CABINET

20 SEPTEMBER 2022

Title: Revenue Budget Monitoring 2022/23 (Period 4, July 2022)	
Report of the Cabinet Member for Finance, Growth and Core Services	
Open Report	**For Decision**
Wards Affected: None	**Key Decision:** No
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Accountable Strategic Leadership Director: Philip Gregory, Strategic Director, Finance & Investment	

Summary

This report sets out the Councils budget monitoring position for 2022/23 as at the end of July 2022, highlighting key risks and opportunities and the forecast position. This is the first budget report of this financial year.

The Council's General Fund budget for 2022/23 is £183.060m – a net increase from the previous year's position of £9.4m. The current forecast outturn position including movements to and from reserves and the income position is £199.347m which would be an overspend of £16.287m. This is a significant overspend in the period and is driven by significant cost pressures such as the potential Local Government pay award and the increasing costs of social care. In addition there is the impact of a changing balance of costs between the HRA and the General Fund.

There is potential for risks and opportunities to materialise and for management action to be taken to reduce overspends. Furthermore, the overspend can be managed by use of the budget support reserve. However, the current level of overspend would deplete the reserve, increasing the risk in future years. The position will continue to be closely monitored and risks and opportunities recognised as soon as certain.

This report also presents a revised budget for the HRA taking into account increased cost pressures in repairs and a reduction in recharges from the Council for supervision and management costs.

Recommendation(s)

Cabinet is recommended to:

(i) Note the projected revenue outturn forecast for the 2022/23 financial year as set out in section 2 and Appendix A of the report;

(ii) Note the update on savings proposals, as set out in section 3 of the report; and

(iii) Approve the restatement of the HRA budget as set out in section 4 and Appendix B of the report.
Reason(s) As a matter of good financial practice, the Cabinet should be informed about the Council's 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 as part of the Well Run Organisation.

1. Introduction and Background

1.1 This is the first budget monitoring report to Cabinet for the 2022/23 financial year. There has been a net £9.4m of growth added to the budget for 2022/23 as part of the Council's budget setting process in February in order to meet the then known pressures, especially those in Care and Support. This was funded from Council Tax increases, commercial returns and Government grants.

1.2 Despite the growth, this year has a high level of financial risk including inflation and the cost-of-living crisis, the impact of the Covid pandemic and its aftermath, the potential impacts of Brexit, the long-standing pressures that impact across the Local Government sector and the high levels of deprivation and disadvantage that already existed for residents of the Borough.

1.3 As part of our ongoing improvement programme, a new financial system and budget monitoring process was introduced in April 2022. This has resulted in some changes to the format of the budget monitoring report. This report is a high-level summary with key information and action points with more detailed being contained within the appendices.

2. Overall Financial Position

2.1 The 2022/23 budget was approved by the Assembly in March 2022 and is £183.060m – a net increase of £9.4m from last 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 £5.3m of savings included in the budget.

2.2 As Appendix A shows the expenditure forecast is £199.347m. There are still risks and opportunities that could be realised, as well as the possibility that this overspend can be managed down further. This level of overspend can be fully met from the budget support reserve without the need for recourse to the General Fund which will remain at £17m. However, this would reduce the Council's ability to absorb further financial risks or support new investment in transformation in future years.

2.3 A proportion of the additional pressures are driven by the Covid pandemic. However as time has passed, some of the additional costs have now become the "new normal" and it is becoming increasingly hard to draw a sharp distinction between Covid costs and business as usual. There are now increasing pressures from the impact of inflation including pay inflation and the cost of living crisis. In addition there has been a review of costs recharged to the HRA which has resulted in a reduction of income from the HRA to the General fund.

2.4 Further details are set out in Appendix A to this report.

3. Savings and Commercial Income

3.1 There is a new savings target of £5.339m for 2022/23. £2.695m of these savings are either fully achieved or expected to be achieved. £0.290m are rated less certain and £2.354m are at high risk of not being achieved.

3.2 In addition there are £5.349m of previous year savings that were not fully achieved at year end. Of these, £3.128m are no longer being pursued because circumstances have changed or the action has already been taken but not achieved the target saving. They have now been effectively absorbed into the base budget of the services concerned and should be treated as existing budget pressures with mitigations and management actions being sought.

3.3 During budget setting, £1.141m of savings were formally resolved and taken out as they are no longer achievable for reasons outside of service control (mostly Covid related.) A further £1.080m are still achievable and will be monitored in 2022-23 along with the new savings discussed above.

4. Housing Revenue Account

4.1 Since the HRA budget was approved by Cabinet in February 2022 there have been some significant changes.

4.2 There are three main changes:

- The impact of the review of HRA recharges to/from the General Fund. This resulted in an approx. £3m shift of costs. There is a risk that this trend will continue as the HRA stock reduces. It may be possible to replace some of this income to the General Fund through charging to Reside. However, it is a significant risk in the Council's MTFS. For the HRA it represents an improvement in the position and reduces total expenditure.
- Shortly before the start of the financial year it was agreed to fund additional capacity in the BDMS contracts (increased trades numbers) and to provide for inflationary uplifts on subcontractor payments plus an increase in the management fee and a 15% margin across the contracts. Together these amounted to a potential increase of £7.4m in Repairs and Expenditure costs.
- There was significant slippage in the HRA stock improvement capital programme in 2021/22. This will have an impact on the 2022/23 programme and there will be a need to reprofile the catch-up and the new programme. This in turn will affect the level of funding and borrowing.

4.3 The HRA is a ring fenced self-balancing account. These changes will be made within this account with no changes to services or additional fees or charges to tenants. Cabinet is asked to approve this restatement of the budget as set out in Appendix B.

5. Financial Implications

Implications completed by: Katherine Heffernan, Head of Service Finance

5.1 This report is one of a series of regular updates to Cabinet about the Council's financial position.

5.2 The introduction of the Suspension Service enhanced services will generate income to the Council. The reduction of the Low Emission Vehicle: Zero to 50 CO_2 emission charge to zero will be minimal with no material impact on the financial position.

6. Legal Implications

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

6.1 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.

6.2 Nevertheless, the unique situation of the aftermath of Covid 19 combined with the hostilities between the Russian Federation and the Ukraine presents the prospect of the need to purchase supplies and services with heavy competition for the same resources together with logistic challenges which is causing scarcity and inflationary rising costs. Still, value for money and the legal duties to achieve best value still apply. There is also the issue of the Councils existing suppliers and service providers also facing issues of pressure on supply chains and staffing matters of availability. As a result, these pressures will inevitably create extra costs which will have to be paid to ensure statutory services and care standards for the vulnerable are maintained. We must continue careful tracking of these costs and itemise and document the reasoning for procurement choices to facilitate grounds for seeking such additional support funds as the Authority may be able to access.

7. Other Implications

7.1 **Risk Management –** Regular monitoring and reporting of the Council's budget position is a key management action to reduce the financial risks of the organisation.

7.2 **Corporate Policy and Equality Impact –** regular monitoring is part of the Council's Well Run Organisation strategy and is a key contributor to the achievement of Value for Money.

Public Background Papers used in preparation of this report

- The Council's MTFS and budget setting report, Assembly 2rd March 2022

https://modgov.lbbd.gov.uk/Internet/documents/s152346/BF%202022-23%20Report.pdf

List of appendices:

- **Appendix A:** Revenue Budget Monitoring Pack (Period 4)
- **Appendix B:** Revised HRA Revenue and Capital Budget