CABINET

23 July 2024

Title: Revenue Budget Monitoring 2024/25 (Period 2, May 2024)	
Report of the Cabinet Member for Finance, Growth and Core Services	
Open Report	**For Information**
Wards Affected: None	**Key Decision:** No
Report Author: Jahangir Mannan, Strategic Housing and Commercial Finance Advisor	**Contact Details:** E-mails: jahangir.mannan@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 2024/25 as at the end of May 2024 (Period 2), highlighting key risks and opportunities and the forecast position.

The current year budget was approved through the Medium-Term Financial Strategy (MTFS) Report presented to Cabinet in February 2024, and the Housing Revenue Account (HRA) budget approved in January 2024 Cabinet.

At the end of May, forecast expenditure is £221.9m, resulting in a forecast break-even position. This would be a significantly more adverse movement, but for management actions and spending control measures that have now been in place since last Summer. However, it is important that spending restraints continue to minimise any drawdown on the Council's reserves to balance the 2024/25 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 £3.14m from IAS reserve, the base budget has £8.81m of budgeted drawdown. This will take the total reserve drawdown to £6.59m before covering any potential 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 P2 forecast.

At the end of May, there is also a projected underspend of £374k on the HRA.

Currently it is expected that c£4m will be released from corporate funding to offset the net pressure on Directorates. However, this year's dividend from Be First (previously estimated at c£10.4m) is unlikely to be realised in full. Be First will not be able to meet their dividend target and although the Muller Reserve was used to cover the dividend budget in previous year, this was a one-off mitigation and going forward the MTFS will review the latest BeFirst Business Plan to identify future dividends.

If the forecast level of overspend continues, this will result in the use of earmarked reserves to balance the budget for 2024/25 and/or potentially drawing of funds down from the General Fund balance which is currently c£14.4m. 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 break-even revenue forecast at Period 2 for the General Fund for the 2024/25 financial year, as set out in sections 2 and 3 and Appendix A of the report;

(ii) Approve the net projected year end drawdown of £11.95m reserves to support the in-year position;

(iii) Note the projected £374k revenue underspend forecast for the Housing Revenue Account, as set out in section 6 and Appendix A of the report;

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

(v) 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

(vi) Note the P2 Capital Monitoring update as set out in section 7 and Appendix A 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 2024/25 financial year as at end of May 2024 (Period 2).

1.2 This financial year continues to see the high level of financial risk realised in 2023/24 outturn despite c£25.6m of growth and budget corrections. 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 continues to impact on their ability to pay dividends to the Council.

1.3 The overspend identified in this report 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 takes mitigating actions to 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 2023/24 budgets, 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 2024/25 budget was approved by the Assembly in February 2024 and was £212.93m – a net increase of £13.9m 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 £15.6m of savings included in the budget.

2.2 As **Appendix A** shows, the expenditure forecast is £221.9m, after planned transfers to and from reserves, resulting in a net break-even position. 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
	Original Budget	Virements	Revised Budget	YTD Actuals	Forecast	Net Movement in Reserves	Variance
PEOPLE & RESILIENCE	135,536,424	60,154	135,596,578	12,749,952	139,888,992		4,292,413
STRATEGY	6,130,023		6,130,023	1,204,038	6,310,023	(180,000)	0
INCLUSIVE GROWTH	992,477	(60,154)	932,323	62,098	1,282,384		350,061
MY PLACE	15,896,935		15,896,935	10,675,990	15,254,460		(642,475)
RESOURCES	30,994,057		30,994,057	21,439,505	30,994,057		0
SUB-TOTAL DIRECTORATES	**189,549,916**		**189,549,916**	**46,131,582**	**193,729,916**	**(180,000)**	**4,000,000**
CENTRAL EXPENSES	16,610,173		16,610,173	310,326	12,610,173		(4,000,000)
INTEREST PAYABLE	10,139,085		10,139,085	(3,664,178)	8,208,125		(1,930,960)
INTEREST PAYABLE ON ST BORROWG							
CAPITALISED INTEREST							
INTEREST RECEIVED	(6,502,960)		(6,502,960)	7,082	(4,572,000)		1,930,960
MRP	10,791,938		10,791,938		10,791,938		
LEVIES PAID	16,245,900		16,245,900	2,429,342	16,245,900		
SUB-TOTAL CORPORATE EXPENSES	***47,284,136***		***47,284,136***	***(917,428)***	***43,284,136***		***(4,000,000)***
GENERAL FUND I&E (EXC. IAS)	**236,834,052**		**236,834,052**	**45,214,154**	**237,014,052**	**(180,000)**	**(0)**
IAS COMMERCIAL (NET OPERATING RETURN)	(4,661,700)		(4,661,700)	172,690	(2,698,589)		1,963,111
IAS RESIDENTIAL (RESIDE SCHEME SURPLUS)					(2,000,000)		(2,000,000)
IAS OTHER	(10,426,889)		(10,426,889)		(10,390,000)		36,889
IAS INTEREST PAYABLE							
INTEREST PAYABLE ON ST BORROWG							
CAPITALISED INTEREST							
IAS INTEREST RECEIVED							
IAS MRP							
SUB-TOTAL IAS	***(15,088,589)***		***(15,088,589)***	***172,690***	***(15,088,589)***		
GENERAL FUND I&E	**221,745,463**		**221,745,463**	**45,386,843**	**221,925,463**	**(180,000)**	**(0)**

Directorate Forecasts

2.2.1 **My Place: (£642k) underspend**:
There are underspends across Enforcement totalling £1.228m due to vacancies and off-street Parking income is forecast to over-recover by £424k, which is not restricted under Section 55 of the Road Traffic Act. The underspend will be used as an in-year mitigation. This is offset partly by overspends in Homelessness accommodation (which sit in Support Services and was transferred from Community Solutions) of £612k and Commercial income under-recovery of £406k.

2.2.2 **Strategy: Forecast is breakeven**
Currently forecasting to budget. There may be a possibility that underspends could arise from vacancy savings as the year progresses. There is a drawdown of £180k from ring fenced grant which does not make up the movement from budget reserves detailed in Section 5.

2.2.3 **Inclusive Growth: Overspend of £350k**
The forecast overspend on the Leisure contract is £781k . The Council receives management fee income under the existing contract . This terminates in September 2024 and under the new contract the Council will make a payment to the leisure operator. Therefore, the income target of £1.2m will not be met. The overspend in Leisure is offset by savings in Commercial Services and vacancy savings in Inclusive Growth.

2.2.4 **Resources: Forecast is breakeven**
Currently forecasting to budget.

2.2.5 **People and Resilience: (£4.292m) increase in forecast expenditure.**
There is a projected overspend of £4.292m across the whole of People and Resilience arising mainly from Adults Social Care, although there are some forecast overspends in Children's arising from placement inflation and use of external legal. A key driver for the forecast overspend in Adults in an increase in the assumption around the number of domiciliary hours required per month. During 2023/24 the average number was c54,000 with a peak at c77,000. However, since the beginning of the year prevention activity is now under the direct control of the Strategic Director, PIR and therefore it is anticipated that this activity will increase to reduce the hours required, and this reduction has fed into the forecast. However, should the preventative work not have the forecast impact, there is a risk that this pressure could rise by a further £3.6m.

Data shows that although numbers open to ASC remain stable the fast pace changing needs of the client group from older to working age adults is driving up costs and pressures. Over the past 12 months, we have seen a 5% increase in working age adults, mainly with LD, equating to 50 new clients at average cost of £1100 per week, with 20 young people transferring from children to adult services over the first 2 months. We are seeing positive impacts from changes to the front door and increased reablement offer, however, savings associated with these were assumed as part of budget setting for 24/25, and although impactful, such activities are unlikely to negate the costs of higher cost new demand arising from LD and MH working age adults.

2.2.6 **Central Expenses: (£4m) decrease in forecast expenditure.**
The forecast release of £4m as part of growth which was agreed to mitigate People & Resiliance Budget pressure.

2.2.7 **IAS: Forecast is breakeven**
The IAS budget includes a provision for interest rate pressures and the current forecast includes the full amount of the provision. There is an expectation that the interest rate pressure will ease over the year. The IAS returns are reliant on the operational assets meeting the or exceeding the assumptions made in the financial models and there are currently issues around letting of Private Rental Schemes, sale of Shared Ownership, debt collection and management and maintenance costs. Included wihtin this projection is £10.4m in dividends from BeFirst, which is yet to be approved by the Board and presents a risk to the Council.

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: The income target for the Leisure contract management fee is £1.2m. This will not be met under the new contract as the Council will make a payment to the leisure operator in 2024/25 as opposed to receiving income.

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. Since 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 now 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.

2.3.9 The Ethical Collection Service is forecasting income of £690k. The service is working towards a higher income collection. However, it is currently unable to cover its costs. Finance believe the income will range between £600k - £700k and this may increase the outturn variance.

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 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.

2.4.3 A forecast has not been included for bad debt provision movement and a final position will be provided at year end.

2.4.4 The Budget assumes funding from Subsidiaries of c£10.4m via dividends, however any dividend will likely be significantly below the £10.4m. Any shortfall of dividend will now be funded from Reserves. If these reserves were not drawn down the overspend would increase by £10.4m.

2.4.5 The current People & Resilience placement forecast position is based on limited data so far this year, using a combination of the first two months of 24/25 along with the 23/24 outturn position. As the council progresses into the year the forecast will better reflect the true position this year, allowing for new placements, uplifts, changes in provision, progress on planned savings etc.

2.4.6 There are currently no forecast variances on Corporate Funding. In previous years the Council has received additional in year section 31 grants – if this occurs again this year this will potentially be used to offset the overspend or to replenish reserves.

3. Service Variances

3.1 People & Resilience – forecast overspend £4.292m

	This Years Budget			Actuals/Forecast		Reserves	Variances Inc Reserves
	Original Budget	Virements	Revised Budget	YTD Actuals	Forecast	Net Movement in Reserves	Variance
PEOPLE & RESILIENCE	135,536,424	60,154	135,596,578	12,749,952	139,888,992		4,292,413
ADULTS DISABILITY	23,273,759		23,273,759	4,804,544	23,791,233		517,474
ADULT'S CARE & SUPPORT	27,679,412		27,679,412	5,811,245	30,373,838		2,694,426
COMMISSIONING - CARE & SUPPORT	11,679,553	1,728,202	13,407,755	(659,422)	13,407,755		()
PUBLIC HEALTH	(381,250)	700,000	318,750	(4,974,294)	318,750		
CHILDREN'S CARE & SUPPORT	49,250,135	(828,202)	48,421,933	7,092,121	50,446,388		2,024,455
EDUCATION, YOUTH & CHILDCARE	4,188,114		4,188,114	(51,286)	4,197,536		9,422
EARLY HELP SERVICE	3,387,906	(1,250,000)	2,137,906	(1,450,071)	2,137,906		
CHILDREN & YOUNG PEOPLE DISABI	13,310,320	(350,000)	12,960,320	1,390,331	12,006,956		(953,364)
LOCALITIES	3,148,475	60,154	3,208,629	786,785	3,208,629		()

3.1.1 Overall, there is an overspend of £4.292m across the whole of People and Resilience.

3.1.2 The underlying pressure is as a result of the following budgetary drivers:

- Market Pressure in the Adults Market - Requests for inflationary increases are at an all-time high within the market and there is still uncertainty with regards to the inflationary uplifts that are to be applied for 2024-25
- Placement Modernisation - The are a number of older placements which have ceased due to either client attrition or clients' needs increasing and resulting to moving onto more enhanced packages. Many of the older placements were originally commissioned at a much lower rate many years ago, whereas the current market rates have seen a much larger than usual upturn.
- Transition from young people – Adults Disabilities have also seen a higher number of complex children transition into the Adults space on large packages. This has required continuous tracking in year and will need further intelligence with regards to forecasting.
- Challenging placement market for Childrens - The provider market remains a challenge, with the service regularly pushing back on high-cost quotes. Due to the complex nature of the current cohort of Children in the system, it is evident that demand for placements currently exceeds supply within the market.

3.1.3 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. The current forecast position is based on limited data so far this year, using a combination of the first two months of 24/25 along with the 23/24 outturn position. As we move further into the year the forecast will better reflect the true position this year, allowing for new placements, uplifts, changes in provision, progress on planned savings etc.

3.1.4 Additionally, the services have experienced an irregularity in the average payment runs due to changes to purchase orders from previous years and some purchase orders yet to be finalised. This has resulted in difficulties in forecasting accurately, which should be resolved in period 3 and 4.

3.2 Resources – forecast to break-even

	This Years Budget			Actuals/Forecast		Reserves	Variances Inc Reserves
	Original Budget	Virements	Revised Budget	YTD Actuals	Forecast	Net Movement in Reserves	Variance
RESOURCES	**30,994,057**		**30,994,057**	**21,439,505**	**30,994,057**		
STRATEGIC LEADERSHIP	1,116,114		1,116,114	116,604	1,116,114		
FINANCE	20,294,809		20,294,809	19,586,005	20,294,809		
WORKFORCE CHANGE / HR	2,445,838		2,445,838	755,064	2,445,838		
LEADERS OFFICE	313,551		313,551	48,357	313,551		
LAW AND GOVERNANCE	3,538,010		3,538,010	1,091,226	3,538,010		
SUPPORT AND COLLECTIONS	(1,957)		(1,957)	20,585	(1,957)		
COMMUNITY SOLUTIONS	107,900		107,900	4,157	107,900		
COMMUNITY PARTICIPATION & PREV	3,179,792		3,179,792	(182,493)	3,179,792		

3.2.1 The Resources directorate is forecast to spend £30.9m which is in line with the 2024/25 budget.

3.3 **Central Expenses – forecast underspend (£4m)**

	This Years Budget			Actuals/Forecast		Reserves	Variances Inc Reserves
	Original Budget	Virements	Revised Budget	YTD Actuals	Forecast	Net Movement in Reserves	Variance
CENTRAL EXPENSES	**47,284,136**		**47,284,136**	**(917,428)**	**43,284,136**		**(4,000,000)**
CORPORATE MANAGEMENT	(641,000)		(641,000)		(641,000)		
GENERAL FINANCE	47,925,136		47,925,136	(917,428)	43,925,136		(4,000,000)

3.3.1 There is a forecast underspend of £4m in central expenses. This incorporates the agreed contingency budget in held to mitigate People and Resilience services pressure.

3.4 **Strategy – forecast to break even**

	This Years Budget			Actuals/Forecast		Reserves	Variances Inc Reserves
	Original Budget	Virements	Revised Budget	YTD Actuals	Forecast	Net Movement in Reserves	Variance
STRATEGY	**6,130,023**		**6,130,023**	**1,204,038**	**6,310,023**	**(180,000)**	**()**
INSIGHT AND INNOVATION	1,375,351		1,375,351	339,558	1,475,351	(100,000)	()
PMO	331,873		331,873	43,995	411,873	(80,000)	()
STRATEGY	761,879		761,879	184,905	761,879		
CUSTOMER CONTACT	2,003,931		2,003,931	549,920	2,003,931		
PARTICIPATION AND ENGAGEMENT	739,219		739,219	119,669	739,219		()
COMMUNICATIONS	917,770		917,770	(34,009)	917,770		

3.4.1 The Strategy directorate is forecast to break-even at Period 2. Underspends may arise in later months due to vacant positions but at this stage in the year it a prudent approach is being taken to financial reporting. Underspends will only be reported when there is certainty that those underspends will remain in the budget to financial year-end.

3.4.2 The £180,000 transfer from Reserves represents a drawdown of £100,000 from the Supporting Families grant for the One View programme and £80,000 for Community Banking.

3.5 **Inclusive Growth – forecast overspend of £350k.**

	This Years Budget			Actuals/Forecast		Reserves	Variances Inc Reserves
	Original Budget	Virements	Revised Budget	YTD Actuals	Forecast	Net Movement in Reserves	Variance
INCLUSIVE GROWTH	**992,477**	**(60,154)**	**932,323**	**62,098**	**1,282,384**		**350,061**
COMMERCIAL	(2,044,547)		(2,044,547)	(271,322)	(1,486,055)		558,492
INCLUSIVE GROWTH	3,037,024	(60,154)	2,976,870	333,420	2,768,439		(208,431)

3.5.1 The Inclusive Growth Directorate is forecast to overspend by £350k at the end of Period 2. The main driver for the overspend is a shortfall in income from the Leisure contract.

3.5.2 The existing Leisure contract comes to end on 14th September 2024. Management fee income to the end of the existing contract is £564k against an income target of £1.228m. The new contract has not yet been let but it is anticipated that the Council will have to pay a fee to the new operator from contract commencement to the end of the year. This will be partly offset by the £171.8k balance of the termination fee income.

3.6 My Place – forecast underspend of (£642k)

	This Years Budget			Actuals/Forecast		Reserves	Variances Inc Reserves
	Original Budget	Virements	Revised Budget	YTD Actuals	Forecast	Net Movement in Reserves	Variance
MY PLACE	15,896,935		15,896,935	10,675,990	15,254,460		(642,475)
ENFORCEMENT	2,921,908		2,921,908	(780,683)	2,119,531		(802,377)
HOMES AND ASSETS	2,932,350		2,932,350	3,545,659	3,672,741		740,391
PUBLIC REALM	10,042,677		10,042,677	7,911,014	9,462,189		(580,488)

3.6.1 My Place is projecting a (£0.642m) underspend. This is mainly in Enforcement which is showing a (£0.802m) underspend which is represented by favourable staffing cost variances across various service areas. Further investigation is being carried out in areas such as the Barking Market, to firm up on the impact of SLAs on the service. A restructure is also underway and recent structural changes also need time to bed in.

3.6.2 Homes and Assets: Period 2 £0.740m overspend is partly due to projected under recovery on commercial rent income. The service continues to work with General Income on producing the underlying asset list and rent roll to support forecasting and future budget assumptions. Support Services (formerly part of Community Solutions) is overspending by £0.612m. This includes pressures on homelessness hostel budgets.

3.6.3 Public Realm is projecting an underspend of (£0.58m). This is mainly being generated through increased income in Parking services. Underspends in Street Cleansing are offsetting a deficit in Waste operations.

3.7 Savings

3.7.1 As part of the revised MTFS in February 2024, the budget included savings targets totalling c£15.5m. This is summarised by service areas as per table below:

Directorate	Complete	On Track	Off Track, In Control	Off Track, Not in Control	Total saving	RAG
Community Solutions	(443,712)	(926,474)	(350,000)		(1,720,186)	
Inclusive Growth	(173,167)				(173,167)	
Law & Governance	(246,919)				(246,919)	
My Place	(1,336,860)	(1,872,751)	(816,000)	(60,000)	(4,085,611)	
People and Resilience	(1,550,000)	(2,289,520)	(2,333,682)	(706,731)	(6,879,933)	
Resources	(243,440)	(506,475)	(494,182)		(1,244,097)	
Strategy	(545,234)	(300,000)	(200,000)	(200,000)	(1,245,234)	
Grand Total	(4,539,332)	(5,895,220)	(4,193,864)	(966,731)	(15,595,147)	

3.7.2 £4.5m of the savings items have been completed with a further £5.89 projected to be in track as at P2. This total 66% of the overall target.

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 deals. The IAS reserve does not include surpluses from Muller, which have been used as part of the Be First dividend return in the previous year.

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.

4.4 In addition to the current IAS borrowing of £939.5m the Council's general Treasury Management and Capital Borrowing has c £101.0m 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 12 and 13 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. There remain weaknesses in a number of areas, including:

- Forecast under pressure from interest rate increases with short-term borrowing rates remaining high. Short-term borrowing allocated to variable rate loans and commercial which are both under pressure.
- 2024/25 budget included additional budget to cover interest pressure and this has been used to cover shortfalls from loans to Reside and from higher than forecast short-term borrowing costs.
- Provisions for loans to subsidiary companies remains as there is a lack of clear strategy around dealing with subsidiary loans. Loans are being reviewed with potentially some of the provision reduced.
- Interest margin on IAS loans provides an additional return to the strategy. Lettings are improved for Private Rentals, but issues around fraud and bad

debts remain. Ewars Marsh, a shared ownership scheme remains empty with significant interest costs of nearly £1m lost per year.

- Returns from Reside are currently estimates based on outturn numbers and carry some risk until the final amount is confirmed. In addition charges from MyPlace that are charged to the council have reduced return forecasts.
- Debt repayment (MRP) is allocated to the commercial portfolio and is a cost but this will reduce the cost of the commercial assets.
- Commercial income is forecast before interest costs and has deteriorated further as Industria lettings remain behind target and there will be similar letting issues when 12 Thames Road completes later this year.
- CR27 and Travelodge hotels have reserves that have been inflated each year but will not be inflated for 2024/25 as there is sufficient current reserves of £12.1m for both hotels.

5 Reserves

	Opening Balance	Budgetted Drawdown 24-25	Planned Drawdown 24-25	Closing Balance After Reserve Adj's
	£'m	£'m		£'m
General Reserves	(14.40)			(14.40)
Budget Support Reserve	(15.40)	8.81		(6.59)
Sub total	**(29.80)**	**8.81**		**(20.99)**
Ring-fenced Reserves	(25.54)			(25.54)
PFI Reserves	(14.04)			(14.04)
Collection Fund Reserves	(6.70)			(6.70)
Levy Funding Reserve	(7.56)			(7.56)
Sub total	**(53.84)**			**(53.84)**
Non Ring-Fenced Reserves (Directorates)				
Corporate Reserves	(6.61)			(6.61)
People & Resilience	(0.35)			(0.35)
Legal, Governance & HR	(0.41)			(0.41)
Strategy	0.00			0.00
Inclusive Growth	(1.80)			(1.80)
Community Solutions	(2.40)			(2.40)
My Place	0.00			0.00
Non Ring-Fenced Reserves	**(11.57)**			**(11.57)**
IAS & Hotel Reserves	**(33.96)**		**3.14**	**(30.82)**
HRA Reserves	**(37.41)**			**(37.41)**
Schools Reserves	**(21.47)**			**(21.47)**
Capital Reserves	**(106.23)**			**(106.23)**
Total Reserves	**(294.27)**	**8.81**	**3.14**	**(282.32)**

5.1 The Council has £294.3m in brought forward Reserves from 2023/24 (inclusive of capital and HRA reserves). Of this £29.8m are usable reserves. The current projection is that the Council will drawdown £11.95m of reserves to support in year activity before taking into account any overspends.

5.2 The reserve drawdown includes £8.81m budgeted gap plus £3.14m from IAS reserve to cover dividend shortfall and also includes £300k from IAS reserve to cover EY review of subsidiary arrangements and asset performance. £180k projected movement from supported grant to Strategy directorate does not impact this balance.

5.3 Any forecast overspends that crystalise at year end, will also need to be funded from a further call on the reserves. At P2 the variance is a projection and a final overspend figure will be confirmed at year end,

5.4 Therefore, the total reserve drawdown for 24/25 could become higher 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)

2024/25 FORECAST OUTTURN			
REPORT LEVEL	BUDGET	FORECAST	VARIANCE
	£'000	£'000	£'000
SUPERVISION & MANAGEMENT	51,094	48,244	(£2,849)
REPAIRS & MAINTENANCE	25,365	27,688	£2,323
RENTS, RATES ETC	3,775	4,006	£231
INTEREST PAYABLE	10,826	11,033	£207
DISREPAIR PROVISION	0	1,000	£1,000
BAD DEBT PROVISION (BDP)	3,309	3,309	£0
CDC RECHARGE	945	781	(£165)
TOTAL EXPENDITURE	**95,314**	**96,061**	**£747**
DWELLING RENTS	(£96,750)	(96,162)	£588
NON-DWELLING RENTS	(£801)	(776)	£25
CHARGES FOR SERVICES & FACILITIES	(£24,375)	(25,506)	(£1,131)
INTEREST & INVESTMENT INCOME	(£276)	(879)	(£602)
TOTAL INCOME	**(£122,202)**	**(£123,323)**	**(£1,121)**
NET TOTAL BEFORE CAPITAL	**(£26,888)**	**(£27,262)**	**(£374)**
DEPRECIATION	22,613	22,615	£2
TRANSFER TO MAJOR REPAIR RESERVE (MRR)	2,075	2,074	(£2)
CAPITAL PROGRAMME FUNDING	**£24,688**	**£24,688**	**(£0)**
NET TOTAL AFTER CAPITAL	**(£2,200)**	**(£2,574)**	**(£374)**
TRANSFER TO HRA LEASEHOLDER RESERVE	£2,200	2,200	£0
TRANSFER FROM/(TO) HRA RESERVE	**£0**	**(£374)**	**(£374)**

6.1 The HRA is projecting a (£0.374m) underspend at Period 2.

6.2 For 2023/24, the BDMS R&M contract was £27.801m, which included some one-off legacy related commitments. The 2024/25 contract is estimated at £22.089m. This reduction has meant the HRA is not facing the same pressures as last year.

7. 2024/25 Capital Programme – P2 Update

7.1 This is the first reporting cycle of 2024-25 for current year budgets and are the revised to include 2023-24 carry forwards (presented to ACB May 24). Detailed work is on-going with project managers and owners to agree reprofiled, budgets, once they are agreed budgets will be loaded onto CP to coincide with the Q1 full monitor cycle.

7.2 Spend to P2 was £15.158m, there are still approximately £6m worth of unmatched accruals which are depressing the gross spend which currently stands at £21.164m against a budget of £263.073m, full spend has been assumed for the forecast up to P2.

7.3 GF spend was £1.688m against a budget of £52.047m. Scrutiny will be required for GF spend as they came in severely under budget in 2023-24 which was not in line with the forecast.

7.4 HRA spend in showing a net negative spend due to the £2.435m unpaid prior year accruals (a majority of which are in the system). The gross spend on HRA is approximately £1.9m.

7.5 IAS Residential and Commercial spend was £13.972m against a current budget of £178.353m.

Table 1: Capital Programme 2024/25 Budgets as at P02 (May 2024)

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 2024/25 (Period 2)