Report for: **Overview & Scrutiny Committee 12 October 2023**

Title: **2023/24 Finance Update Quarter 1 (Period 3)**

Report authorised by: **Josephine Lyseight, AD Finance**

Lead Officer: **Frances Palopoli - Head of Corporate Financial Strategy & Monitoring**

Ward(s) affected: **All**

Report for Key/ Non Key Decision:

1. Describe the issue under consideration

1.1 This budget report covers the position at Quarter 1 (Period 3) of the 2023/24 financial year including General Fund (GF) Revenue, Capital, Housing Revenue Account (HRA) and Dedicated Schools Grant (DSG) budgets. The report focuses on significant budget variances including those arising from the forecast non-achievement of approved MTFS savings.

1.2 In setting the 2023/24 Budget in March 2023 recognition was given to the level of pressures faced by the care services particularly in the light of on-going demand, increased complexity of cases and the exposure to upward inflationary pressures. In response, £17.3m was added to the Adults, Health and Communities (AHC) and Children's services budgets, on top of the sums already built into the previous MTFS. Additionally, due to the upward inflationary trends in the economy, budgetary assumptions for both pay and non-pay were augmented.

1.3 The forecast variance at Qtr1 is £20.5m. This consists of £16.3m base budget pressures and £4.2m non-delivery of agreed savings. The savings programme for the year is extensive totalling £17.5m. At Qtr1 76% is on track, to be delivered as planned. While the 76% delivery is far from ideal, it is showing an improvement over the performance seen in the last couple of years.

1.4 The most significant area of forecast overspend is in Adults, Health and Communities which accounts for 91% of the total. £17.5m of this is Adults social care with a further £1m pressure on temporary accommodation. The Adults social care pressure was apparent in the 2022/23 Provisional outturn report, but the temporary accommodation is an emerging pressure caused by wider economic conditions which have seen rents increase significantly and landlords leaving the market. Work is already underway to look to reduce these Qtr1 forecasts down and to look across the Council budgets overall for how this position can be mitigated. Part of this push includes the creation of an officer Adults improvement board.

1.5 Again, it must be stressed that this Council is not alone in facing budgetary pressures in these service areas. The authority works hard each year to understand service pressures, build in growth where appropriate and possible as well as identifying efficiencies. However, the impact of inflation and restricted and short-term funding is leaving this authority and many across the sector in extremely difficult financial straits.

1.6 The **DSG** forecast at Qtr1 is £2.1m overspend in the High Needs Block which supports delivery for children with Special Education Needs and Disabilities (SEND). There are no material variances being forecast for any of the other funding blocks. Based on this forecast, the Safety Valve programme is on track to deliver the agreed priorities for this year.

1.7 The spend forecast against the 2023/24 **capital programme**, covering both GF and HRA, at Qtr1 is £428.059m (68%) of the revised budget, including enabling budgets which are held to allow the Council to respond to opportunities. Members will be aware that the Capital Programme is extensive and in the light of the increasing interest rates officers undertook a review. The purpose of the review was to identify where reductions could be made to assist with the revenue position in year.

1.8 The review identified a number of self-financing schemes which are not going to spend this financial year. The Qtr1 report recommended that these schemes be removed from the in-year programme which will reduce the estimated spend on the capital programme by £57.5m as well as the associated level of revenue borrowing. Furthermore, it was not proposed to automatically add these budgets to the capital programme in future years; instead, this decision will be addressed as part of the wider 2024/25 Budget/MTFS process.

1.9 **The Housing Revenue Account** reports a Qtr1 forecast variance of £4.279m. The adverse movement is mainly due to an increased forecast in disrepair cost/compensation costs. There is also projected reduction in dwellings rental income due to high level of void properties, and projected increase in council tax payable on voids and properties earmarked for demolition.

1.10 The 2022/23 provisional financial outturn was reported to Cabinet on the 11 July. Following this, further work was completed on the 2022/23 draft statement of accounts with draft accounts published on 31st July 2023. Since Cabinet and publishing the draft accounts there has been a change in the **Balance Sheet position**. The Council's General Fund unearmarked reserve has been maintained at circa £15.1m and a £4m reduction in the General Fund Earmarked Reserve balance from £86m to £82m. It should be noted that the Council currently has three years unaudited accounts (2020/21 – 2022/23) and therefore there is a risk that this figure may change again when each year is finally signed off by the Council's external auditor.

1.11 Finally, attention is drawn to the Director of Finance statutory comments in paragraph 11.1 and 11.2 which underlines that 2023/24 is a **pivotal year** for the Council both in terms of the need to focus on reducing the forecast Qtr1 in year pressure but just as importantly, take the required steps and decisions as part of the Budget/MTFS planning process which is underway to maintain the Council on a sustainable footing.

2. Recommendations

2.1 The Overview and Scrutiny Committee are recommended to:

2.1.1 Note that the significant forecast General Fund overspend at Qtr1 and the actions being taken to address this.

2.1.2 Note that the Council's reserves position is lower than average for a council of this size and a medium to long term objective must be to improve on this and increase our financial resilience (paragraph 11.2).

2.1.3 Note in particular, the Director of Finance's statutory comments in paragraph 11.1 and 11.2 that this is a **pivotal** year for the Council both in terms of the need to focus on reducing the forecast Qtr1 in year pressure but just as importantly, take the required steps and decisions as part of the Budget/MTFS planning process which is underway to maintain the Council on a sustainable footing.

2.1.4 Note that statutory comments are included in the original report to Cabinet.