

Regeneration, Culture & Environment Overview and Scrutiny Committee

26 March 2024

Revenue Budget Monitoring 2023/24 - Round 3

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Summary

This report presents the results of the third round of the Council's revenue budget monitoring process for 2023/24. The Council's summary position is presented in section 4, with sections 5 and 6 providing the detail for each service area within the remit of this committee.

1. Recommendations

- 1.1. The committee notes the results of the third round of revenue budget monitoring for 2023/24.
- 1.2. The committee notes that Cabinet instructed the Corporate Management Team to implement further urgent actions to bring expenditure back within the budget agreed by Full Council.
- 1.3. The committee notes that Council, at its meeting on 29 February 2024, agreed to declassify the following amounts currently held in earmarked reserves and transfer them to general reserves;
 - £4million held in the South Medway Development Reserve,
 - £1million held in the Transformation Reserve, and
 - £727,000 held in the Mosaic Forms Reserve.

2. Budget and policy framework

- 2.1. Cabinet is responsible for ensuring that income and expenditure remain within the budget approved by Council. Management of the Council's reserves is within the responsibility of the Chief Operating Officer, as the Council's Section 151 Officer however as this report proposes the movement of a sum considered material, and has a significant impact on the financial implications of the current budget, the approval of Council is being sought.

3. Background

- 3.1. At its meeting on 23 February 2023, the Council set a total budget requirement of £388.269million for 2023/24. Since then additional grant funding has been announced, primarily the Household Support Fund, Holiday

Activity Fund, Market Sustainability & Improvement Fund (Workforce Fund) and Start 4 Life funding and the final allocations for Schools funding and the Public Health Grant have been confirmed. The net impact of these amendments takes the Round 3 budget requirement to a total of £390.667million.

- 3.2. This report presents the results of the third round of revenue budget monitoring, summarising reports that have been considered by directorate management teams based on returns submitted by individual budget managers. In preparing these forecasts, budget managers have taken account of last year's outturn, items of growth or savings agreed as part of the budget build, actual income and expenditure for the year to date, and most importantly, their knowledge of commitments and service requirements anticipated for the remainder of the financial year.

4. Summary Revenue Budget Forecast Position 2023/24

- 4.1. The forecast outturn for 2023/24 is a pressure of £11.359million which is an improvement of £892,000 compared to the position reported at Round 2.

Directorate	R2 Forecast Over/(Under) £000s	Budget 2023/24 £000s	R3 Forecast £000s	R3 Forecast Over/(Under) £000s
<i>Budget requirement:</i>				
Children and Adult Services	10,831	296,285	307,044	10,759
Regeneration, Culture and Environment	816	66,020	66,501	480
Business Support Department	2,568	7,174	9,070	1,896
Business Support Centralised Services:				
Interest & Financing	(1,661)	15,300	13,764	(1,536)
Levies	10	1,796	1,793	(3)
Medway Norse Joint Venture	184	(433)	(174)	259
Additional Government Support Grant Expenditure	0	4,525	4,525	0
Budget Requirement	12,747	390,667	402,522	11,855
<i>Funded by:</i>				
Council Tax	0	(148,883)	(148,883)	0
Retained Business Rates & Baseline Need Funding	(496)	(73,697)	(74,193)	(496)
New Homes Bonus	0	(1,998)	(1,998)	0
Dedicated Schools Grant	0	(105,712)	(105,712)	0
Other School Grants	0	(4,742)	(4,742)	0
Adult Social Care Grants	0	(26,646)	(26,646)	0
CSC Grants	0	(140)	(140)	0
Public Health Grant	0	(18,665)	(18,665)	0
Use of Reserves	0	(2,985)	(2,985)	0
Additional Government Support Ringfenced Grant Income	0	(7,200)	(7,200)	0
Additional Government Support Non-ringfenced Grant Income	0	0	0	0
Total Available Funding	(496)	(390,667)	(391,163)	(496)
Net Forecast Variance	12,251	0	11,359	11,359

5. Regeneration, Culture and Environment

- 5.1. The Directorate forecast is an overspend of £480,000, an improvement of £335,000 from the position reported at Round 2. Details of the forecasts in each service area are set out in the tables below.

Culture & Community	R2 Forecast Over/(Under) £000s	Budget 2023/24 £000s	R3 Forecast £000s	R3 Forecast Over/(Under) £000s
Sport, Leisure, Tourism & Heritage	(613)	3,938	3,309	(629)
Cultural Services	124	2,088	2,381	293
Planning	1,461	1,345	2,826	1,481
South Thames Gateway Partnership	1	135	135	0
Strategic Housing	(40)	5,378	5,552	174
Libraries & Community Hubs	(34)	4,534	4,486	(48)
Culture & Community Support	31	54	85	31
Total	931	17,472	18,774	1,303

The Culture & Community division forecast is a net overspend of £1.303million, a worsening of £372,000 from the position reported at Round 2.

The most significant pressure is the Planning Service which is reporting a pressure of £1.481million. There are three main factors, £417,000 relating to the use of consultants for legal and specialist planning work, £377,000 in respect of the cost of the Local Plan/Public inquiries in excess of the budget and a shortfall against the Planning fee income budget representing a pressure of £676,000.

Cultural Services is reporting a pressure of £293,000. The events programme is reporting a pressure of £326,000 with the infrastructure and staging equipment costs being 30% in excess of the available budget allocation. These pressures are partially offset by additional income being generated at the Corn Exchange.

There is a £629,000 forecast underspend on Sport, Leisure, Tourism & Heritage, due to an increase in sports centre memberships, there has also been a change in the VAT treatment of Leisure activities which has resulted in Medway not having to pass on to HMRC as much of the fees charged for activities. The combined effect of these is that we are forecasting an additional £852,000 of income. However, we were unsuccessful in our claim for a grant from the Government's Swimming Pool Support Fund and this has generated a pressure of circa £300,000.

There is a forecast overspend relating to Strategic Housing of £174,000, the Homelessness budgets are forecasting a pressure at Round 3 of £1.265million. This is an increase of £473,000 on the position reported at Round 2 which is due to an increase in households and a rise in the cost of placements. The forecast is now based on 457 temporary accommodation households which have risen from the 432 allowed for in the Round 2 forecast. However, this increased cost has been offset by savings across other parts of the service and through drawing down earmarked reserves relating to homelessness.

Director's Office	R2 Forecast Over/(Under) £000s	Budget 2023/24 £000s	R3 Forecast £000s	R3 Forecast Over/(Under) £000s
Director's Office	42	1,069	1,118	49
Total	42	1,069	1,118	49

The Director's Office is forecast to overspend by £49,000, There are forecast savings related to staffing and NNDR on Public Conveniences following the granting of 100% Public Toilet Rate Relief on all of the buildings. However, there are pressures around the cost of specific Traveler incursions which have resulted in the overspend being reported.

Front Line Services	R2 Forecast Over/(Under) £000s	Budget 2023/24 £000s	R3 Forecast £000s	R3 Forecast Over/(Under) £000s
Front Line Services Support	(113)	780	687	(93)
Highways	(1,462)	6,369	4,013	(2,355)
Parking Services	696	(4,907)	(4,397)	510
Environmental Services	(143)	29,359	29,426	67
Integrated Transport	(61)	7,318	7,242	(76)
Regulatory Services	119	2,295	2,288	(7)
Greenspaces	4	5,387	5,416	29
Total	(962)	46,601	44,675	(1,925)

The Front Line Services division forecast is forecast to underspend by £1.925million, an improvement of £963,000 from the position reported at Round 2.

Highways is forecast to underspend by £2.355million. Which is three main areas, firstly the forecast assumes that £1.013million of works on Highways drainage and the Medway Tunnel is funded through earmarked reserves. There is a £328,000 saving on street lighting due to reduced costs for commercial supply and usage as a result of the use of LED lighting along with savings on contract to replace rusting or defective lampposts. The forecast also assumes that £900,000 of highways patching works is funded through capital rather than revenue. These are marginally offset by pressures on winter maintenance. In addition, there is forecasted income for streetworks in excess of budgeted levels of £102,000.

Parking Services is forecasting a pressure of £510,000. The forecast now assumes an additional pressure relating to the Safer Healthier Streets programme of £875,000 due to delays in implementing the scheme. However, there has been further improvement across both on & off-street parking which is forecast to underspend by £365,000 an improvement of £232,000 compared to the Round 2 position.

The Environmental Services forecast is an overspend of £67,000. There is a net pressure of £173,000 on the HWRC budgets and a forecast overspend of £117,000 on recycling & refuse collection. These pressures are offset by underspends on waste disposal costs, Environmental Protection and Sustainable Waste Management due to staffing costs, additional grant funding and additional savings on staff costs across the services.

Integrated transport is forecast to underspend by £76,000. The Traffic Management service has forecast additional income from Street Closures of £203,000, which have been offset by additional costs on street works salaries and consultant costs and traffic signal repair works. There is then an underspend of £130,000 in relation to Medway Concessionary Fares budget which is due predominately to agreeing a deal with Arriva to keep the charges at the same level as 2022/23. This is offset by a pressure on the School Bus Service.

Regeneration	R2 Forecast Over/(Under) £000s	Budget 2023/24 £000s	R3 Forecast £000s	R3 Forecast Over/(Under) £000s
Medway Norse	100	(8)	93	100
Property & Capital Projects	611	1,188	1,709	521
Regeneration Delivery	7	904	884	(20)
Valuation & Asset Management	209	(2,119)	(1,561)	558
Economic Development	(99)	670	514	(156)
Skills & Employability	(23)	244	296	51
Total	805	879	1,933	1,054

The Regeneration division forecast is a net pressure of £1.054million, a worsening of £249,000 from the position reported at Round 2.

The Medway Norse Core Contract is projected to overspend by £100,000.

The Property & Capital Projects forecast is a pressure of £521,000. There is a £300,000 pressure on the Property Capital & Projects team due to shortfall on income budgets, an overspend of £74,000 on Kingsley House. An overspend of £69,000 is also forecast on Gun Wharf relating to increased utilities costs. There are also overspends of £48,000 associated with the feasibility studies and building surveys following the discovery of RAAC at Gun Wharf.

Value & Asset Management is projecting to overspend by £558,000. There is an overspend of £252,000 on the management of the Pentagon Centre. This is predominately due to an increase the Service Charge & NNDR accounts which have been offset by reductions in the R&M Buildings & Consultants Fees. In addition, the payment of a retention payment following renegotiation of a lease has been made and is £321,000 more than the balance of the money that was lodged with us for this purpose, when we bought the Pentagon in April 2019. This payment is the primary reason for the movement from Round 2.

The Economic Development forecast is an underspend of £156,000, this is due to income at the Innovation Centre and Innovation Studios in excess of the budget along with savings on partner contributions towards the Greater North Kent Partnership.

6. Housing Revenue Account

Housing Revenue Account	R2 Forecast Over/(Under) £000s	Budget 2023/24 £000s	R3 Forecast £000s	R3 Forecast Over/(Under) £000s
Housing Revenue Account	(452)	(5)	(515)	(510)
Total	(452)	(5)	(515)	(510)

The Housing Revenue Account forecast is a surplus of £510,000. There is an underspend of £153,000 on capital financing as borrowing is not projected to be as high as budgeted for the decarbonisation initiative. There is also a favourable variance on rental income which is forecast to exceed budgeted levels by £152,000 as well as savings on staffing costs due to a number of vacancies throughout the year.

7. Reserves

- 7.1. As reported to the Cabinet in June 2023 in the Capital and Revenue Budget Outturn for 2022/23, the Council's general reserves currently stand at £10.155million.
- 7.2. A review of the Council's earmarked reserves has been carried out as part of the work to address the overspend projected in 2023/24 and to close the budget gap projected for 2024/25. That work has identified £5.727million in earmarked reserves that are no longer required for their original purpose. As such, Council, at its meeting on 29 February. agreed that these sums be declassified to increase general reserves to a projected £15.882million.
- 7.3. Should the Round 3 projection of an overspend of £11.359million materialise and the earmarked reserves are declassified as recommended, the Council's general reserve balance would stand at £4.523million, some £5.477million below the minimum balance set by the Section 151 Officer.

8. Conclusions

- 8.1. The third round of revenue budget monitoring for 2023/24 projects an overspend of £11.359million.

9. Risk management

Risk	Description	Action to avoid or mitigate risk	Risk rating
The Council overspends against the agreed budget	Overspends on budget would need to be met from the Council's limited reserves.	The revenue monitoring process is designed to identify and facilitate management action to mitigate the risk of overspending against the agreed budget.	All
Impact on service delivery	An overspend that cannot be funded from reserves could result in a diminution of the scale and quality of services that the Council is able to deliver.	Ensuring investment is prioritised to statutory services and key priorities, reviewing and reducing non-essential spend and maximising income.	All
Reputational damage	The challenging financial position of the Council, driven by increased demand for statutory services beyond available funding, could be misconstrued or reported as poor management or leadership, reducing the trust and confidence of residents, partners and regulators.	Clear communications with all interested parties on the cause of the financial position, lobbying the government for an improved funding settlement for local government, including implementation of the fair funding review.	BII
Demographic Growth	Further demographic pressures may surface across our social care services above those assumed in the budget.	Close monitoring of demand for service to identify pressures early, robust budget monitoring.	All
Interest Rate Rises	The budget assumes a significant proportion of the Capital Programme is funded from borrowing. If rates rise beyond the projections in the budget, or if additional borrowing is required, a revenue budget pressure will arise unless some elements of the programme can be curtailed or refinanced.	Close monitoring of the capital programme monitoring to minimise borrowing and avoid taking out borrowing at interest rate peaks.	BII
Special Educational Needs and Disabilities	Further increases in the number of children requiring support, and in the complexity of needs may surface. Failure to deliver the recovery plan would risk the Council needing to use the	Close monitoring of demand for service to identify pressures early, robust budget monitoring.	All

Risk	Description	Action to avoid or mitigate risk	Risk rating
	£3million reserve created to fund any shortfall.		
Likelihood		Impact:	
A Very likely		I Catastrophic	
B Likely		II Major	
C Unlikely		III Moderate	
D Rare		IV Minor	

10. Financial implications

10.1. The third round of revenue budget monitoring for 2023/24 projects an overspend of £11.359million. Council agreed, at its meeting on 29 February, the declassification of £5.727million of earmarked reserves to increase the general reserves balance to £15.882million. Should the Round 3 projection of an overspend of £11.359million materialise, the Council's general reserve balance would stand at £4.523million, some £5.477million below the minimum balance set by the Section 151 Officer.

10.2. Following previous budget monitoring reports the Council's senior managers and elected Members implemented urgent actions that sought to bring expenditure back within the budget agreed by Full Council or as a minimum to within that which can be funded from general reserves, including consideration of the following actions:

- Cessation of all non-essential spend, including reviewing spend on non-statutory services;
- Curtailing/reducing/refinancing the capital programme where it impacts on the revenue budget; and
- Reviewing and rationalising land and building assets.

10.3. Work continues identify further management action to further reduce the forecast and minimise the impact on the Council's reserves, including continued review of the Councils earmarked reserves.

11. Legal implications

11.1. The Cabinet has the responsibility to ensure effective budgetary control to contain expenditure within the approved limits set by Council. It is unlawful to set a budget that is not balanced or incur expenditure which results in the budget no longer being balanced.

11.2. Under section 114 of the Local Government Finance Act 1988, the Council's statutory Section 151 Officer, is required to produce a report, commonly known as a S114 report, "if it appears to him that the expenditure of the authority is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure."

- 11.3. The Council's Financial Procedure Rules state at Chapter 4, Part 6, the following paragraph references:
- 4.1 Approval by the Council of the overall revenue budget authorises the Cabinet and Chief Executive and directors to incur the expenditure in accordance with the scheme of delegation, the budget and policy framework rules and these rules.
 - 4.4 The Chief Operating Officer shall be responsible for monitoring the Council's overall expenditure and income and for reporting to the Cabinet and Council significant variations between the approved estimates and actual expenditure.
 - 4.6 There may be occasion in exceptional circumstances where additional expenditure is essential and therefore unavoidable. Requests for supplementary revenue estimates must be referred to Council for approval. Such referrals would only occur where proposals are incapable of being financed from within approved budgets and where it is not possible to defer the expenditure to a later year.
- 11.4. The Cabinet and officers may only spend within allocated budgets. If the budget is likely to be exceeded, the Council is required to consider if it wishes revise to the revenue budget or require mitigating action to be taken.
- 11.5. Article 7 of the Council's constitution states:
- 7.2 The Cabinet (meaning the Leader and such other Members of the Council as the Leader may appoint) will carry out all the authority's functions which are not the responsibility of any other part of the Council, whether by law or under this Constitution
- 11.6. Officers are mandated to deliver services within agreed performance standards and agreed policies. Subject to the scheme delegation officers do not have authority to vary policies or performance standards.
- 11.7. If the council is not minded to agree a supplementary revenue estimate, then the Cabinet is required to operate with the approved estimate. If that necessitates revisions of policies or service standards, then unless those matters are delegated to officers, it is matter for Cabinet to determine those matters.

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Appendices

None

Background papers

None