

CABINET

17 October 2023

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| Title: Revenue Budget Monitoring 2023/24 (Period 5, August 2023) | |
| Report of the Cabinet Member for Finance, Growth and Core Services | |
| Open Report | For Decision |
| Wards Affected: None | Key Decision: Yes |
| Report Author: Katherine Heffernan and Philippa Farrell, Heads of Service Finance | Contact Details: E-mail: Katherine.heffernan@lbbd.gov.uk Philippa.farrell@lbbd.gov.uk |
| Accountable Director: Nish Popat, Interim Deputy Section 151 Officer | |
| Accountable Executive Team Director: Jo Moore, Interim Strategic Director, Finance & Investment | |
| Summary | |
| <p>This report sets out the Councils revenue budget monitoring position for 2023/24 as at the end of August 2023, highlighting key risks and opportunities and the forecast position. This is the second budget monitoring report to Cabinet of this financial year.</p> <p>At the end of the last financial year, the Council was overspent across a range of service areas. Some of this was one-off in nature but there was an underlying permanent overspend of £8m, which continues to impact the current financial year. The factors contributing to this, especially increasing demand and costs of social care services, have continued and worsened into this financial year resulting in a further overspend forecast position.</p> <p>The Council's General Fund budget for 2023/24 is £199.002m. Based on the information available at the end of July (Period 4) overall expenditure was forecast to be £219.4m with a planned drawdown from reserves of £5.818m making a forecast overspend of £14.579m. As this was a very significant overspend the Council responded by identifying and implementing measures to try to contain expenditure within the budget envelope approved by Assembly in March 2023. Measures include finding alternative sources of funding such as grant income, holding staff vacancies and delaying or reducing costs wherever possible.</p> <p>At the end of August (Period 5) forecast expenditure after transfers to and from reserves is now £210.040m resulting in a forecast overspend of £11.037m. This represents a reduction of £3.542m from Period 4. This is an improved position but would still be a large draw down on the Council's reserves so work to reduce spending will need to continue further. This will be reported regularly throughout the year.</p> <p>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 P5 forecast.</p> | |

There is also an overspend of £6.899m on the HRA which is also an improved position since P4. 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£10.4m) will in part be drawn down from reserves. Last year an exceptional return was made from the Muller deal and it was agreed this could be spread over two years via a reserve.

There are a number of identified risks and opportunities which could have a beneficial or detrimental impact on the current forecast position. These need to be managed along with mitigating actions to sustainably reduce overspends in the remainder of the year.

If the forecast level of overspend continues, this could result in the requirement to draw funds down from the General Fund balance c£17m. The Council's current Reserves Policy has set the balance for the General Fund to be maintained at £12m.

Any amounts drawn down from the General Fund or earmarked reserves could significantly impact on the Council's financial sustainability. The position will continue to be closely monitored and risks and opportunities recognised as soon as certain.

Recommendation(s)

Cabinet is recommended to:

- (i) Note the projected £11.037m revenue overspend forecast at Period 5 for the General Fund for the 2023/24 financial year, as set out in sections 2 and 3 and Appendix A of the report;
- (ii) Note the projected £6.899m revenue overspend forecast for the Housing Revenue Account, as set out in section 4 and Appendix A of the report; and
- (iii) Note the projected returns for the Investment and Acquisition Strategy as set out in section 5 and Appendix A 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'.

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 is the second revenue budget monitoring report to Cabinet for the 2023/24 financial year and the forecast position reflects forecast to end of year as at end of Period 5 (August 2023).

1.2 This financial year continues to see the high level of financial risk realised in 2022/23 outturn. The risk of inflation, and rising interest rates can not only drive increases in demand but directly impact the costs paid by the Council. These risks are compounding 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. However, they are at risk of impacting LBBD more significantly as a result of the high levels of deprivation and disadvantage that already exist amongst residents of the Borough.

1.3 The pressure identified in this report are significant and will be factored into the Council's MTFs Planning process to identify 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.

2. Overall Financial Position - General Fund

2.1 The 2023/24 budget was approved by the Assembly in March 2023 and is £199.002m – a net increase of £16m 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 £7.049m of savings included in the budget.

2.2 As **Appendix A** shows, the expenditure forecast is £210.040m after planned transfers to and from reserves resulting in a net overspend of £11.037m. 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 a narrative highlighting the key drivers behind the forecasts. More detail is given in Appendix A.

| | This Years Budget | | Actuals/Forecast | | Reserves | Variances Inc Reserves | | |
|-----------------------------|--------------------|--------------------|-------------------|--------------------|--------------------------|------------------------|----------------------|---------------------------|
| | Outturn 2022/23 | Revised | YTD Actuals | Current Forecast | Net Movement in Reserves | Variance | Last Period Variance | Movement from Last Period |
| GENERAL FUND I&E | 210,758,420 | 199,002,253 | 79,355,312 | 215,652,183 | (5,612,534) | 11,037,395 | 14,578,549 | (3,541,154) |
| PEOPLE & RESILIENCE | 117,190,113 | 116,957,652 | 43,102,001 | 127,978,450 | 0 | 11,020,797 | 10,341,694 | 679,103 |
| CORPORATE MANAGEMENT | 52,696,852 | 44,965,743 | 10,246,878 | 47,368,216 | (161,574) | 2,240,899 | 2,688,060 | (447,161) |
| LAW AND GOVERNANCE | (5,174,523) | (4,081,919) | 791,864 | (6,275,694) | 1,248,000 | (945,775) | (553,276) | (392,499) |
| STRATEGY | 3,546,790 | 9,755,640 | 4,063,153 | 9,355,726 | (413,662) | (813,576) | (652,261) | (161,315) |
| INCLUSIVE GROWTH | 2,229,661 | 1,695,078 | 1,160,816 | 3,806,138 | (1,836,212) | 274,848 | 470,240 | (195,392) |
| COMMUNITY SOLUTIONS | 25,021,966 | 14,335,070 | 3,943,012 | 17,352,491 | (4,449,086) | (1,431,665) | 927,886 | (2,359,551) |
| MY PLACE | 15,247,563 | 15,374,989 | 16,047,588 | 16,066,856 | 0 | 691,867 | 1,356,206 | (664,339) |

Note: There has been a management change with Customer Services moving between Community Solutions and Strategy (the lines highlighted in yellow above.)

3 Service Variances

3.1 People & Resilience – forecast overspend £11.021m

3.1.1 Since last month there has been an adjustment to the grant income in this area – an accounting error of a double count of £2.1m of corporate grant funding has been

corrected which has had the impact of increasing the PIR overspend by this amount.

3.1.2 However, some other grants and health income have been applied to reduce the overspend. The overspend in this area relates to payments for care. There is a forecast variance of just under £5m across Adults and Adults with Disabilities – mostly driven by cost increases in care contracts. To meet its duties of market sustainability and the Council's commitment to the London Living wage there has been a standard uplift of 16% to in borough providers which was only partly funded in the budget. There are also significant overspends in Childrens (£4.5m) relating to care placements for looked after children (£5.4m) offset by underspends in salaries and use of grant income and in Children With Disabilities (£2.6m) which largely reflects the high costs of care for children with complex needs and an overspend on Home to School transport for Children with special educational needs (£0.98m).

3.2 Corporate Management – forecast overspend £2.24m

3.2.1 This overspend is largely driven by the expected local government pay award (forecast to be 6.5%.) In addition, there is an overspend in the HR department of HRA. This is offset by underspends in IT mostly relating to delays in activity or unfilled posts due to difficulties recruiting specialist skilled staff. Both HR and IT are taking management action to reduce spend.

3.3 Law & Governance – forecast underspend £0.945m

3.3.1 There is additional income being forecast for Off Street Parking (ie Car Parks) and Traffic Management Orders. These are not ringfenced and can be used to offset other council pressures. On Street Parking income surpluses will be taken to the reserves.

3.4 Strategy – forecast underspend £0.813m

3.4.1 This month there has been a management change and Customer Insight has now been moved to Strategy (from Community Solutions.) The Customer Services team is underspending through holding vacancies as is the Strategy team and there is an overachievement of advertising income.

3.5 Inclusive Growth – forecast overspend £0.275m

3.5.1 This overspend is mainly the result of non-achievement of income especially in Parks Commissioning (£0.5m) and Heritage. This is being offset by holding vacancies and other management action. The overspend has reduced since last month as the Culture and Heritage and Employment and Skills services have both been successful in gaining grant income to offset some of their pressures.

3.6 Community Solutions – forecast underspend of £1.432m

3.6.1 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 My Place – forecast overspend of £0.692m

3.7.1 This is made up of an overspend in Homes and Assets of £1.4m offset by a £0.751m underspend in Public Realm. 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 over achievement of income (from the HRA and external charging), staffing vacancies and growth funding not yet being used.

3.8 Risks and Opportunities

3.8.1 Several risks and opportunities are identified that are currently not included within the forecast overspend. Risks of circa £2.4m are identified however it should be noted that there are also several unquantified risks which are very likely to materialise if robust management action is not taken, the impact being an increase to the figure of £2.388m. Potential opportunities of circa £ 3.5m are identified. sustainability and resilience and restrict investment for services and transformation.

3.9 Savings

3.9.1 There is a new savings target of £7.049m for 2023/24. At P5:

- £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 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.

4 Housing Revenue Account

4.1 The HRA is forecasting to overspend by £6.899m. The primary cause of the overspend is the significant increase in the BDMS contract for Housing Repairs and Maintenance which has increased from £15.670m to £25m, an agreed increase after budget setting. This has driven an overspend of £2.6m against supervision & management and £6.8m against repairs and maintenance.

4.2 These costs are being partly mitigated by a slowdown in the capital programme leaving residual pressures of £6.899m. HRA reserves stand at £18m and may reduce by a further £1m once the HRA for 2022/23 is finalised. Drawing a further £7m from reserves will significantly deplete HRA reserves. It should also be noted that reducing capital spending may result in increased later costs.

5. Investment and Acquisition Strategy and Treasury Management

- 5.1 The Council has an Investment and Acquisition Strategy to achieve a financial return while supporting the regeneration of the borough. This is reported on in detail at regular intervals but a short summary of the current in-year forecast is provided in Appendix A.
- 5.2 Overall there is a shortfall of £3.7m on returns with only £3.2m being forecast to be achieved against a target of £6.9m. However, this is offset by a £4.5m net over achievement of income on borrowing and investment income creating a net surplus of £0.863m.
- 5.3 There is also a small surplus forecast of £0.943m on general treasury management activity. This has not been incorporated into the main budget forecast as the economic situation is volatile but it does represent an opportunity to decrease the overspend if returns remain favourable.

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 and the main body of the report provides key financial implications.

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 In spite of inflationary pressures such as the Post covid and war in Eastern Europe shocks, 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.
- 7.3 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.

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 1 March 2023
[Budget Framework 2023-24 Report \(lbbd.gov.uk\)](https://www.lbbd.gov.uk/Budget-Framework-2023-24-Report)

List of appendices:

- **Appendix A:** Revenue Budget Monitoring Pack 2023/24 (Period 5)