CABINET

23 January 2024

Title: Revenue Budget Monitoring 2023/24 (Period 8, November 2023)	
Report of the Cabinet Member for Finance, Growth and Core Services	
Open Report	**For Information**
Wards Affected: None	**Key Decision:** No
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Summary

This report sets out the Council's revenue budget monitoring position for 2023/24 as at the end of November 2023 (Period 8), highlighting key risks and opportunities and the forecast position.

At the end of November, forecast expenditure after transfers to and from reserves is now £209.542m resulting in a forecast overspend of £10.540m. This represents a positive movement of £1.065m from Period 7. Work to reduce spending will need to continue further to prevent any further drawdowns from Council's reserves.

At the end of the last financial year, the Council was overspent across a range of service areas and whilst one of this was one-off in nature, there was an underlying permanent core budget pressure, which continues to impact the current financial year. The factors contributing to this, especially increasing needs and costs of social care services, have continued and worsened into this financial year resulting in a further overspend forecast position.

The Council's General Fund budget for 2023/24 is £199.002m. Based on the information available at the end of October (Period 7) overall expenditure was forecast to be £215.495m with a planned drawdown from reserves of £4.888m making a forecast overspend of £11.605m. 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 £4.88m, 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 £30.20m 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 P8 forecast.

There is also a projected overspend of £5.052m on the HRA although this is a positive movement of (£2.029m) from Period 7. However, 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 £4.888m 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 £10.540m revenue overspend forecast at Period 8 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 £4.88m reserves to support the in-year position;

(ii) Note the projected £5.052m 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 that a review of reserve balances was being conducted and an updated position shall be provided as part of the Budget Setting report in February 2024.

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 November 2023 (Period 8).

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 will be 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 is £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.

2.2 As **Appendix A** shows, the expenditure forecast is £209.542m, after planned transfers to and from reserves, resulting in a net overspend of £10.540m. 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	116,957,652	79,777,170	131,542,706	(105,766)	14,479,288	15,061,278	(581,990)	
LAW AND GOVERNANCE	(5,174,523)	6,531,051	2,707,621	4,734,744	1,376,000	(420,307)	(399,997)	(20,310)	
STRATEGY	3,546,790	9,755,640	6,808,842	9,601,275	(363,662)	(518,027)	(326,687)	(191,340)	
INCLUSIVE GROWTH	2,229,661	1,078,456	1,962,931	2,713,573	(1,645,738)	(10,621)	118,512	(129,133)	
COMMUNITY SOLUTIONS	25,021,966	14,461,470	9,517,349	16,521,424	(4,104,086)	(2,044,132)	(1,778,613)	(265,519)	
MY PLACE	15,247,563	4,448,439	32,384,164	2,834,360	210,000	(1,404,079)	(1,349,968)	(54,111)	
CORPORATE MANAGEMENT	52,696,852	2,619,356	2,301,272	3,712,383	(161,574)	931,453	685,586	245,867	
SUB-TOTAL DIRECTORATES	**210,758,420**	**155,852,064**	**135,459,349**	**171,660,465**	**(4,794,826)**	**11,013,575**	**12,010,111**	**(996,536)**	
CENTRAL EXPENSES		13,566,066	(3,890,349)	15,300,919		1,734,853	108,597	1,626,256	
INTEREST PAYABLE		14,681,085	3,021,515	10,082,152		(4,598,933)		(4,598,933)	
INTEREST RECEIVED		(6,502,960)		(4,040,752)		2,462,208		2,462,208	
MRP		10,048,004		10,048,004			(1,622,153)	1,622,153	
LEVIES PAID		15,445,900	14,071,570	15,445,900					
SUB-TOTAL CORPORATE EXPENSES		***47,238,094***	***13,202,736***	***46,836,223***		***(401,872)***	***(1,513,555)***	***1,111,684***	
GENERAL FUND I&E (EXC. IAS)	**210,758,420**	**203,090,158**	**148,662,085**	**218,496,688**	**(4,794,826)**	**10,611,704**	**10,496,556**	**115,147**	
IAS COMMERCIAL (NET OPERATING RETURN)		(2,445,905)		(3,217,934)		(772,029)	(1,326,719)	554,690	
IAS RESIDENTIAL (RESIDE SCHEME SURPLUS)		(2,810,000)		(2,265,000)		545,000	2,435,145	(1,890,145)	
IAS OTHER				(1,127,000)		(1,127,000)		(1,127,000)	
IAS INTEREST PAYABLE				8,186,000		8,186,000		8,186,000	
IAS INTEREST RECEIVED				(6,904,000)		(6,904,000)		(6,904,000)	
IAS MRP		1,168,000		1,168,000					
SUB-TOTAL IAS		***(4,087,905)***		***(4,159,934)***		***(72,029)***	***1,108,426***	***(1,180,455)***	
GENERAL FUND I&E	**210,758,420**	**199,002,253**	**148,662,085**	**214,336,754**	**(4,794,826)**	**10,539,675**	**11,604,982**	**(1,065,308)**	

Directorate key movements

2.2.1 **People and Resilien**ce has a positive movement of £0.6m from period 7. The movement is due to an increase in income for Adult Services through direct payment refunds and a change to bad debt provision, and step down of placements and a reduction in agency staffing levels within Children's Services.

2.2.2 **Strategy** has had a positive movement of £0.2m from period 7. This is mainly due to suspending recruitment into vacant posts for remainder of the 2023/24 financial year and take up of Mobility services still not at pre-pandemic levels.

2.2.3 **Inclusive Growth** has had a positive movement of £0.1m from Period 7. This improvement is mainly due to the insurance recharge to tenants for Aparthotel at 27 Commercial Road (Lease and Lease back).

2.2.4 **Community Solutions** has had a positive movement of £0.3m from Period 7. This improvement is mainly due to reduction in print & postage costs, release of agency staff and recalculation of HRA recharges.

2.2.5 **Corporate Management** has had a negative movement of £0.2m from period 7. The adverse movement is primarily due to 2023/24 Audit fees being higher than originally forecasted and Fidelity Insurance premium recharge. There is further risk that audit fees may be higher than estimated.

2.2.6 **Central expenses** has had a negative movement of £1.1m. We have split corporate budgets between General Fund and IAS to improve transparency of the performance of the IAS. This has resulted in a negative movement in Central Expenses. However, there is a corresponding positive movement in the IAS. Therefore, the cause of this variance is not new and simply as a result of breaking down the presentation.

2.2.7 **IAS** has had a positive movement of £1.2m from the previous month. We have split corporate budgets between General Fund and the IAS to improve transparency of the performance of the IAS. This has resulted in a positive movement in the IAS. However, there is a corresponding negative movement in Central Expenses. Overall, the IAS is underspending by £0.072m.

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.

2.4.2There 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 being held as a contingency and may be released at year end based on final accounts.

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 two debt monitoring did not require an increase in bad debt provision as the increase in debt to-date is attributed to seasonal effects so there is currently no forecast for this being required. Bad debt is revisited Quarterly and will be updated in P9 with a final position identified and reported 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 £1.2m of which £0.2m will be transferred to Reserves and c£1m additional off-street income is included in the outturn position. There are schemes to come online in year that may increase the achieved income. We have been prudent in the income forecast. There is a potential uplift of c£0.3m up to c£.5m but this will depend on the timescales of delivering schemes.

3. Service Variances

3.1 People & Resilience – forecast overspend £14.5m

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	19,878,126	16,850,068	23,035,495	0	0	3,157,369	3,527,882	(370,513)
Adult's Care and Support	22,025,777	23,488,264	13,500,501	27,787,655	0	0	4,299,391	4,318,956	(19,565)
Commissioning Care and Support	9,849,999	14,649,312	2,037,766	14,226,543	0	0	(422,769)	(591,487)	168,718
Public Health	(339,189)	(318,250)	(248,688)	(318,249)	0	0	1	1	0
Children's Care and Support	45,863,019	41,525,407	32,517,235	47,347,748	0	(105,766)	5,716,575	5,696,202	20,372
Education, Youth and Childcare	4,102,925	3,948,391	6,613,681	4,094,250	0	0	145,859	(0)	145,860
Early Help Service	2,876,729	3,198,355	474,931	2,516,427	0	0	(681,928)	(580,303)	(101,625)
Children's and Young People Disabilitie	13,913,317	10,588,047	7,993,150	12,852,837	0	0	2,264,790	2,690,027	(425,237)
Grand Total	**118,349,054**	**116,957,652**	**79,738,645**	**131,542,706**	**0**	**(105,766)**	**14,479,288**	**15,061,278**	**(581,990)**

3.1.1 Overall, there is an overspend of £14.479m across the whole of People and Resilience. This is a positive movement of £0.582m since last month.

3.1.2 This is largely due to an increase in income for Adult Services through direct payment refunds, a change to bad debt provision, and step down of placements and a reduction in agency staffing levels within Children's Services.

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 intends to move towards a position where the forecast incorporates estimated future activity, which should lead to less volatility in the monthly forecast. The current estimated outturn moving to this methodology is a likely year end overspend of approximately £16m. This work has commenced and has been partially incorporated into the P7 forecast.

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 £2.6m of this amount can be met from the existing bad debt provision, so the revenue impact is expected to be £1.2m.

3.2 Corporate Management – forecast overspend £0.931m

	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
CORPORATE MANAGEMENT	**2,619,356**	**2,619,356**		**2,301,272**	**3,712,383**		**(161,574)**	**931,453**	**685,586**
STRATEGIC LEADERSHIP	425,369	425,369		362,262	513,024		(99,360)	(11,705)	(52,303)
FINANCE	13,516,100	13,516,100		12,297,394	13,589,927		(62,214)	11,613	(219,710)
WORKFORCE CHANGE / HR	1,917,111	1,917,111		2,922,070	2,800,156			883,045	909,100
LEADERS OFFICE	271,251	271,251		230,020	319,750			48,499	48,499
TECHNICAL - CORP MGMT	(13,510,475)	(13,510,475)		(13,510,475)	(13,510,475)				

3.2.1 The overspend in Corporate Management has increased by c£246k. This is due to a forecast increase on Audit Fees and an increase in the Fidelity insurance premium for loss due to employee theft and fraud. Officers are currently waiting for schedules of additional costs to be provided by the Council's external auditors and this could result in further additional costs to be accrued.

3.2.2 IT (within Finance) is reflecting an underspend of (£1.3m) with an increase in the underspend of (£222k) due to holding staffing vacancies.

3.2.3 Workforce Change/HR is forecast to overspend by c£883k, a favourable movement of £26k from P7 due to a decrease in staffing costs. The review of the HRA recharge has led to an income deficit of £437k. This change, along with ongoing challenges, has made it impractical for HR to meet the originally projected savings of £577k in the 2023/24 financial year. The delays in implementing the ERP system and the Self-Service Manager model are contributing factors to this setback. Furthermore, the Leader's Office is grappling with a historical budget pressure of £50k.

3.3 Central Expenses – forecast underspend (£0.4m)

	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
CENTRAL EXPENSES	**47,238,094**	**47,301,094**	**(63,000)**	**13,202,736**	**46,836,223**			**(401,872)**	**(1,513,555)**
CORPORATE MANAGEMENT	(641,000)	(641,000)			(860,323)			(219,323)	(219,323)
GENERAL FINANCE	47,736,984	47,799,984	(63,000)	9,191,495	47,633,431			(103,553)	(1,393,882)
HOUSING BENEFIT SUBSIDY	142,110	142,110		4,011,241	63,115			(78,995)	99,650

3.3.1 Corporate Management – Recalculation of the HRA recharges has had a positive movement against budget.

3.3.2 There is a slight underspend in General Finance as a result of separating the General Fund and IAS borrowing costs. The key driver for the slight underspend is slightly lower interest cost compared to budget.

3.3.3 There is £79k underspend on HB Overpayment Recovery and Subsidy due to overpayment reclaims.

3.4 Law & Governance – forecast underspend (£0.4m)

	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
LAW AND GOVERNANCE	**6,531,051**	**6,531,051**		**2,707,621**	**4,734,744**	**1,406,000**	**(30,000)**	**(420,307)**	**(399,997)**
LEGAL	3,628,084	3,628,084		3,591,941	3,540,421		(30,000)	(117,663)	(144,523)
ENFORCEMENT	2,902,967	2,902,967		(884,320)	1,194,323	1,406,000		(302,644)	(255,474)

3.4.1 There was a favourable movement of c£47k within Enforcement from P7 was due to reduction in forecasted spend, however Legal had an adverse movement of c£27k from that reported in P7.

3.4.2 Legal and Democratic services are reporting an underspend of c£117k, an adverse movement of c£27k from P7. This is primarily due to a virement within Democratic Services for c£18k for Mobile Canvass App and the Employer Liability Insurance within Legal being higher than forecasted.

3.4.3 It is worth noting Legal are forecasting an overspend of c£42k, this overspend is primarily due to the recalculation of the HRA recharge, resulting in an income shortfall of c£180k within Legal. In summary, while Legal and Democratic Services have experienced a favourable financial outcome due to the conversion of agency staff and staff resignations, Legal's overspend is partially offset by the ongoing vacancies in both departments.

3.4.4 The Enforcement P8 outturn position reflects an underspend of c£303k following the transfer of around £1.4m in Private Rented Property Landlord income to reserves. The favourable outturn position is due to the freeze in recruitment to vacant positions. Currently, there are 59 vacant positions within Enforcement, with 29 of them being temporarily filled by agency staff.

3.4.5 The Private Sector Property Licensing (PRPL) scheme income target will be met and a transfer of c£1.4m to reserve for future years.

3.5 Strategy – forecast underspend (£0.518m)

	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
STRATEGY	**9,755,640**	**9,755,640**		**6,808,842**	**9,601,275**	**0**	**(363,662)**	**(518,027)**	**(326,687)**
STRATEGY & INSIGHT	8,392,400	8,392,400		5,720,947	8,120,136	0	(351,662)	(623,926)	(480,541)
COMMUNICATIONS	1,363,240	1,363,240		1,087,895	1,481,139	0	(12,000)	105,899	153,854

3.5.1 The Directorate forecast underspend of (£518k) is a (£191k) increase in the underspend. This is largely due to a (£138k) favourable movement within the Mobility Service and improvements in the forecast for Events (£30k) and the Comms team (£18k).

3.5.2 There are underspends across the following services, mainly due to vacancy savings: Customer Contact (£313k), Strategy (£155k), and Insight (£137k). Advertising is forecast to exceed the £236k income target by (£50k).

3.5.3 There are overspends within Communications and Events £106k and the PMO £32k. These overspends are in the main driven by a shortfall in HRA income: £112k in Comms and £116k in the PMO. These overspends are mitigated by holding vacant posts.

3.5.4 The following sums are being drawn down from reserves: £283k growth funding for the Customer Experience team, £50k to Insight for the One View, £19k for salaries carry forwards within Strategy and £12k Womens' Empowerment funding to Events.

3.6 Inclusive Growth – forecast overspend £0.01m

	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
INCLUSIVE GROWTH	1,078,456	1,078,456		1,962,931	2,713,573	145,898	(1,791,636)	(10,621)	123,658
COMMERCIAL	(1,366,836)	(1,366,836)		(701,263)	(1,714,728)	145,898	0	(201,994)	(7,934)
INCLUSIVE GROWTH	2,445,292	2,445,292		2,664,194	4,428,301	0	(1,791,636)	191,373	131,592

3.6.1 Inclusive Growth are forecast to overspend by £10k. The £500k Soil Importation income target and the £133k 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 (£134k) from Period 7.

3.6.2 The main reason behind the movement is due to the inclusion in the forecast of the (£114k) income from the insurance recharge for Aparthotel at 27 Commercial Raod (Lease and Lease back).

3.6.3 The main risk within this service area is income from the leisure contract, although the risk is from September 2024/25 when the current leisure contract ends. The procurement process for a new leisure provider is underway, and it is not yet known what level of management fee income will be secured.

3.6.4 Drawdowns from reserves consist of £1m of grant income, £648k from the Welfare reserve, and £221k from the Made in Dagenham film reserve. The £154k transfer to reserves is the balance from the Leisure contract termination fee.

3.7 Community Solutions – forecast underspend of (£2.044m)

	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
COMMUNITY SOLUTIONS	14,461,470	14,461,470		9,517,349	16,521,424	400,000	(4,504,086)	(2,044,132)	(1,778,613)
SUPPORT AND COLLECTIONS	7,017,112	7,017,112		5,590,534	7,390,099	0	(1,511,164)	(1,138,177)	(961,823)
COMMUNITY SOLUTIONS	1,069,410	1,069,410		715,174	898,530	0	(146,000)	(316,880)	(294,335)
COMMUNITY PARTICIPATION & PREV	7,679,948	7,679,948		4,516,640	9,537,795	400,000	(2,846,922)	(589,075)	(522,455)
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 £650k in 2023/24 and limiting the use of B&B's and Hostels for Temporary Accommodation.

3.8 My Place – forecast underspend of (£1.404m)

	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	**4,448,439**	**4,448,439**		**32,384,164**	**2,834,360**	**210,000**	**0**	**(1,404,079)**	**(1,349,968)**
HOMES AND ASSETS	(1,145,987)	(1,145,987)		16,158,653	(410,150)	0	0	735,837	849,361
PUBLIC REALM	5,594,426	5,594,426		16,225,510	3,244,509	210,000	0	(2,139,916)	(2,199,329)

3.8.1 The Directorate underspend of (£1.404m) comprises an underspend in Public Realm of (£2.139m) offset by a £0.735m 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 (£1.08m) adjusted for £210,000 transfer to the Parking Reserve at year end.

3.8.2 Homes and Assets is currently forecasting a £0.573m 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 and support budget setting assumptions for 2024/25. This is currently being validated.

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.

3.8.4 The position has slightly improved this month by £54,000, largely due to a reduction in repairs and maintenance and security costs on properties within the Commercial portfolio.

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 20234/24 is £7.049m and at P8:

- £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 In previous year, the IAS Strategy has provided a significant return to the Council, both through IAS net returns but also dividends and income from Be First. The net return is after costs of borrowing have been taken into account. The IAS now has a significant amount of borrowing, forecast to be over £900m by the end of 2023/24 (currently at £842m as at P8). This is reported on in detail at regular intervals but a short summary of the current in-year forecast is provided in Appendix A (Pages 11 onwards). Further details were provided as part of the Mid-Year Treasury Management Strategy update to Cabinet in November 2023.

4.3 In addition to the current IAS borrowing of £842m the Council's general Treasury Management and Capital Borrowing has c £111m of borrowing. The Council is highly geared with debt, and this will create further risk particularly as 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 also details loan assets against housing companies such as Be First and Reside.

4.4 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. Net returns for each element are summarised below:

- £332k Surplus – General Fund Treasury Strategy
- £72k Surplus - Investment and Acquisition Strategy

4.5 Overall the IAS and Treasury strategy is forecast to provide a £404k surplus. This is significantly below the £7m+ surplus generated by the IAS over the past three years and there are no forecast additional surpluses, such as from the sale of the Film Studio or from the sale of Muller, forecast for 2023/24. The reduced return is due to several factors 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.

4.6 The above pressures largely remain and there are still a number of Private rental schemes (PRS) units that remain void and a number of SO schemes that are not sold. For PRS, which contain a significant amount of borrowing, lettings have been outsourced to estate agents but remain slow. Currently a scheme of 92 units that completed in September 2023, Fifeshire and Cutter, remains vacant and costs over £100k per month in interest alone.

4.7 Currently 79 SO units for Ewars Marsh remain unsold and 12 units (from a total of 56 units) in Challingsworth remain unsold. Costs per month are also in excess of £100k.

4.8 Security costs for both Residential and Commercial units remain high as unlet schemes need to be secured. These costs were not forecast and remain a pressure.

4.9 Improvements in the lettings and sales of the properties will see a significant improvement in the IAS net returns but the delays and inefficiencies that currently remain, along with a lack of adequate performance reporting from Reside, will continue to have a negative impact on the IAS return.

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 £4.88m of reserves to support in year activity before taking into account the overspend of £10.540m. 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 BeFirst will pay for the £10.3m of annual dividend budget, however BeFirst 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 BeFirst Muller Reserve.

5.2 The overspend of £10.54m should that remain at year end, will also need to be funded from a further call on the reserves. At P8 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 £40.74m 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.

5.4 A review is being conducted of reserves and an updated position will be provided to Cabinet in February 2024 as part of the Budget Setting report for 24/25. The Council currently has spend outside of the monitor which requires a call on reserves, most of these are simply ex-grant monies that have a condition attached to them and so can only be used for specific purposes. Currently, this is projected to result in a drawdown of £10.5m in further reserves on top of those explained in paragraph 5.1 to 5.3.

6 Housing Revenue Account

6.1 The HRA is forecasting to overspend by £5.052m. The primary cause of the overspend is the significant increase in the BDMS contract for Housing Repairs and Maintenance which has increased from £15.7m to £25.5m, an agreed increase after budget setting, the budget has not been adjusted to reflect change, hence the overspend. This movement is not like-for-like with some cost activities being removed and others added during the one-year contract extension. The overall increase, taking account of the Direct Labour Organisation (DLO) underspend is £9.7m across Repairs and Maintenance, Supervision and Management

6.2 The HRA overspend projection has reduced from prior month by (£2.0m). Compliance works have been reviewed with some activities slipping into 2024/25. Furthermore, DLO projected spend has further reduced as overtime is recoverable under contract. Finally, estimated recharges from the General Fund budgets have reduced this year, in part due to the recruitment pause effect.

6.3 These costs are being party mitigated by a slowdown in the capital programme leaving residual pressures of £5.052m. HRA reserves stand at £18.4m and may reduce by a further £1m once the HRA for 2022/23 is finalised. Drawing a further £5m from reserves will materially deplete HRA reserves. However, should both events occur, the HRA reserve balance is expected to be just above the minimum reserve target balance of 10% of total income. It should also be noted that reducing capital spending may result in a further increase in reactive costs in future years vs planned.

6.4 There are a range of quantifiable risks confronting the HRA totalling £2.040m together with at least 10 further areas that are non-quantified. The most significant quantified risk at this time is £1.5m relating to Fleet costs incurred within BDMS which they are seeking to recover outside of the contract price but is yet to be agreed by My Place. The remainder of the risk relate to budget estimates for service charges income, Council Tax on voids and security costs that are lower than previous year's outturn and require careful monitoring. In terms of opportunities, there is upwards of (£700,000) from bad debt provision budget which is higher than last year's outturn and at P8 expected to be £500k lower than budget and £200k potential underspend from compliance work included in revenue budgets but now expected to be completed through the capital programme.

7. Financial Implications

Implications completed by: Nish Popat, Deputy Section 151 Officer

7.1 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.

8 Legal Implications

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

8.1 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.

8.2 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.

8.3 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.

9. Other Implications

9.1 **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.

9.2 **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.

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 8)