

Business Support & Digital Overview and Scrutiny Committee

4 April 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 the service areas 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 Cabinet recommended that Council declassifies the following amounts currently held in earmarked reserves and transfer them to general reserves;
 - £4.00million held in the South Medway Development Reserve,
 - £1.00million 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 was 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. Business Support & Centralised Services

5.1. The Business Support Services forecast is an overspend of £1.896million which is an improvement of £672,000 compared to Round 2, while the Centralised Services forecast is an underspend of £1.280million, £188,000 worse than Round 2. This brings the overall forecast to an overspend of £616,000, an improvement of £484,000 compared to Round 2. The details of the forecasts in each service area are set out in the tables below.

Communications & Marketing	R2 Forecast Over/(Under) £000s	Budget 2023/24 £000s	R3 Forecast £000s	R3 Forecast Over/(Under) £000s
Communications & Marketing	34	23	56	33
Total	34	23	56	33

The service is forecast to overspend by £33,000, which is in line with the position reported at Round 2 due to the cessation on non-essential spend reducing forecasts in a number of areas.

Corporate Management	R2 Forecast Over/(Under) £000s	Budget 2023/24 £000s	R3 Forecast £000s	R3 Forecast Over/(Under) £000s
Corporate Management	644	1,118	1,455	338
Total	644	1,118	1,455	338

The Corporate Management forecast is an overspend of £338,000, which is an improvement of £306,000 from the position reported at Round 2. There continues to be a shortfall projected on the savings budgeted for across Business Support of £600,000, of which £200,000 relates to an expected corporate property rationalisation review. Work is ongoing to deliver this shortfall in 2023/24. There is also a pressure of £81,000 on treasury expenses. The movement from the Round 2 forecast is due to a reduction of £319,000 in the audit fees forecast following agreement not to undertake the outstanding audit of the 2021/22 and 2022/23 accounts.

Finance & Business Improvement	R2 Forecast Over/(Under) £000s	Budget 2023/24 £000s	R3 Forecast £000s	R3 Forecast Over/(Under) £000s
Internal Audit & Counter Fraud	(47)	101	52	(49)
FBI Divisional Management Team	0	(16)	(15)	1
FBI - Finance	1,641	2,833	4,171	1,338
FBI - Information	(612)	1,221	447	(774)
FBI - Organisational Culture	(76)	(293)	(331)	(39)
Total	905	3,846	4,324	478

The Finance & Business Improvement division forecast is an overspend of £478,000, an improvement of £427,000 from the position reported at Round 2.

The Finance forecast (which includes Accountancy, Revenues, Benefits and Debt) is a pressure of £1.338million, primarily driven by the Benefits Subsidy forecast. While most new claimants for benefits are now made through Universal Credit, administered by the Department for Work and Pensions (DWP), local authorities continue to administer existing Housing Benefit claims that have not been transferred to the DWP, and new applications for pensioners, temporary accommodation and specified accommodation. The government pays local authorities to administer Housing Benefit through a subsidy scheme, and while 100% subsidy is received for most ongoing benefit claims, the types of claim for which local authorities continue to administer new claims for do not attract 100% subsidy, representing a

growing issue for the Council's budget. This subsidy shortfall is projected to result in a pressure of £913,000. There are net pressures of £128,000 in Benefits and Welfare and £74,000 in Revenues as agency staff have been used to cover vacant posts in advance of the delivery of the transformation programme. A further pressure of £95,000 has arisen from the implementation of ICT software to enable the transformation activity including the delivery of self-service, however the activity has delivered a £400,000 base budget reduction across Finance and CABS and these pressures will not materialise in 2024/25. There is a £130,000 pressure relating to a shortfall of Awarded Court Costs as the Council has been allocated fewer court dates than in previous years.

The Organisational Culture forecast (which includes HR, Payroll and Council Plan service areas) is an underspend of £39,000, a worsening of £37,000 from the position reported at Round 2. This is due to a slight worsening in projected income across a number of areas.

The Information forecast (which includes Technology, Customer Experience and Digital) is an underspend of £774,000, which is an improvement of £162,000 from the position reported at Round 2. ICT is forecasting an underspend of £670,000 an improvement of £71,000 from Round 2, the underspend is due to a decision not to action the annual budgeted contribution of £500,000 to the ICT renewals fund, there have also been savings from the cessation of non-essential spend of £210,000. The movement from Round 2 is largely due to savings on software contracts. There remains a pressure on CCTV services of £91,000 with work ongoing on ways to implement changes to achieve the required level of savings. There are also a number of smaller underspends on Business Intelligence, Customer & Business Support (CABS) and Digital largely due to vacancy savings and the cessation of non-essential spend.

Legal & Governance	R2 Forecast Over/(Under) £000s	Budget 2023/24 £000s	R3 Forecast £000s	R3 Forecast Over/(Under) £000s
Democratic Services	(39)	614	568	(46)
Members & Elections	134	1,896	2,040	144
Category Management	(6)	0	(7)	(7)
Legal, Land Charges & Licensing	896	(322)	635	957
Total	985	2,188	3,235	1,047

The divisional forecast is an overspend of £1.047million, which is a worsening of 625,000 from the position reported at Round 2.

Legal, Land Charges and Licensing are forecast to a pressure of £957,000, this is a worsening of £61,000 from Round 2. There are high levels of vacancies in Legal Services as recruiting and retaining permanent staff continues to be difficult; the forecast assumes these posts will to be covered by expensive locum/agency staff throughout the financial year at a pressure of £619,000. Following the restructure that was agreed by Full Council on 19th October, work has continued to recruit to permanent posts which should reduce the reliance on agency staff to cover at a much higher cost. Despite success with converting some agency staff to permanent contracts there still continues to be a number of agency staff covering roles until they are successfully recruited to. In addition, centralised Children's Services Legal Costs is forecast to overspend by £250,000 as agency staff are engaged over and above the establishment to cope with the current caseload.

The overspend of £144,000 on Members & Elections is due to the increase in Members' Allowances rates and the number of Members increasing from 55 to 59.

Centralised Services	R2 Forecast Over/(Under) £000s	Budget 2023/24 £000s	R3 Forecast £000s	R3 Forecast Over/(Under) £000s
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Interest & Financing	(1,661)	15,300	13,764	(1,536)
Levies	10	1,796	1,793	(3)
Medway Norse Profit Share	184	(433)	(174)	259
Total	(1,468)	16,663	15,383	(1,280)

Collectively these are forecasting an underspend of £1.280million.

There is an overspend forecast of £3,000 relating to Levies.

The Medway Norse rebate is currently forecast to be a pressure of £259,000.

The Interest & Financing budget funds the cost of borrowing required to support the Council's capital programme and is projected to underspend by £1.536million, a worsening of £125,000 from the position reported at Round 2. This is due to the net impact of making a provision for a possible loss on investments alongside drawing down available funding from an earmarked reserve.

6. Additional Government Support

Additional Government Support Expenditure	R2 Forecast Over/(Under) £000s	Budget 2023/24 £000s	R3 Forecast £000s	R3 Forecast Over/(Under) £000s
Household Support Grant	0	4,525	4,525	0
Total	0	4,525	4,525	0

All additional government support grants are currently forecast to be fully spent. Budget in respect of Homes for Ukraine scheme will be added throughout the year under the delegation of the Chief Operating Officer as funding is received.

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, Cabinet is asked to recommend to Council 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. This report asks Cabinet to recommend to Council the declassification of £5.727million of earmarked reserves to increase the general reserves balance. 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.
- 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