Brighton & Hove City Council

Policy & Resources Committee	Agenda Item 76 Brighton & Hove City Council

Subject:		**Targeted Budget Management (TBM) 2022/23: Month 7 (October)**	
Date of Meeting:		**1 December 2022**	
Report of:		**Chief Finance Officer**	
Contact Officer:	**Name:**	**Jeff Coates**	**Tel: 29-2364**
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Ward(s) affected:		**All**	

FOR GENERAL RELEASE

1 PURPOSE OF REPORT AND POLICY CONTEXT:

1.1 The Targeted Budget Monitoring (TBM) report is a key component of the council's overall performance monitoring and control framework. This report sets out an indication of forecast risks as at Month 7 on the council's revenue and capital budgets for the financial year 2022/23.

1.2 The forecast risk for 2022/23 at Month 7 is an £11.637m overspend on the General Fund revenue budget, approximately 5.4% of the net budget, including a forecast underspend of £0.208m on the council's share of the NHS managed Section 75 services. This is a very high projection at this late stage of the year and reflects the significant inflationary impacts being experienced by the council across its contracts and supplies, together with the cost of the national Local Government NJC pay award. A key factor is the impact that inflation is having on the achievement of savings programmes, particularly across social care, with 51% of the 2022/23 savings package of £10.509m currently forecast to be at risk due primarily to inflationary pressures.

1.3 There are also impacts relating to the cost of living situation and economic conditions which are currently suppressing key income sources such as planning fees, parking permits and commercial rents as well as continuing to drive higher Council Tax Reduction claimant numbers and homelessness.

1.4 The forecast presents a serious financial risk and, if not managed down significantly, will severely impact on the level of the council's reserves and balances which would need to be utilised to fund any overspend. The report therefore covers necessary and ongoing council-wide financial management actions that have been introduced in order to aid recovery of the position as far as possible.

2 RECOMMENDATIONS:

2.1 That the committee note the forecast risk position for the General Fund, which indicates a potential forecast overspend risk of £11.637m. This includes an underspend of £0.208m on the council's share of the NHS managed Section 75 services.

2.2 Note the expected provision required in relation to the academisation of Homewood House of £0.250m as set out in paragraph 9.8.

2.3 That the committee note the forecast for the Housing Revenue Account (HRA), which is currently an overspend of £1.173m.

2.4 That the committee note the forecast position for the Dedicated Schools Grant which is currently an overspend of £0.094m.

2.5 That the committee note the forecast outturn position on the capital programme which is a forecast underspend of £0.393m and approve the variations and slippage in Appendix 6 and new schemes as set out in Appendix 7.

3 CONTEXT/ BACKGROUND INFORMATION

Targeted Budget Management (TBM) Reporting Framework

3.1 The TBM framework focuses on identifying and managing financial risks on a regular basis throughout the year. This is applied at all levels of the organisation from Budget Managers through to Policy & Resources Committee. Services monitor their TBM position on a monthly or quarterly basis depending on the size, complexity or risks apparent within a budget area. TBM therefore operates on a risk-based approach, paying particular attention to mitigation of growing cost pressures, demands or overspending through effective financial recovery planning together with more regular monitoring of high risk demand-led areas as detailed below.

3.2 The TBM report is normally split into the following sections:

i) General Fund Revenue Budget Performance
ii) Housing Revenue Account (HRA) Performance
iii) Dedicated Schools Grant (DSG) Performance
iv) NHS Controlled S75 Partnership Performance
v) Capital Investment Programme Performance
vi) Capital Programme Changes
vii) Implications for the Medium Term Financial Strategy (MTFS)
viii) Comments of the Chief Finance Officer (statutory S151 officer)

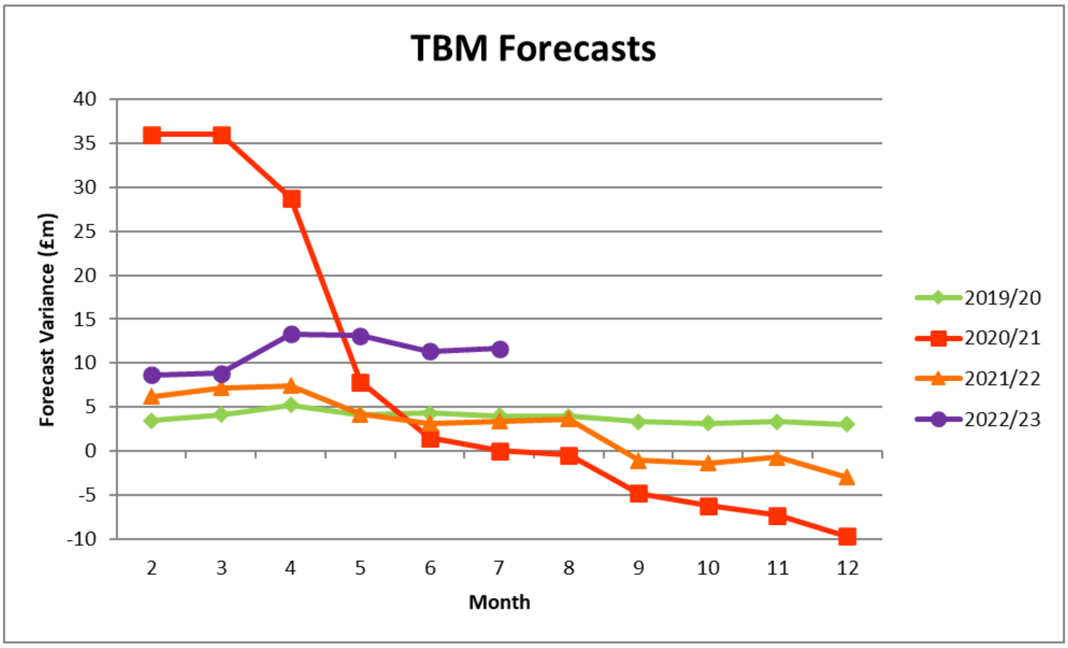
4 General Fund Revenue Budget Performance (Appendix 4)

4.1 The table below shows the provisional outturn for Council controlled revenue budgets within the General Fund. These are budgets under the direct control and management of the Executive Leadership Team. More detailed explanation of the variances can be found in Appendix 4.

Forecast Variance		2022/23 Budget	Forecast Outturn	Forecast Variance	Forecast Variance

Month 5 £'000	Directorate	Month 7 £'000	Month 7 £'000	Month 7 £'000	Month 7 %
3,235	Families, Children & Learning	103,628	106,801	3,173	3.1%
819	Health & Adult Social Care	75,195	75,782	587	0.8%
1,524	Economy, Environment & Culture	42,742	45,189	2,447	5.7%
1,185	Housing, Neighbourhoods & Communities	26,008	26,870	862	3.3%
1,648	Governance, People & Resources	30,732	31,973	1,241	4.0%
8,411	Sub Total	278,305	286,615	8,310	3.0%
4,703	Corporately-held Budgets	(62,063)	(58,736)	3,327	5.4%
13,114	Total General Fund	216,242	227,879	11,637	5.4%

4.2 The General Fund includes general council services, corporate budgets and central support services. Corporate Budgets include centrally held provisions and budgets (e.g. insurance) as well as some cross-cutting value for money savings targets. Note that General Fund services are accounted for separately to the Housing Revenue Account (Council Housing). Note also that although part of the General Fund, financial information for the Dedicated Schools Grant is shown separately as this is ring-fenced to education provision (i.e. Schools). The chart below shows the monthly forecast variances for 2022/23 and the previous three years for comparative purposes.

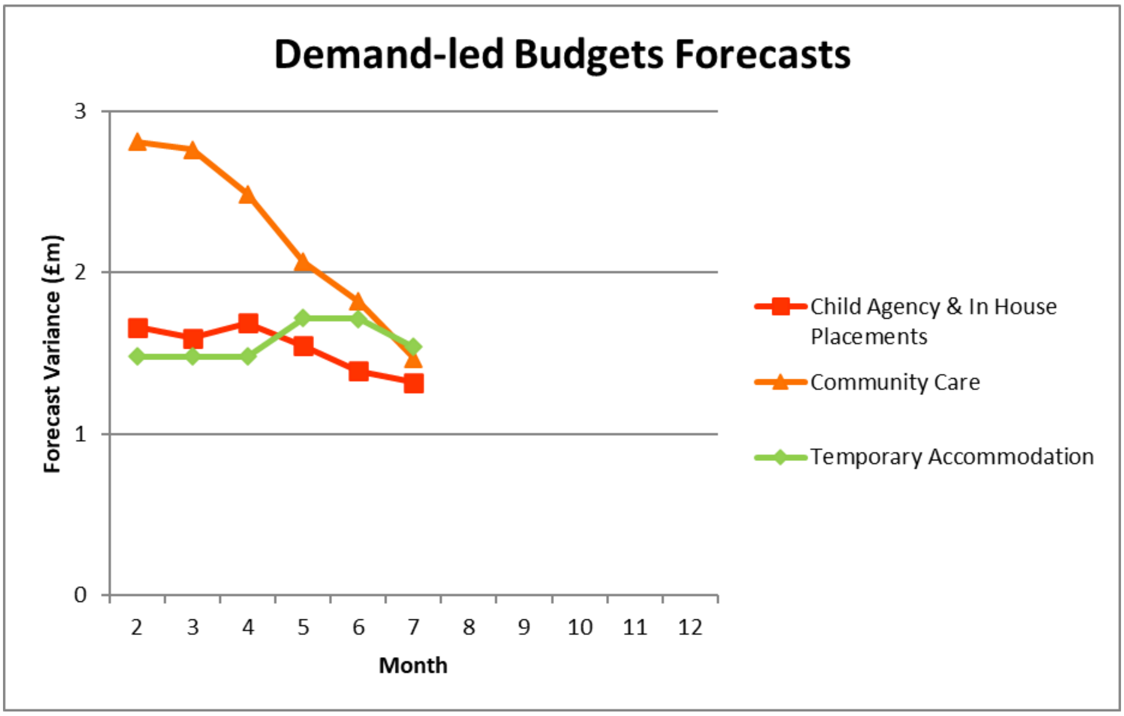


<u>Demand-led Budgets</u>

4.3 There are a number of budgets that carry potentially higher financial risks and therefore could have a material impact on the council's overall financial position. These are budgets of corporate significance where demand or activity is difficult to predict and where relatively small changes in demand can have significant implications for the council's budget strategy. These can include income related budgets. These therefore undergo more frequent and detailed analysis.

Forecast Variance Month 5 £'000	Demand-led Budget	2022/23 Budget Month 7 £'000	Forecast Outturn Month 7 £'000	Forecast Variance Month 7 £'000	Forecast Variance Month 7 %
1,545	Child Agency & In House Placements	24,477	25,795	1,318	5.4%
2,068	Community Care	85,697	87,163	1,466	1.7%
1,716	Temporary Accommodation	4,421	5,958	1,537	34.8%
5,329	Total Demand-led Budget	114,595	118,916	4,321	3.8%

The chart below shows the monthly forecast variances on the demand-led budgets for 2022/23.



TBM Focus Areas

The main pressures identified at Month 7 are across parts of Families, Children & Learning, Homelessness, Transport, City Environmental Management and Culture, Tourism & Sport. Information about these pressures and measures to mitigate them are summarised below:

4.4 **Families, Children & Learning:** The current projected position identifies potentially significant cost pressures: £1.154m on Children's Social Care Services, £0.791m on Adult Learning Disabilities Community Care, £0.320m on in-house disability provision and £1.213m on Home to School transport. However, there are estimated recovery measures totalling (£0.173m). These, together with other variances of (£0.132m) result in a forecast overspend of £3.173m overspend as at Month 7. Key drivers of the overspend are as follows:

- **Children in Care** Since the beginning of the 2020/21 financial year the number of children in care has risen by 9%. The post pandemic period has seen children with increasingly complex needs as well as problems in foster care recruitment causing an acute sufficiency issue making placing children in families either in-house or with external providers very difficult. This has inevitably led to increasing numbers of children being placed in residential homes or very expensive semi-independent placements. The impact of the increasing complexity of need has resulted in a small number of very high-cost placements with a combined cost of £1.570m at an average unit cost of £13,497 per week. The cost pressures on Residential and Semi-independence placements, resulting in a forecast overspend of £2.250m, has had a significantly adverse impact on the achievement of the 2022/23 savings measures.
  A number of the savings targets have been achieved, however as a direct result of the sufficiency and complexity pressures identified above the result is the unachieved savings of £1.234m (3% of the Children's Safeguarding & Care budget) reported.
- **Care Leavers** The number of care leavers requiring financial support for accommodation has been steadily rising over the last 12 months. As at 31st October 2022 there were 143 care leavers in receipt of financial support compared with 118 at the same time last year – a rise of 21%. The result is the forecast overspend of £0.359m for care leaver expenditure.
- **Adults with Learning Disabilities** The 2022/23 community care budget allowed a 2% across the board fee uplift to all providers across all care types. However, due to recent events such as the increase in the cost of living and the higher than anticipated increase in the living wage there have been strong representations from providers for an additional uplift in 2022/23. The forecast allows for a further uplift of 2% in fees across all providers (this equates to approximately £0.650m) and this is a significant reason for the predicted overspend on this budget. The current forecast overspend on the Adult LD community care budget is £0.791m (2.3% of the community care budget). At the same time, the 2022/23 savings target of £0.926m within the Adult LD community care budget is anticipated to be fully achieved through the specific savings strategies set out in the 2022/23 corporate budget proposals.
- **Home to School Transport.** There are several factors contributing to overspends in Home to School Transport. These include increased demand on the service (both at 5-16 ages, and 16 up until 19th birthday), increased numbers of children requiring single occupancy journeys (16% increase on this time last year), settings outside of the city being named in EHCPs (13% increase on this time last year) and increased contract prices on routes which accommodate dual

placements, part-time timetables, alternative provision and post 16 provision.
Local driver, vehicle passenger assistants, and vehicle shortages and increased fuel costs are resulting in the service receiving fewer and more costly bids on routes. These shortages are not unique to B&H, they are being seen across the country and a benchmarking exercise is underway to ascertain the scale of the problem by the DfE who have declared that nationally HTST is at significant risk of failure due to these unprecedented issues. There is increasingly less capacity in the local system to meet increasing demand, not just in the numbers of children requiring transport but the nature of the transport requirements.

The forecast for the 2022/23 central Dedicated Schools Grant is an overspend of £0.094m. More details are provided in Appendix 4.

4.5 **Adults Services:** The service is facing significant challenges in 2022/23 in mitigating the risks arising from increasing demands from client needs, supporting more people to be discharged from hospital when they are ready and maintaining a resilient local provider market. It is to be noted that this is after applying service pressure funding of £3.211m in 2022/23 which has been used to fund budget pressures resulting from the increased complexity and costs of care.

At this stage, £1.256m of the £2.353m 2022/23 savings plan are being forecast as unachievable this financial year. The impact of wider pressures that have emerged during the course of the year has resulted in increased forecast unit costs equating to a financial pressure of approx. £0.5m. Actions are focussed on attempting to manage demand on and costs of community care placements across Assessment Services and making the most efficient use of available funds.

The HASC directorate has a Modernisation Programme which aims to implement a consistent strengths-based approach across key work streams, ensuring robust pathways are in place, developing a community reablement offer and re-designing the front door service. Currently the Health & Social Care system is under considerable pressure, and this is generating additional costs for the council due to:

- Pressures on NHS budgets resulting in reduced funding contributions from the NHS Sussex;
- Significant pressures on the acute hospital resulting in increased costs to support timely discharge into residential and nursing home care;
- Ongoing transformation of GP practices and enhancement of their clinical screening and general medical services which contribute to preventative support;
- Pressures on NHS outreach and other preventative services including community nursing (known as Integrated Primary Care Teams);
- Workforce capacity challenges across adult social care services;
- There is also focus nationally on improving rates of hospital discharge in order to accommodate winter pressures.

The funding of all care packages is scrutinised for Value for Money, ensuring that eligible needs are met in the most cost-effective manner which will not always meet people's aspirations. Established safeguards are in place to provide assurance within this process.

4.6 **Housing Services and Temporary Accommodation:** Overall these services are forecast to overspend by £1.537m, an improvement of £0.179m since month 5. This overspend is partially offset by an underspend on the Housing options budget of (£0.700m), detailed below, and there is a financial recovery plan in place to further reduce costs by (£0.200m). However, although the service has made good progress in meeting its budget savings, £0.265m of budget savings for 2022/23, are currently at risk. The overspend relates to the following elements:

A provision for underlying Temporary Accommodation and Rough Sleeping pressures of over £1m was provided in the 2021/22 budget, which was expected to be supported by additional funding from the government's announcement of an additional £254 million national funding. However, although core funding increased overall, it was insufficient to support the service pressure funding and the budget therefore remains significantly oversubscribed (by £1m) due to the number of leased and emergency properties required.

Emergency accommodation is forecast to overspend by £0.292m, due to more emergency accommodation properties being required than budgeted. The level of spot purchase properties remained largely static during the summer months and has now begun to increase (119 as at 14th November 2022) and therefore cost reductions are lower for the remainder of the year and it is becoming more challenging to reach the target of 45 units by 31st March 2023.

The overall cost of private sector leased TA is forecast to overspend by £0.233m. The largest pressure on this budget is the repairs costs for leased TA properties which is forecast to overspend by £0.570m due to inflationary pressures and the backlog of repairs needed in the first half of the year. The accommodation costs of private sector leased properties for TA have continued to rise as contracts are renewed at higher rents but there are now fewer properties, and so the net rental costs are underspending by (£0.197m) with further minor underspends across this service of (£0.036m). The current number of empty leased properties in TA has steadily reduced so far this year as the backlog of works is cleared. However, there are still more properties empty for longer than the current budget allows for and the budget for rent loss on voids is forecast to overspend by £0.122m but this is partially offset by a forecast underspend on council tax costs of (£0.052m) which is an improvement compared to the forecast at month 2 and this trend should continue into 2023/24. There is also a forecast overspend on the contribution to the bad debt provision of £0.243m and £0.050m on Housing Benefit Subsidy. These pressures are partially offset by a contribution of (£0.467m) from Homelessness Prevention Grant after other forecasts for prevention expenditure have been taken into account.

For this year, the housing service has a one-off budget of £1.280m (carried forward from 2021/22) for homelessness prevention which may relieve the immediate rising cost of living pressures for households and therefore allow further reduction in EA/TA numbers as the year progresses. This budget is now forecast to underspend by £0.700m which alleviates some of the overspends above but still allows for significant spend to prevent homelessness and reduce costs.

Even though numbers of households in Emergency Accommodation (EA) and Temporary Accommodation (TA) have reduced and £1.515m of savings have been made, the service is still overspending, largely as a result of new pressures on repairs and rental costs of TA and EA and £0.265m of 2022/23 budget savings are at risk. There is a financial recovery plan in place to further reduce the numbers in EA and reduce costs by £0.200m. This will be challenging in the last five months of the year.

Separately to this, Seaside Homes is forecast to overspend by £0.320m due to similar pressures on repairs costs and void rent loss due to backlogs caused by the pandemic and current inflationary pressures. There is a further forecast overspend of £0.197m associated with the provision of additional emergency hotel accommodation originally acquired early in the pandemic as a result of the Government's 'Everyone In' Initiative and retained for use by statutory homeless due to on-going demand. This is due to the two remaining hotels being decanted later than anticipated at budget setting time. All hotels have now been decanted.

The Housing Service will continue to seek additional cost reductions to reduce the overspend further through the continuation of the Homelessness Transformation Programme which is an 'end to end' improvement programme to help the service improve its processes to reduce the use and length of stay in Temporary Accommodation by improving homeless prevention, homeless processes and enabling move on to more sustainable accommodation. The service is already seeing reductions to the number of households in TA through a combination of better prevention from homelessness and improved move-on. Further efficiencies will be sought by (for example) continuing to improve the prevention of homelessness, improve void turnaround times in emergency accommodation, and improving income collection thereby continuing to reduce costs in 2022/23 in line with the budget strategy

4.7 **Environment, Economy & Culture:** The Directorate has substantial income budgets for parking, planning and venues and for the council's commercial property portfolio, all of which are dependent on visitor numbers and commercial activity. There are also challenging savings in year of which most relate to additional income. Of the £2.730m savings proposed for the current financial year £1.130m net of pressures is achieved or anticipated to be achieved, with the remaining £1.600m at risk. Price increases have been applied, however the anticipated income has yet to be achieved as these areas are dependent on demand including tourism and visitor numbers. The most significant areas of shortfall are £0.605m for parking tariff increases, £0.689m for resident permit increases where demand has reduced, £0.070m reduction of agency budgets for CityClean, £0.057m for increased Development Planning fees & charges and reduction of maintenance budgets of £0.080m within Property. These activities and services had been heavily impacted by COVID-19 in previous years and the services are starting to see recovery, but these targets will only be achieved if demand returns fully to pre covid levels.

4.8 The directorate also contains large budgets for the waste collection and street cleansing services which are forecasting greater than budgeted costs due to agency cover of vacant posts. As recruitment into these posts is conducted, high agency spend should reduce and bring down the overspend on these services. The overall effect of these factors is a forecast risk of £2.723m for Month 7. The Directorate is applying financial recovery measures of reviewing expenditure budgets and income potential throughout the year to address budget overspends within Parking and Venues services. These financial recovery measures will seek to reduce the forecast risk to £2.447m.

4.9 **Governance, People and Resources:** There is a forecast pressure of £1.536m relating to current and former Orbis services which is split into two main components as follows:

£0.654m relates to the financial impact of disaggregating (withdrawing) various services including Business Operations (now part of Welfare, Revenues & Business Support), Finance, and HR. This relates both to the impact of reversing previously integrated roles, resulting in an associated loss of economies, as well as the realisation of unachieved savings in Business Operations due to the divergence of the partners' business requirements, including the procurement of different corporate HR and Finance systems, and the associated impact on being able to achieve the planned integration and standardisation of services.

BHCC's contribution to the Partnership has also increased by £0.879m plus inflation in respect of continuing Orbis services. However, this cost primarily relates to IT&D and includes revenue and capital financing costs of addressing infrastructure, digital and service requirements in BHCC, together with an increase in service demands, for which it is required to contribute a higher contribution under the terms of the Inter-Authority Agreement.

4.10 **Corporately-held Budgets:** There is a forecast overspend of £3.327m on corporately-held budgets, however, this is primarily because the projected additional costs of the NJC Local Government pay award are held on this budget line until the pay award is officially confirmed and costs are allocated to directorates. The projected additional cost is £4.545m which is based on the employers' pay award offer of a £1,925 flat-rate increase for all NJC salaries. This is equivalent to a 6.3% increase on the payroll compared with the 2% increase included in the budget for 2022/23. This pressure is after allowing for the £1.260m remaining one-off provision for pay from the 2021/22 outturn.

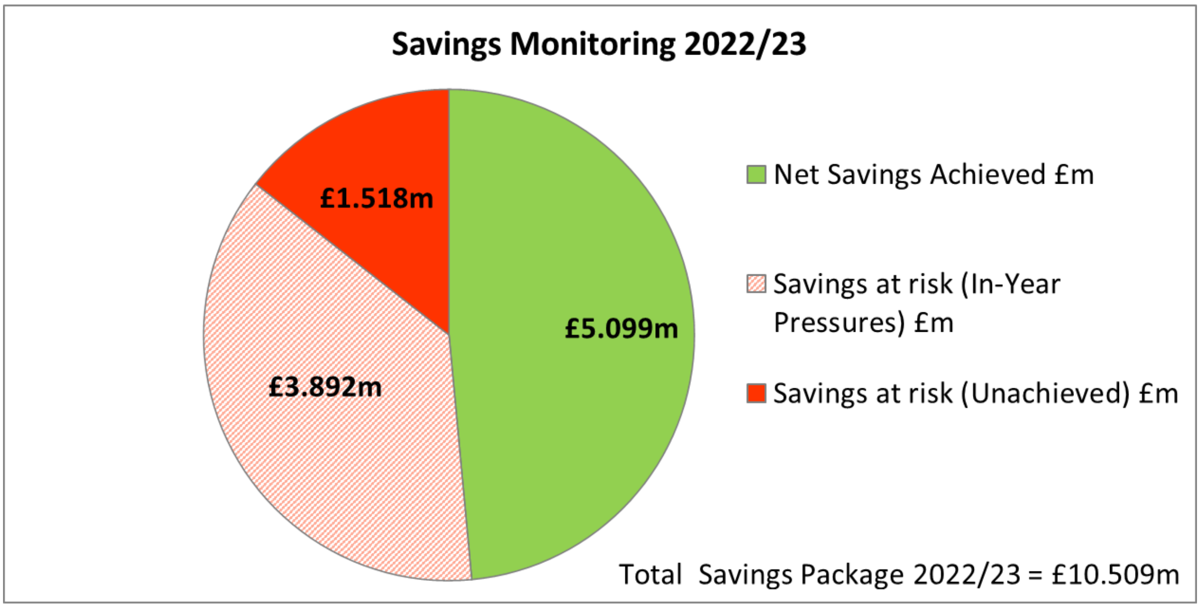
There is also an estimated pressure of £0.761m on Housing Benefit Subsidy income. Of this pressure, £0.482m relates to a particular benefit type for vulnerable tenants (Regulation 13) which is not fully subsidised. This is being investigated to fully understand the reasons for the growth in this area. There is also a pressure of £0.349m on the net recovery of overpayments and other areas. The surplus on the recovery of overpaid former council Tax Benefit is currently forecast at £0.070m.

The above are partially offset by increased investment income from investing cash balances of £1.538m which is predominantly due to the increasing interest rate environment which is driving up investment returns. There is also a saving of £0.406m following the reversal of the National Insurance increase from November.

Monitoring Savings

4.11 The savings package approved by full Council to support the revenue budget position in 2022/23 was £10.509m following directly on from a £10.687m savings package in 2021/22. This is very significant and follows 11 years of substantial packages totalling over £185m that have been necessary to enable cost and demand increases to be funded alongside managing substantial reductions in central government grant funding.

4.12 Appendix 4 provides a summary of savings in each directorate and indicates in total what is anticipated/achieved, what has been offset by in year pressures and the net position of savings at risk. Appendix 5 summarises the position across all directorates and presents the entire savings programme. The graph below provides a summary of the position as at Month 7 and shows that in total £5.410m (51%) is currently at risk. This is made up of £1.518m of unachieved savings and £3.892m of savings that were achieved but have been offset by in-year pressures. Mitigation of these risks will be included in the development of services' financial recovery actions as far as possible.



5 Housing Revenue Account Performance (Appendix 4)

5.1 The Housing Revenue Account is a separate ring-fenced account which covers income and expenditure related to the management and operation of the council's housing stock. Expenditure is generally funded by Council Tenants' rents and housing benefits (rent rebates). The forecast outturn is an overspend of £1.173m and more details are provided in Appendix 4.

5.2 This year will still be challenging for the HRA as the service has to deal with inflationary pressures, the rising costs of utilities and continues to deal with the rent loss and other costs associated with the remaining back log of empty properties. The service will continue to review spend to try to reduce this forecast overspend during the year. If this cannot be managed within budget then the overspend can be met from other HRA resources including reviewing the revenue contribution to capital and reserves position as outlined in the HRA budget report for 2022/23. The level of reserves continues to be monitored. Of this reported overspend £0.605m (51%) relates to the short term pressure on financing costs as a result of borrowing being undertaken early than anticipated in order to take advantage of more favourable interest rates.

6 Dedicated Schools Grant Performance (Appendix 4)

6.1 The Dedicated Schools Grant (DSG) is a ring-fenced grant within the General Fund which can only be used to fund expenditure on the schools budget. The schools budget includes elements for a range of services provided on an authority-wide basis including Early Years education provided by the Private, Voluntary and Independent (PVI) sector, and the Individual Schools Budget (ISB) which is divided into a budget share for each maintained school. The forecast outturn is currently an overspend of £0.094m and more details are provided in Appendix 4. Under the Schools Finance Regulations any underspend or overspend must be carried forward to support the schools budget in future years.

7 NHS Managed S75 Partnership Performance (Appendix 4)

7.1 The NHS Trust-managed Section 75 Services represent those services for which local NHS Trusts act as the Host Provider under Section 75 Agreements. Services are managed by Sussex Partnership Foundation Trust (SPFT) and include health and social care services for Adult Mental Health and Memory and Cognitive Support Services.

7.2 This partnership is subject to separate annual risk-sharing arrangements and the monitoring of financial performance is the responsibility of the respective host NHS Trust provider. Risk-sharing arrangements result in financial implications for the council where a partnership is underspent or overspent at year-end and hence the performance of the partnership is included within the forecast outturn for the Health & Adult Social Care directorate. An underspend of £0.208m is currently forecast and more details are provided in Appendix 4.

8 Capital Programme Performance and Changes

8.1 The table below provides a summary of capital programme performance by Directorate and shows that there is a forecast underspend of £0.393m at this early stage.

Forecast Variance Month 5 £'000	Directorate	Reported Budget Month 7 £'000	Forecast Outturn Month 7 £'000	Forecast Variance Month 7 £'000	Forecast Variance Month 7 %
(35)	Families, Children & Learning	31,414	31,414	0	0.0%
50	Health & Adult Social Care	455	521	65	14.4%
7,887	Economy, Environment & Culture	91,770	91,770	0	0.0%
0	Housing, Neighbourhoods & Communities	6,326	6,326	0	0.0%
1,128	Housing Revenue Account	87,460	87,117	(343)	-0.4%
0	Governance, People & Resources	3,576	3,461	(115)	-3.2%
9,030	Total Capital	221,002	220,609	(393)	-0.2%

8.2 Appendix 6 shows the changes to the capital budget and Appendix 7 provides details of new schemes for 2021/22 to be added to the capital programme which are included in the budget figures above. Policy & Resources Committee's approval for these changes is required under the council's Financial Regulations. The following table shows the movement in the capital budget since approval at Budget Council.

Summary of Capital Budget Movement	Reported Budget Month 7 £'000
Budget approved as at TBM Month 5	232,905
Changes reported at other committees and already approved	3,885
New schemes to be approved in this report (see Appendix 5)	500
Variations to budget (to be approved)	9,523
Reprofiling of budget (to be approved)	(25,811)
Slippage (to be approved)	0
Total Capital	221,002

9 Implications for the Medium Term Financial Strategy (MTFS)

9.1 The council's MTFS sets out resource assumptions and projections over a longer term. It is periodically updated including a major annual update which is included in the annual revenue budget report to Policy & Resources Committee and Full Council. This section highlights any potential implications for the current MTFS arising from in-year TBM monitoring above and details any changes to financial risks together with any impact on associated risk provisions, reserves and contingencies. Details of Capital Receipts and Collection Fund performance are also given below because of their potential impact on future resources.

Capital Receipts Performance

9.2 Capital receipts are used to support the capital programme. Any changes to the level of receipts during the year will impact on future years' capital programmes and may impact on the level of future investment for corporate funds and projects such as the Strategic Investment Fund, Modernisation Fund, Asset Management Fund and the Information, Technology and Digital Investment Fund. The planned profile of capital receipts for 2022/23, as at Month 7, is £1.3m which includes receipts expected from Patcham Place Lodge, 8-9 Kings Road plus a number of lease extensions. To date there have been receipts of £0.921m in relation to some minor lease payments and lease extensions. The capital receipts performance will be monitored over the remainder of the year against capital commitments

9.3 The forecast for the 'right to buy sales' in 2022/23 (after allowable costs, repayment of housing debt and forecast receipt to central government) is that an estimated 40 homes will be sold and net retained receipt of up to £3.500m available to re-invest in replacement homes. In addition to this net retained receipt the HRA will also retain circa £0.500m to fund investment in the HRA capital programme. To date 25 homes have been sold in 2022/23.

Collection Fund Performance

9.4 The collection fund is a separate account for transactions in relation to council tax and business rates. Any deficit or surplus forecast on the collection fund relating to council tax is distributed between the council, Sussex Police & Crime Commissioner and East Sussex Fire Authority, whereas any forecast deficit or surplus relating to business rates is shared between the council, East Sussex Fire Authority and the government.

9.5 The council tax collection fund forecast deficit has decreased by £0.311m to £2.174m for the financial year outside of the 3-year spread of the deficit from 2020/21 where the final year repayment is within the budget projection for 2023/24. The CTR forecast has reduced on the basis that whilst numbers are increasing, they are at a lower level than earlier in the financial year and the average value of claims is reduced. The student exemptions previous year's awards have not increased at the levels previously forecast. The SMI exemptions forecast has increased with backdated awards during October totalling £0.088m bringing the backdated awards total at the end of October to £0.420m. The main components of the overall deficit are SMI exemptions £0.830m, CTR awards £0.525m, Student exemptions £0.450m and Single Person discounts £0.240m. The council's share of the overall deficit of £2.174m is £1.841m.

9.6 The business rates collection fund forecast continues with a break-even position for the financial year outside of the 3-year spread of the deficit from 2020/21 that is already funded. There are a range of risks that could change this forecast significantly with the main uncertain factors being the level of business failures and any step increase in empty properties. This will, in part, be dependent on government support for business to manage inflationary impacts including energy costs.

Reserves, Budget Transfers and Commitments

9.7 The creation of reserves, the approval of budget transfers (virements) of over £0.250m, and agreement to new financial commitments of corporate financial significance that are not provided for in the approved budget and policy framework require Policy & Resources Committee approval in accordance with the council’s Financial Regulations and Standard Financial Procedures. At this stage there is one new item requiring approval.

9.8 Under government guidance where a maintained school with a deficit is to open as a sponsored academy, the deficit remains with the local authority, to be funded from its core budget. Homewood College is subject to a government academisation order and it is expected that the transition to sponsored academy status will now occur in the 2023/24 financial year. The level of the anticipated deficit at the point of academisation is uncertain. This will depend on a number of factors including the actual date of academisation. At this stage it is estimated that a provision of at least £0.250m will be required to fund the deficit.

Managing an Outturn Overspend

9.9 The forecast overspend as at Month 7 is £11.637m which, if still present at month 9, will require decisions as part of the budget setting process for 2023/24 regarding how to manage this very large overspend, which can also have implications for the Medium Term Financial Strategy. The main options for dealing with this overspend are as follows:

i) Utilise one-off resources to meet the shortfall subject to availability. This is potentially very problematic as the council’s Working Balance is £9m and an overspend of this magnitude would deplete this balance completely. This balance would therefore need to be replenished to an agreed level over the medium term financial strategy period. The council can also borrow from earmarked reserves, but again would need to replenish them over time. The level of earmarked reserves is now very limited (less than £10m) following circa £10m of internal borrowing already undertaken in recent years, for example, to manage exceptional pandemic costs. Many of the remaining earmarked reserves are individually small and held for specific purposes that will be called upon within a relatively short time frame and may not therefore be available to borrow from over an extended period.

ii) In principle, an overspend can be carried forward and addressed by making equivalent spending reductions next year. However, this mechanism is only possible for a relatively small overspend and is not a viable option for the authority given the continuing high inflationary and demand pressures, and the requirement to achieve a very challenging savings package of up to £19m next year.

10 ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

10.1 The provisional outturn position on the General Fund is an overspend of £11.637m. This includes a forecast underspend of £0.208m on the council's share of the NHS managed Section 75 services. Any overspend at year-end would need to be met from available one-off resources. As noted above, an overspend of this magnitude would severely deplete the council's reserves and balances and place it in a precarious financial position. Carry forward of such as large overspend is not viable given the large savings requirements/budget gaps in future years.

11 COMMUNITY ENGAGEMENT & CONSULTATION

11.1 No specific consultation has been undertaken in relation to this report.

12 CONCLUSION AND COMMENTS OF THE CHIEF FINANCE OFFICER (S151 OFFICER) AND OTHER MATTERS

12.1 The forecast risk at Month 7 of £11.637m represents 5.4% of the net General Fund. This is a very high forecast risk at this stage of the year and is driven by a range of factors including inflationary pressures, continuing economic and supply chain impacts due various domestic and global economic factors.

12.2 These factors are not easily overcome and the economic outlook suggests that the UK may enter into recession for a period of time which will put further pressure on many of the council's income streams but will also place continuing pressure on the Council Tax Reduction budget and potentially demand-led services such as social care, housing and homelessness. Directorates continue to explore all possibilities for mitigating the position and identifying financial recovery measures but the underlying position is proving stubborn and will need to be supplemented with more widespread financial management action to assist the position. Not making significant in-roads into the overspend has the potential to seriously impact the council's financial sustainability by depleting its reserves and significantly reducing its flexibility to manage large, predicted budget gaps in future years.

12.3 In response, the council has introduced widespread vacancy and spending controls to assist the position. These include:

i) Introducing a delay to all recruitment advertising for vacant positions, excluding exemptions such as social care services, social workers and hostels, with appointments now held to 1 April 2023 unless critical to service delivery. Directorates are however encouraged to appoint to vacancies funded by capital financing, the Modernisation Fund or government grants, which could help to provide some capacity.

ii) Increased spending controls to restrict non-critical spend and increase the level of authorisation required for the purchasing and commissioning of goods and services.

iii) Exploring early implementation of fees and charges increases to cover increased costs. Services are developing proposals for the next cycle of service committees (January) and will not only be recommending fees & charges for next year as normal, but will also consider early adoption of increases wherever this can be practicably implemented in the current financial year.

12.4 All controls will be managed by Directorate Management Teams (DMTs) who will need to consider health & well-being impacts on staff as well as impacts on service delivery to clients and customers in making vacancy (recruitment) and spending decisions and can over-ride controls where absolutely necessary. However, some impact on staffing capacity and service delivery is likely but clearly cannot undermine the council's statutory duties and responsibilities.

13 FINANCIAL AND OTHER IMPLICATIONS

Financial Implications:

13.1 The financial implications are covered in the main body of the report. Financial performance is kept under review on a monthly basis by the Executive Leadership Team and the management and treatment of forecast risks is considered by the Audit & Standards Committee as part of its review of strategic risks.

Finance Officer Consulted: Jeff Coates Date: 21st October 2022

Legal Implications:

13.2 Decisions taken in relation to the capital and revenue budget must enable the council to observe its legal duty to achieve best value by securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The council must also comply with its general fiduciary duties to its Council Tax payers by acting with financial prudence, and bear in mind the reserve powers of the Secretary of State under the Local Government Act 1999 to limit Council Tax & precepts.

Lawyer Consulted: Elizabeth Culbert Date: 211122

Equalities Implications:

13.3 There are no direct equalities implications arising from this report.

Sustainability Implications:

13.4 Although there are no direct sustainability implications arising from this report, the council's financial position is an important aspect of its ability to meet council priorities. In addition, the council's response to managing the impact of the pandemic, in lieu of further government funding announcements, will be important to demonstrate that in a worst case scenario, it has plans to manage the financial impact and avoid financial collapse.

Risk and Opportunity Management Implications:

13.5 The council's revenue budget and Medium Term Financial Strategy contain risk provisions to accommodate emergency spending, even out cash flow movements and/or meet exceptional items. The council maintains a recommended minimum working balance of £9.000m to mitigate these risks. The council also maintains other general and earmarked reserves and contingencies to cover specific project or contractual risks and commitments. However, current reserves and balances were not set at a level to manage financial shocks of the scale of the pandemic and any depletion of reserves and balances to manage this position will normally require a plan for replenishment in future years.

SUPPORTING DOCUMENTATION

Appendices:

1. Financial Dashboard Summary
2. Revenue Budget Movement Since Month 5
3. Revenue Budget RAG Rating
4. Revenue Budget Performance
5. Summary of 2022/23 Savings Progress
6. Capital Programme Performance
7. New Capital Schemes

Documents in Members' Rooms:
None.

Background Documents
None