

CABINET

21 March 2023

Title: Revenue Budget Monitoring 2022/23 (Period 10, January 2023) and Quarter 3 Capital Programme Update	
Report of the Cabinet Member for Finance, Growth and Core Services	
Open Report	For Decision
Wards Affected: None	Key Decision: Yes
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Accountable Strategic Leadership Director: Philip Gregory, Strategic Director, Finance & Investment	
Summary <p>This report sets out the Councils revenue budget monitoring position for 2022/23 as at the end of January 2023, highlighting key risks and opportunities and the forecast position.</p> <p>The Council's General Fund budget for 2022/23 is £183.060m – a net increase from the previous year's position of £9.4m.</p> <p>Since the budget was approved in March 2022, the Council has faced significant increases in costs as a result of inflation, for example the cost of the Local Government pay award and higher energy costs, as well as increasing demand and costs for social care services.</p> <p>The Council has received no additional funding from Government to fund the increased costs and demand placing the burden of meeting these unforeseen costs on the Council. The current forecast outturn position, including movements to and from reserves and the income position, is £193.795m which would be an overspend of £10.734, a 5.9% overspend of budget, or £10.440m after an in-year increase in corporate funding is taken into account.</p> <p>There is also an overspend of £3.422m on the HRA largely driven by inflation especially on energy and repairs costs and an increased programme of compliance and safety works.</p> <p>These are a significant forecast overspends for the year. Key drivers linked to inflation are outside of the control of the Council. We must respond to the market in the same way as any other organisation. This is seen in the cost of provision, energy prices, and the pay award. In addition, a review of the charges between the HRA and GF has seen an impact of a changing balance of costs between the HRA and the General Fund. This has resulted in increased costs being felt within the General Fund.</p>	

This period does continue the trend of management actions driving down the overspend and significant movements can be seen within Care and Support, Community Solutions and Strategy.

There remains some potential for risks and opportunities to materialise and for management action to be taken to reduce overspends in the remainder of the year. In addition, as in recent years, Central Government has made additional funding available at short notice in the final quarter of the year. 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 provides an update on the Capital Programme as at quarter three. The proposed revised 2022-23 programme is £464.9m, made up of £374.29m for the Investment and Acquisition Strategy, £57.276m for General Fund, £2.354m for Transformation and £30.983m for the Housing programme. There is currently £73.0m underspend/slippage forecast against this total.

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) Approve the revenue budget changes (virements) as detailed in Appendix D to the report; and
- (iii) Approve a net increase of £12.3m to the 2022/23 Capital Programme, resulting in a revised Capital Programme for 2022/23 of £464.9m, made up of £374.29m for the Investment and Acquisition Strategy, £57.276m for General Fund, £2.354m for Transformation and £30.983m for the Housing programme, as detailed in section 5 and Appendices B and C to 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 final revenue budget monitoring report to Cabinet for the 2022/23 financial year. There was a net £9.4m of growth added to the budget for 2022/23 as part of the Council's budget setting process in February and March 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, which have all compounded the long-standing pressures that impact across the Local Government sector . These risk factors are beyond the Council's control and are being felt across all local authorities but they are at risk of impacting LBBB more significantly as a result of 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 detail being contained within the appendices.
- 1.4 The implementation of the new finance system empowers budget holders to own their financial information and to work alongside finance. This has resulted in several deep dives and data cleanses, particularly within the area of People and Resilience creating a more robust data position from which to forecast and is allowing greater analysis of trends.

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 £193.795m after planned transfers to and from reserves resulting in a net overspend of £10.734m. In addition, there is a small overachievement in income from additional section 31 grants of £0.294m giving a final variance of £10.440m. 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 taking the General Fund below the minimum level of £12m. 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 The position has improved since last month. The largest movement is in Care and Support and is the result of several factors such as additional income and a review of placements data.
- 2.5 In addition there is a forecast overspend of £3.422m on the Housing Revenue Account mostly driven by inflation on energy and the costs of compliance and safety works. There is also a shortfall on rent income from voids and dwellings being

taken out of use as part of estate renewal. This is partly offset by underspends in repairs where there have been delays in recruiting additional workers to the DLO.

3. Savings and Commercial Income

- 3.1 There is a new savings target of £6.219m for 2022/23 including those brought forward from previous years. £3.408m of these savings are either fully achieved or expected to be achieved in year. £2.354m are at high risk of not being achieved at all with the remaining £0.457m being uncertain or only part achieved in year.

4. Virements

- 4.1 The Cabinet is asked to approve a number of budget virements that are proposed to support services in managing their budgets. Details are provided in **Appendix D**.

5. Capital Programme

- 5.1 Cabinet is asked to approve a net increase in the in-year capital programme of £12.3m made up as follows:

- an increase in the IAS of £21.5m, primarily for the purchase of Maritime House,
- an increase of £9.4m in the budget for Parks Commissioning, largely for Parsloes Park.
- a reprofiling of the Education budget, with £17.3m being re-allocated to future years.

- 5.2 Following those changes the Capital Programme for 2022/23 is £464.9m, made up of £374.29m for the Investment and Acquisition Strategy, £57.276m for General Fund, £2.354m for Transformation and £30.983m for the Housing programme £374.3m for the Investment and Acquisition Strategy, £57.3m for General Fund, £2.4m for Transformation and £31.0m for the Housing programme.

- 5.3 The forecast spend in year is now £391.9m – a reduction since the Q2 forecast of £38.8m. This is mainly due to delays in some schemes. This will result in around £73.0m being slipped into future years. Further information on the schemes and variances is given in **Appendix B** to the report and further detail is contained in **Appendix C**.

6. Financial Implications

Implications completed by: Katherine Heffernan, Head of Service Finance

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

7. Legal Implications

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

- 7.1 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.

- 7.2 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.

8. Other Implications

- 8.1 **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.
- 8.2 **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 2 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 10)
- **Appendix B:** Capital Programme Q3 Update
- **Appendix C:** Capital Programme Detail
- **Appendix D:** Virements