factors contributing to the positive change in the position is an anticipated transfer of £400,000 of Public Health grant to Insight and the impact of pay award funding of £416,000 on vacant posts.

2.23 **Corporate Management: (£0.728m) decrease in forecast expenditure.**
The budget has increased by £838k from P9 of which £800k is for the 23/24 pay award. The forecast has increased by £126k largely due to the impact of the 23/24 pay award. Transfers from reserves has increased by £17k to reflect additional funding from the Invest to Save reserve for consultancy work for social care.

2.24 **People and Resilience: (£0.372m) decrease in forecast expenditure.**
The positive movement is due to services holding expenditure wherever possible to reduce the in-year overspend. This has come from delayed recruitment and projects, enabling a one-off release of underspends to improve the in-year position. The service continues to review the level of the bad debt provision and the revenue impact of potential write offs has also been updated this period.

2.25 **Community Solutions: (£0.263m) decrease in forecast expenditure.**
The positive movement is due to release of TA Buffer £150k and additional Court Cost Income of £72k.

2.26 **Central Expenses: (£0.145m) decrease in forecast expenditure.**
The positive movement is a result of the final calculation and distribution of the 2023/24 pay award funding.

2.27 **IAS: £0.159m increase in forecast expenditure.**
The negative movement is due to rise in interest rates and the impact of lower rents from commercial holdings due to business going into administration.

2.3 **Key Organisational Risks contained within the forecast are outline below**

2.3.1 Temporary Accommodation rental properties being available. We are currently at capacity within our own hostels and have received several hand-back requests for Private Sector Landlord’s which may lead to the Council being forced to move tenants into more expensive accommodation such as into B&B’s and Hotels. Modelling is being carried out against various assumptions which will enable a more robust forecast. This is a national issue. This will also impact support for Social Care clients with the immigration status of No Recourse to Public Funds (NRPF)

2.3.2 Social Care budgets are highly dependent on demand for services and effects of price rises on provision of care packages. As costs of care are very high even small changes in numbers of people needing support can cause large swings in the overall forecast. The Adult's service was holding some health funding in reserve to offset against potential winter pressures, but this has now been released to offset budget pressures much earlier than anticipated, which carries significant risk.

2.3.3 My Place is the managing agent for Reside properties. It therefore attracts expenditure which in turn must be passed to the relevant reside company. There is currently an issue with the breakdown of the expenditure between HRA and Reside properties and this may impact on My Place being able to secure payment for invoices from the relevant company, leaving the service with an overspend.

2.3.4 Commercial Services – Leisure Income: Sports and Leisure Management has given notice that they will be terminating the Leisure contract from September 2024. It is assumed that SLM will continue to pay the concession fee up to the termination date. The assumed income is £665k in 2023/24. For the MTFS there is a risk that the new leisure provider will be able to provide the same level of management fee income to the Council as factored into the MTFS.

2.3.5 Contaminated Land by Eastbrookend Park. Although a provision was made for this issue at the end of 21/22 there remains a risk. Considerable progress has been made in implementing the decontamination Action Plan, and the immediate threat of prosecution by Thames Water has been withdrawn. However long-term arrangements for the future of the effluent treatment plant and alternative measures to prevent the discharge of landfill leachate to the Thames Water drainage asset are yet to be identified and investigated. If the plant and equipment fail the Council could potentially breach its consent to discharge which may result in fresh prosecution action.

2.3.6 HB subsidy and overpayments recovery, the forecasts are based on the current returns and are subject to change throughout the year. There are new players in the market that are claiming the Supported Exempt Status, this means they are exempt from Universal Credit and can claim HB. DWP will only pay the amount in rent to the LA that is advised by the rent officer. Where there are new entrants to the market there is no comparator for rent and therefore there are risks that the LA will be picking up the cost of the gap between the rent officer rate and the provider rate.

2.3.7 The Council continues to face increased risk of interest rate changes which are directly impacting on the UK gilt markets and subsequently impacts on Council's own borrowing costs. The Council has a significant amount of borrowing that will need to be refinanced over the next 12 months and this is likely to be at higher interest rates. The Treasury Strategy will manage these risks within the prudential indicators but will result in additional costs. The Council will need to consider wider operational matters to manage this risk.

2.3.8 The Council's IAS programme has invested heavily on asset acquisition and wider regeneration particularly on residential schemes. This has required significant amount of borrowing to support the investment. Over 2023/24 the performance of the IAS has reduced, and returns have dropped significantly both as a result of longer durations to let new properties and higher interest rates. As the IAS section 4 shows at the moment this is projected to generate a very small surplus but should interest rate increase or further delays in generating lease return are experienced this could result in a cost to the General Fund.

2.4 **Key assumptions made within the Organisational Forecast are outlined below**

2.4.1 Forecasts are provided by budget holders and service managers with Finance advice and support. based on existing data and information.

2.4.2 There is an inflation provision held centrally of £5.5m for energy and contract costs. £2.7m has been distributed to services and a further £0.7m is shown as an underspend against declared service pressures leaving c£2m contingency to support bad debt provision.

2.4.3 Care and Support figures are based on known clients and care packages held on CONTROC and does not factor in clients going through the onboarding process. Any increases in clients or shifts in types of placements above this assumption will create variances. Since individual clients can require very expensive packages these budgets can be very volatile. Further work is now being picked up to better forecast for placement spend with a clear model being developed.

2.4.4 Quarter three debt monitoring does show a need to increase bad debt provision by £0.6m. However, there is £4m of unallocated cash which is being investigated and should reduce the bad debt provision movement. A forecast has not been included for bad debt provision movement and a final position will be provided at year end.

2.4.5 As highlighted above, it is assumed that the company dividends of £10.3m will be drawn down from reserves and this position is factored within Corporate Funding.

Be First £10.3m will be covered from the IAS reserve using the Muller Profit. If these reserves were not drawn down the overspend would increase by £10.3m.

2.4.6 Parking Income has been forecast to include the current trend. Currently forecasting additional income of £0.6m income, which is included in the outturn position.

3. Service Variances

3.1 People & Resilience – forecast overspend £13.2m

People and Resilience									
Income/Expenditure	Prior Year	Current Year			Reserves		Variances inc Reserves		
	Outturn	Budget	Actual YTD	Forecast	Transfers To	Transfers From	Variance	Last Period Variance	Movement
Adult's Disabilities	20,056,478	20,137,523	20,946,971	23,834,807	0	0	3,697,285	3,094,172	603,112
Adult's Care and Support	22,025,777	24,016,018	13,402,412	28,129,992	0	(537,000)	3,576,974	3,180,092	396,883
Commissioning Care and Support	9,849,999	15,066,481	4,473,698	14,200,329	0	(196,000)	(1,062,152)	(470,288)	(591,864)
Public Health	(339,189)	(318,250)	1,378,260	1,929,820	0	(2,248,519)	(449)	1	(450)
Children's Care and Support	45,863,019	42,577,946	38,435,000	48,037,556	0	(105,766)	5,353,844	6,049,683	(695,838)
Education, Youth and Childcare	4,102,925	4,188,113	7,799,990	4,203,288	0	0	15,175	177,477	(162,302)
Early Help Service	2,876,729	3,387,906	963,724	2,865,545	0	0	(522,361)	(686,099)	163,738
Children's and Young People Disabilities	13,913,317	10,588,047	9,620,519	12,781,777	0	0	2,193,730	2,279,333	(85,602)
Grand Total	**118,349,054**	**119,643,783**	**97,020,574**	**135,983,115**	**0**	**(3,087,285)**	**13,252,047**	**13,624,371**	**(372,324)**

3.1.1 Overall, there is an overspend of £13.252m across the whole of People and Resilience. This is a positive movement of £0.372m since last month.

3.1.2 The positive movement is due to services holding expenditure wherever possible to reduce the in-year overspend. This has come from delayed recruitment and projects, enabling a one-off release of underspends to improve the in-year position. The service continues to review the level of the bad debt provision and the revenue impact of potential write offs has also been updated this period.

3.1.3 The underlying pressure is largely to the cost of implementing supplier uplifts and paying the London Living Wage to all providers, which had led to a pressure of £5.6m. The service is experiencing a significant rise in the number of Education, Health and Care plans, which has resulted in an increasing overspend on the Children with Disabilities budget. The impact of Young B&D is also significant. There are around 300 18-25s receiving care, who are causing a significant financial pressure as they transfer to Adults. The clients transferring are entering Adult care at far greater cost than those clients leaving. Given the numbers, this will have long-term financial implications for the authority.

3.1.4 Placement forecasts within Children's and Adults Services are based on actual client's full year costs as shown in the social care placements database (ContrOcc). The service has moved towards a position where the forecast incorporates estimated future activity, which has led to less volatility in the monthly forecast. There are further improvements being explored which will improve forecasting further in the coming months.

3.1.5 A review of Adult Social Care debt identified 210 clients for whom a financial assessment had not been undertaken due to non-engagement but bills were rightly issued as required under statute. £3.8m income has been forecast to be written off this financial year due to lack of oversight of those clients that were non-engaging. It has been assumed that £1.6m of this amount can be met from the existing bad debt provision, so the revenue impact is expected to be £2.2m.

3.2 Corporate Management – forecast overspend £0.225m

	This Years Budget			Actuals/Forecast		Transfers to/from Reserves		Variances Inc Reserves	
	Revised	Controlled	UnContro	YTD Actuals	Current	Transfers	Transfers	Variance	Last Period
CORPORATE MANAGEMENT	**16,986,077**	**16,986,077**		**18,571,274**	**17,389,548**		**(178,294)**	**225,177**	**953,596**
STRATEGIC LEADERSHIP	440,437	440,437		423,136	492,695		(116,080)	(63,822)	(14,998)
FINANCE	14,088,104	14,088,104		14,183,348	13,818,993		(62,214)	(331,325)	36,104
WORKFORCE CHANGE / HR	2,186,285	2,186,285		3,678,521	2,735,487			549,202	883,991
LEADERS OFFICE	271,251	271,251		286,269	342,373			71,122	48,499

3.2.1 There is a forecast overspend of £0.225k in Corporate Management which is a favourable movement of £728k from Period 9. The budget has increased by £838k from Period 9 of which £800k is for the 23/24 pay award. The forecast has increased by £126k largely due to the impact of the 23/24 pay award. Transfers from reserves has increased by £17k to reflect additional funding from the Invest to Save reserve for consultancy work for social care.

3.2.2 The drawdown from reserves represents Invest to Save funding of £116k to finance consultancy work and a £62k drawdown of Cyber Security grant funding.

3.3 Central Expenses – forecast underspend (£0.229m)

	This Years Budget			Actuals/Forecast		Transfers to/from Reserves		Variances Inc Reserves	
	Revised	Controlled	UnContro	YTD Actuals	Current	Transfers	Transfers	Variance	Last Period
CENTRAL EXPENSES	**35,190,044**	**36,435,044**	**(63,000)**	**16,707,932**	**34,960,965**			**(229,079)**	**(83,872)**
CORPORATE MANAGEMENT	(641,000)	(641,000)		(6,285)	(860,323)			(219,323)	(219,323)
GENERAL FINANCE	35,688,934	36,933,934	(63,000)	11,529,063	35,579,528			(109,406)	214,447
HOUSING BENEFIT SUBSIDY	142,110	142,110		5,185,153	241,760			99,650	(78,995)

3.3.1 There is a forecast underspend of £229k in Corporate Management which is a favourable movement of £145k from Period 9. The positive movement is a result of the final calculation and distribution of the 2023/24 pay award funding.

3.4 Law & Governance – forecast underspend (£0.149m)

	This Years Budget			Actuals/Forecast		Transfers to/from Reserves		Variances Inc Reserves	
	Revised	Controlled	UnControll	YTD	Current	Transfers	Transfers	Variance	Last
LAW AND GOVERNANCE	**3,841,849**	**3,841,849**		**4,322,541**	**3,722,520**		**(30,000)**	**(149,329)**	**(68,573)**
LEGAL	3,841,849	3,841,849		4,322,541	3,722,520		(30,000)	(149,329)	(68,573)
DEMOCRATIC SERVICES	1,988,367	1,988,367		1,647,528	2,015,139			26,772	(141,756)
LEGAL SERVICES	1,853,482	1,853,482		2,675,013	1,707,381		(30,000)	(176,101)	73,183

3.4.1 Legal and Democratic service are reporting an underspend of c£149k, a favourable movement of £81k from Period 9.

3.4.2 Democratic services salary budget has increased by c£147k from P9 due to the application of the 23/24 pay award. The budget is projecting a slight overspend of c£27k, a negative movement of £169k from P9 mainly due to an increase in the salary forecast.

3.4.3 Legal services budget has also increased by c£185k from Period 9 as a result of the 23/24 pay award. The service is reporting an underspend of c£176k, this is a positive movement of £249k due to the conversion of agency staff, staff resignations and some posts being client funded within the department.

3.5 Strategy – forecast underspend (£1.3m)

	This Years Budget	Actuals/Forecast		Transfers to/from Reserves		Variances Inc Reserves		Change
	Revised	YTD Actuals	Current Forecast	Transfers to	Transfers from	Variance	Last Period Variance	
STRATEGY	10,174,884	8,608,509	9,339,295	0	(497,510)	(1,333,099)	(492,849)	(840,250)
INSIGHT AND INNOVATION	790,947	414,634	219,043	0	(50,000)	(621,904)	(175,731)	(446,173)
PMO	271,686	237,883	290,034	0	0	18,348	32,231	(13,883)
STRATEGY	1,043,321	784,431	971,210	0	(152,848)	(224,959)	(146,862)	(78,097)
CUSTOMER CONTACT	6,642,560	5,955,539	6,339,699	0	(282,662)	(585,524)	(311,830)	(273,694)
MARKETING & COMMUNICATION	1,426,370	1,216,023	1,519,309	0	(12,000)	80,939	109,343	(28,404)

3.5.1 The Strategy Directorate is forecast to underspend by (£1.333m), which is an increase in the underspend of (£840,000) since period 9. The main reasons for the movement is a £400,000 contribution of public health grant funding, and a £274,000 reduction in client mobility costs within Customer Services.

3.5.2 There are underspends across the following services: Insight (£622,000), Customer Contact (£585,000) and Strategy (£225,000). The underspend on Insight is mainly due to the transfer of £400,000 Public Health grant. The balance of the underspends within Insight and Strategy is due to vacancy savings.

3.5.3 There are overspends within Communications and Events £81,000 and the PMO £18,000. These overspends are in the main driven by a shortfall in HRA income: £112,000 in Comms and £116,000 in the PMO. These overspends are mitigated by holding vacant posts.

3.5.4 The following sums are being drawn down from reserves: £133k Shielding grant, £283k for Mobility Client Transport, £50k to Insight for One View, £19k for salaries carry forwards within Strategy and £12k Womens' Empowerment funding to Events.

3.6 Inclusive Growth – forecast underspend (£127,000)

	This Years Budget	Actuals/Forecast	Transfers to/from Reserves		Variances Inc Reserves		Change
	Revised	Current Forecast	Transfers to	Transfers from	Variance	Last Period Variance	
INCLUSIVE GROWTH	1,269,247	2,767,905	140,000	(1,765,860)	(127,203)	(46,468)	(80,734)
COMMERCIAL	(1,322,228)	(1,748,095)	140,000	0	(285,867)	(260,663)	(25,204)
COMMERCIAL	(670,995)	(950,964)	0	0	(279,969)	(260,663)	(19,306)
LEISURE	(651,233)	(797,131)	140,000	0	(5,898)	0	(5,898)
INCLUSIVE GROWTH	2,591,475	4,516,000	0	(1,765,860)	158,665	214,195	(55,530)

3.6.1 Inclusive Growth is forecast to underspend by (£127,000). The £500,000 soil importation income target and the £133,000 commercial income target within Parks Commissioning are unachievable. The Directorate has succeeded in mitigating these overspends through holding vacancies and other management action. The overspend has reduced by (£80,000) from period 9.

3.6.2 The main reason behind the movement is due to pay award funding for vacant posts which amounts to £54,000.

3.6.4 There is a planned £1.8m drawdown from reserves consisting of £895,000 of grant income, £603,000 from the Welfare reserve, £156,000 from the Made in Dagenham film reserve, and £111,000 in departmental reserves. The £140,000 transfer to reserves is the balance from the Leisure contract termination fee.

3.7 Community Solutions – forecast underspend of (£2.7m)

	This Years Budget		Actuals/Forecast		Transfers to/from Reserves		Variances Inc Reserves	
	Revised	Controlled	YTD Actuals	Current	Transfers to	Transfers	Variance	Last Period
COMMUNITY SOLUTIONS	**15,645,248**	**15,645,248**	**15,181,546**	**17,641,649**	**400,000**	**(5,121,772)**	**(2,725,371)**	**(2,462,006)**
SUPPORT AND COLLECTIONS	7,717,349	7,717,349	9,297,707	7,729,362	0	(1,761,164)	(1,749,151)	(1,535,114)
COMMUNITY SOLUTIONS	1,128,733	1,128,733	853,052	939,997	0	(136,000)	(324,736)	(316,880)
COMMUNITY PARTICIPATION & PREV	8,104,166	8,104,166	6,335,787	10,277,290	400,000	(3,224,608)	(651,484)	(610,011)
TECHNICAL - COMSOLS	(1,305,000)	(1,305,000)	(1,305,000)	(1,305,000)	0	0	0	0

3.7.1 Within this forecast there is a financial pressure of £3.4m – mostly relating to services no longer being charged to the HRA. This is being managed in-year with a mitigation plan including holding vacancies and drawing heavily on reserves. The service has also been successful in increasing its income including grant income from the GLA, Health income and HRA recharges.

3.7.2 The key risks are Becontree Collection Service achieving the forecast income of £690k in 2023/24 and limiting the use of B&B's and Hostels for Temporary Accommodation.

3.7.3 The service has moved positively by £263k this period. This is predominantly due to the release of the buffer held for Temporary Accommodation of £150k and additional Court Cost income of £72k.

3.8 My Place – forecast underspend of (£2.688m)

	This Years Budget			Actuals/Forecast		Transfers to/from Reserves		Variances Inc Reserves	
	Revised	Controlled	UnControlled	YTD Actuals	Current Forecast	Transfers to	Transfers from	Variance	Last Period Variance
MY PLACE	**9,290,250**	**9,290,250**	**0**	**41,876,993**	**3,493,529**	**3,109,000**	**0**	**(2,687,721)**	**(1,719,443)**
ENFORCEMENT	3,331,791	3,331,791		(355,429)	(369,871)	3,109,000	0	(592,662)	(308,584)
HOMES AND ASSETS	(945,460)	(945,460)		23,926,952	(679,848)	0	0	265,612	460,522
PUBLIC REALM	6,903,918	6,903,918		18,305,470	4,543,248	0	0	(2,360,670)	(1,871,381)

3.8.1 The Directorate underspend of (£2.688m) comprises an underspend in Public Realm of (£2.361m) offset by a £0.266m overspend in Homes and Assets. The Homes and Assets pressure results from a reduced ability to charge to the HRA and a shortfall on Commercial Property income while the Public Realm underspend relates to an increased recharge to HRA of appropriate costs following reviews, staffing vacancies being held ahead of a restructure and due to recruitment pause and finally the Parking surplus (£0.567m).

3.8.2 The Enforcement P10 outturn position is projecting an underspend of c£0.593m following the transfer of an additional c£1.703m PRPL income to reserves. This takes the total transferred to reserves at P10 to c£3.109m. A review of the PRPL income is currently underway to facilitate the effective allocation of income between reserves and the funding of scheme running costs. The favourable outturn position within the service is due to the ongoing freeze in recruitment to vacant positions. Currently, there are 59 vacant positions within Enforcement, with 29 of them being temporarily filled by agency staff.

3.8.4 Homes and Assets is currently forecasting a £0.266m overspend within the Commercial Portfolio, this is seen as an underlying pressure within the outturn. The Strategic Director has tasked the Commercial Lead with completing a full asset list and rent roll to determine the recoverability of the pressure.

3.8.3 One of the primary risks for Homes and Assets is its ability to recover costs in the role of the managing agent for the Reside group of entities. This raises several risks from identifying all Reside related expenditure, aggregating it between the different blocks and companies, raising service charge invoices and managing the debt position of this all within the General Fund. The risk is that the service is left holding the expenditure.

3.9 Savings

Service Area	RED	AMBER	GREEN
Care and Support		(237)	(500)
Community Solutions	(130)	(220)	(1,122)
EYCC		(35)	
Finance & IT			(735)
HR	(577)		
Inclusive Growth	(500)		(370)
Law & Governance			(2,300)
My Place	(155)		(153)
P&P	(15)		
Grand Total	**(1,377)**	**(492)**	**(5,180)**

3.9.1 The MTFS savings target for 2023/24 is £7.049m and at P10:

- £1.377m (20%) are rated **red**, not being achieved; (HR £0.577m, Parks income £0.5m, My Place £0.15m, Valence library £0.13m)
- £0.492m (16%) are rated **amber/green**, forecast as uncertain and may only be part achieved
- £5.18m (64%) are rated **green**, fully achieved (either now or by year end) or expected to be achieved in year.

3.9.2 Red savings are reflected in the service forecasts and contribute towards the overspends. Unachieved savings in the current financial year increases the risk to the medium-term financial strategy moving forward and will increase the budget gap unless viable alternative savings can be found.

3.9.3 The table below is a list of the unachieved savings in 2023/24:

Service Area	Savings Proposal	2023/24 Target £'000
P&P	FPN income	(15)
Inclusive Growth	Parks Commissioning - Soil Importation	(500)
HR	Restructure	(577)
Community Solutions	Creation of Heritage site at Valence Library	(130)
My Place	No longer have a dedicated Graffiti team	(75)
My Place	Reduce the opening days and times of the Town Hall and other buildings	(50)
My Place	Increase the commercial income	(30)
		(1,377)

4. Investment and Acquisition Strategy and Treasury Management

4.1 The Council has an Investment and Acquisition Strategy (IAS) with the primary purpose of supporting the regeneration of the borough. The IAS was approved to be self-financing and potentially generate a 5% target return.

4.2 At the time the IAS was set up it was acknowledged that an investment strategy will have periods of out performance as well as periods of underperformance. To protect the IAS, and the Council, prudent assumptions were used for financial modelling and, in addition, surpluses from when the strategy outperformed were also set aside in the IAS reserve. The IAS reserves, including the reserve for the two lease and lease back hotels, and is held primarily to cover interest pressures, asset underperformance but also to cover lifecycle costs that are required to maintain the assets. The IAS is approaching £1bn in size and the reserves are an essential part of managing its risk. The return that is held in the reserves is in addition to target return of approximately £7m per year, including the hotel lease and lease back. The IAS reserve does not include surpluses from Muller, which have been used as part of the Be First dividend return.

4.3 In previous year, the IAS Strategy has provided a significant return to the Council, both through IAS net returns but also dividends from Be First. The net return generated by the IAS is after costs of borrowing have been considered, which includes repayment of the debt. The IAS now has a significant amount of borrowing, forecast to be over £900m by the end of 2023/24 (currently at £879m as at P10). This is reported on in detail at regular intervals, but a summary of the current in-year forecast is provided in Appendix A (Pages 11 onwards). Further details have been provided as part of the Mid-Year Treasury Management Strategy update to Cabinet in November 2023 and the Treasury Management Strategy Statement taken to Cabinet in February 2024.

4.4 In addition to the current IAS borrowing of £879m the Council's general Treasury Management and Capital Borrowing has c £124.9m of borrowing. Overall, the Council has a significant amount of debt, and this will create further risk particularly as some of the debt needs to be refinanced which will be at higher interest rates. Slides 11 and 12 of Appendix A details the total borrowing which is split across various funds and details loan assets against housing companies such as Be First and Reside.

4.5 Although the IAS was set up to be self-funding, as schemes become operational, active asset management is required to ensure that rental returns and operational costs are well managed to allow the borrowing costs to be covered and surpluses generated. Although now reported separately from the General Fund, the IAS is a key part of the Council and detailed reporting, performance indicators and a clear management strategy is essential to ensure that it continues to contribute to the Councils overall funding. Currently there are weaknesses in a number of areas, including:

i. Losses on Private Rental schemes due to delays in letting properties. Private rental schemes are still not fully let, and income is significantly below hold costs.
ii. Delays in selling Shared Ownership schemes, leaving several properties vacant and not earning income, with borrowing costs on the full build cost for each unit.

iii. General delays in letting properties resulting in a loss of income but also additional security and hold costs.
iv. Increased management costs for commercial holdings and reduced income from several schemes, including Maritime House and Thames Road.
v. Increased interest costs, although these are contained through capitalising the interest against developments and through secured longer-term borrowing.
vi. Lack of detailed, timely reporting of scheme returns against agreed metrics.

4.6 The IAS includes returns from commercial and residential assets but also requires a treasury management strategy to underpin the borrowing to fund the assets. In addition to the IAS, the Council has other borrowing requirements to fund capital expenditure on assets and these are reported as part of a General Fund treasury return.

4.7 The above pressures largely remain and there are still a number of Private rental schemes (PRS) units that remain void and a number of Shared Ownership schemes that are not sold. For PRS, which contain a significant amount of borrowing, lettings have been outsourced to estate agents and, after a slow start, letting have improved. If this improvement occurs for new PRS schemes in Gascoigne West 2, this will result in improved returns to the Council for 2024/25.

4.8 79 Shared Ownership units for Ewars Marsh remain unsold and the building remains vacant, incurring significant costs. Costs per month are c£100k. Challingsworth units have now all be sold (56 units) after a delayed start to sales.

4.9 Security costs for both Residential and Commercial units remain high as unlet schemes need to be secured. These costs were not original budgeted for and remain a pressure and have reduced returns, both from loss of rent and then the costs to secure the properties.

4.10 Net returns for each element are summarised below:

- £338k Surplus for General Fund Treasury Strategy
- £317k Surplus for IAS (£4.07m budget)
- Breakeven for hotels and Abbey Road return (£1.78m)
- £4.67m dividend Muller

4.11 Overall the IAS and Treasury strategy is forecast to provide a £5.32m surplus. This is below the £7m+ surplus generated by the IAS over the past three years.

5 Reserves

5.1 The Council has £147.29m in brought forward Reserves from 2022/23. The current projection is that the Council will drawdown £2.366m of reserves to support in year activity before taking into account the overspend of £6.016m. The current budget has a provision of £15.01m to be drawdown to cover costs of collection fund deficits and this was approved by Cabinet and Assembly as part of the 2023/24 Budget Setting. In addition, the budget expected that Be First will pay for the £10.3m of annual dividend budget, however, Be First have indicated that they are unable to declare dividend this year and so this budget will require a further call of £10.3m from an existing Be First Muller Reserve.

5.2 The overspend of £6.016m should that remain at year end, will also need to be funded from a further call on the reserves. At P10 the overspend is a projection and a final overspend figure will be confirmed at year end,

5.3 Therefore, the total reserve drawdown for 23/24 could become £33.692m once all reserves identified in paragraphs 5.1 and 5.2 are accounted for. This is a significant drawdown and indicates that the Council's is overspending considerably more than its annual budget allocation and thus resource availability. Every, effort is being made to reduce the call on reserves and options to reduce the overspend are being looked as part of the monthly monitor.

6 Housing Revenue Account (HRA)

6.1 The HRA is forecasting to overspend by £5.4m. The overspend will be covered by drawing on the HRA reserve balance of £18.4m, reducing the balance to an estimated £13m by end of current financial year. The final estimated balance of £13m is above the internal target of 10% of total income for 2023/24 of £11.8m. It should be noted that the 2022/23 Provisional Outturn has some remaining adjustments and so the Reserve Balance is likely to benefit from this.

6.2 The underlying overspend falls under the Repairs and Maintenance budget line (£7.2m) and relates to the significant increase in the BDMS contract for housing repairs, maintenance and its supervision which was increased from £15.7m to £26.5m in 2023/24. The increase did not cover like for like service provision and so when factoring in adjustments to the contract, the net increase is now valued at £11m. The BDMS contract value was agreed after the HRA budget for 2023/24 had been set. The financial value for 2024/25 will reduce and is currently being negotiated.

6.3 Other significant overspends include additional disrepair provision of £2.2m to cover the more than anticipated current year disrepair payments and provide for estimated disrepair claims for 2024/25 and beyond; rent and rates £1.5m overspend from mainly higher insurance costs (£1m) and Council tax paid on void properties. Finally, a £1.4m under recovery of income from charges for services and facilities mainly from transferring Reside costs out of the HRA to the General Fund with a corresponding reduction in costs under the Supervision and Management budget of the HRA.

6.4 These costs are partly mitigated by slowing down the capital programme and reversing the budget plan to transfer (£5.126m) from revenue budgets to the Major Repairs Reserve Fund to finance capital expenditure in 2023/24. Additional underspends are reported under bad debt provision based on rent collection trends so far in the financial year (£1.309m) and (£670,000) better than expected improvement in dwelling rent income due to lower HRA property disposal from the Right-to-Buy scheme. It should be noted that reducing capital spending may result in a further increase in reactive costs in future years vs planned.

6.5 The HRA overspend projection has increased from prior month by **£392,000**. The movement is largely driven by Repairs & Maintenance **£1.936m** due mostly from BDMS Fleet costs £1.3m, previously reported as a risk, and a reversal of the Compliance forecast improvement of last month. This is offset by **(£1.227m)**

Supervision & Management due to reduced energy forecasts and **(£290,000)** improvement on Dwelling Rents.

6.6 The Council currently has 335 open claims with approximately two thirds of these being submitted before 1st April 2023. The opening balance of the provision on that date was (£1.7m) and it is estimated that payments for accepted legal fees and damages will reach £2.0m in 2023/24 with the majority of this expenditure relating to prior year claims. Given the number of open claims, it is deemed prudent to replenish the provision so that its opening balance on 1st April 2024 is (£2.0m). This means the total required from the HRA in 2023/24 is £2.226m. To put this in perspective, the total replenishment of the Bad Debt Provision in 2023/24 for unpaid rents and service charges from tenants is estimated to be £2.0m.

6.7 There is one minor quantifiable risk confronting the HRA totalling £150,000 together with at least 6 further areas that are non-quantified. In terms of opportunities, there is upwards of (£1.3m) from compliance work included in revenue budgets but now might be deferred to 2024/25 or completed through the capital programme as well as further energy reductions subject to project review.

7. 2023/24 Capital Programme – Q3 (to Period 9) Update

7.1 The revised capital programme was agreed by June Cabinet as part of the 2022/23 Outturn report. The revised capital programme including carry forwards from 2022/23 was agreed at £496.684m for 2023/24.Budget changes in the year to the end of P09 have been reported to Assets and Capital Board. Further proposed budget changes for P09 are set out in the table and detailed below. The revised budgets are £339.042m for 2023/24. Changes to date are summarised in the table below.

Change per Period	2023/24 £'000
Agreed at June Cabinet	496,684
P2 changes	655
P3 changes	(144,083)
P4 changes	(17,490)
P5 changes	943
P6 changes	0
P7 changes:	755
P8 changes	536
P9 changes	1,043
Total borrowing	339,042

P09 budget changes are as follows:

- ERP Phase 2 £130k Approved by Executive Board, £200k included in P08.
- Bus Priority £913k Additional TFL Funding

7.2 Forecast Outturn 2023/24 (P9)

Forecast outturn expenditure for 2023/24 is £361.832m which results in an in-year variance of £22.790m more than budget. The IAS is reporting a variance against current year budget of £31.881m. The budgets will be updated for P11 as the changes reflect schemes that were agreed in 2023/24, including Gascoigne West 2, and Gascoigne East 3b. This has been reflected in the Capital Programme and Capital Strategy 2023/24 to 2026/27 that will go to Cabinet in February 2024.

The General Fund programme is reporting a forecast of £9.357m below in-year budget. The main changes in variance are due to the following:

- Inclusive Growth: Corporate Retrofit project now forecasting £2.772m slippage into 24-25. Works for £2m were due to commence on the leisure centres and CUL/Civic Centre in November-March but are now stalled to await outcome of PSDS3 and SPF bids for the work. £400k of works on the school portfolio have now also been rescheduled for 2024/25.

- Education: Increased costs due to general building cost inflation and accelerated spend compared to original budget profiling. All Education spend is funded from grants which have already been received but are profiled into future year budgets. Total expenditure will be contained within the available grant balances.

- My Place: Stock condition survey forecast revised down by to reflect delays in procuring the Frizlands fuel tanks and CCTV works.

Appendix B provides a detailed update on each strategic function's capital programme, including the IAS Residential and Commercial.

Table 1: Capital Programme 2023/24 Budgets as at P09 (December 2023)

Strategic Function		Budget £000s	Actuals to P09 £000s	Forecast £000s	Forecast Variance £000s	Change in Variance £000s	Budget 2024/25 £000s	Budget 2025/26 £000s	Budget 2026/27 £000s	Borrowing	Other Sources
										£000s	£000s
GF - CARE & SUPPORT	CAP01	3,719	1,386	2,696	(1,023)	(861)	2,918	0	0	0	3,719
GF - INCLUSIVE GROWTH	CAP02	6,373	1,083	2,865	(3,509)	(3,033)	611	0	0	3,078	3,296
GF - CIL	CAP03	761	35	726	(35)	0	0	0	0	300	461
GF - TFL	CAP04	4,226	1,552	3,916	(310)	(217)	2,200	2,200	0	0	4,226
GF - ICT	CAP06	3,615	2,575	3,128	(487)	(563)	1,200	2,005	200	2,745	870
GF - COMMUNITY SOLUTIONS	CAP05	6	(4)	6	0	0	0	0	0	6	0
GF - CULTURE & HERITAGE	CAP07	1,121	51	527	(594)	(0)	294	294	0	427	694
GF - PARKS COMMISSIONING	CAP11	12,925	5,913	10,912	(2,013)	(9)	153	83	0	7,629	5,296
GF - ENFORCEMENT	CAP08	173	2	173	0	0	330	330	0	173	0
GF - MY PLACE	CAP09	3,937	1,348	2,421	(1,516)	(13)	1,434	1,000	0	3,596	341
GF - PUBLIC REALM	CAP10	8,510	4,653	5,707	(2,803)	28	5,487	5,287	0	7,774	735
GF - EDUCATION, YOUTH & CHI	CAP20	15,254	11,540	18,186	2,932	1,619	8,559	11,466	0	0	15,254
GF - SALIX	CAP55	130	40	130	0	0	0	0	0	0	130
General Fund		60,751	30,173	51,394	(9,357)	(3,051)	23,186	22,664	200	25,728	35,023
HRA STOCK INVESTMENT	CAP30	14,000	6,390	13,989	(11)	(11)	20,289	27,933	37,760	0	14,000
HRA ESTATE RENEWAL	CAP31	4,000	1,551	4,000	0	0	4,400	0	0	0	4,000
HRA NEW BUILD SCHEMES	CAP32	544	156	820	276	0	0	0	0	0	544
HRA Total		18,544	8,097	18,810	266	(11)	24,689	27,933	37,760	0	18,544
IAS RESIDENTIAL	CAP40	242,297	180,619	275,182	32,884	17,124	190,378	111,699	18,708	122,154	120,144
IAS COMMERCIAL	CAP42	17,450	14,303	16,446	(1,004)	26	3,092	2,000	1,000	17,450	0
Investments Total		259,747	194,921	291,628	31,881	17,150	193,469	113,699	19,708	139,603	120,144
Total		339,042	233,191	361,832	22,790	14,088	241,344	164,296	57,668	165,331	173,711
Financed By:											
Borrowing		165,331	91,232	224,196	(10,530)	31,083	134,438	92,903	7,012		
Other Sources		173,711	141,959	137,635	33,320	(16,995)	106,907	71,394	50,656		
		339,042	233,191	361,832	22,790	14,088	241,344	164,296	57,668		

8. Financial Implications

Implications completed by: Jo Moore, Section 151 Officer

8.1 This report is one of a series of regular updates to Cabinet about the Council's financial position and the main body of the report provides key financial implications.

9 Legal Implications

Implications completed by: Dr Paul Feild, Principal Standards & Governance Lawyer

9.1 Local authorities are required by law to set a balanced budget for each financial year. During the year, there is an ongoing responsibility to monitor spending and ensure the finances continue to be sound. This does mean as a legal requirement there must be frequent reviews of spending and obligation trends so that timely intervention can be made ensuring the annual budgeting targets are met.

9.2 In spite of inflationary pressures such as the war in Ukraine, the post 'brexit' uncertainty and a technical recession, the fiduciary duty to Council taxpayers and the Government for proper stewardship of funds entrusted to the Council together with ensuring value for money plus the legal duties to achieve best value still apply. Furthermore, there remains an obligation to ensure statutory services and care standards for the vulnerable are maintained.

9.3 We must continue careful tracking of all costs and itemise and document the reasoning for procurement choices to ensure expenditure is in line with the Local Government Act 1999 duty to secure continuous improvement in the way in which the Council's functions are exercised, having regard to a combination of economy, efficiency, and effectiveness. If there should be need to make changes in services provision, then there is a duty to carry out proper consultation and have due regard to any impact on human rights and the Council's Public Sector Equality Duty under the Equality Act 2010 before finalising any decision.

10. Other Implications

10.1 **Risk Management –** Regular monitoring and reporting of the Council's budget position is a key management control to reduce the financial risks to the organisation and features on the Council's strategic risk register.

10.2 **Corporate Policy and Equality Impact –** Regular budget monitoring is key to the Council being a well-run organisation, which provides value for money for residents. It also ensures that the Council will be able to focus resources on delivering the priorities set out in the Corporate Plan 2023-26. Where any new savings proposals are put forward, or if there is need to make changes in services provision, the Council has a duty to carry out proper consultation and have due regard to any impact on people with protected characteristics, as part of the Council's Public Sector Equality Duty under the Equality Act 2010. The equality implications should be considered at the early stages of planning, through the use of an equality impact assessment. The annual budget report also reviews the cumulative impact of multiple savings proposals on people with protected characteristics to ensure that no group is disproportionally affected, and that where negative impacts are identified, mitigating or minimising actions can be put into place.

Public Background Papers used in preparation of this report:

- The Council's MTFS and budget setting report, Assembly 1 March 2023

Budget Framework 2023-24 Report (lbbd.gov.uk)

List of appendices:

- Appendix A: Revenue Budget Monitoring Pack 2023/24 (Period 10)
- Appendix B: Capital Quarter 3 Monitoring Update