Brighton & Hove City Council

Strategy, Finance & City Regeneration Committee

Agenda Item 11

Subject: Targeted Budget Management (TBM) Provisional Outturn 2022/23

Date of Meeting: 22 June 2023

Report of: Chief Finance Officer

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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 the provisional outturn position (i.e. Month 12 year-end) on the council's revenue and capital budgets for the financial year 2022/23.

1.2 The final outturn position is subject to the annual external audit review of the council's accounts. The final position will be shown in the council's unaudited financial statements which are due for publication shortly and must be signed by the Chief Finance Officer (CFO), and will ultimately be reflected in the audited set approved by the Audit & Standards Committee and due to be published by 30 September 2023.

1.3 The provisional outturn is a £3.020m overspend on the General Fund revenue budget. This includes an underspend of £0.562m on the council's share of the NHS managed Section 75 services. This is an improvement of £3.553m from Month 9, due to the ongoing recovery of visitor activity during the last quarter which has significantly bolstered income streams across a wide range of areas including the Brighton Centre, registrars, parking fees and fines. There has also been further improvement across Adult Social Care including additional NHS income, and a number of improvements to corporate forecasts including a lower than anticipated HSE fine. The spending and vacancy controls in place across the council have also continued to contribute to an improved position across all areas. An improvement of £2.000m from the Month 9 position was assumed when setting the 2023/24 budget and therefore the outturn position represents an additional improvement of £1.553m compared to the assumed outturn .

1.4 The report also indicates that £4.536m (43%) of the substantial savings package in 2022/23 of £10.509m was not achievable largely due to exceptional inflationary pressures experienced during the year.

2 RECOMMENDATIONS:

2.1 That the Committee note that the provisional General Fund outturn position is an overspend of £3.020m and that this represents an improvement of £1.553m compared to the projected and planned resource position at Month 9 and taken into account when setting the 2023/24 budget.

2.2 That the Committee note the provisional outturn includes an underspend of £0.562m on the council's share of the NHS managed Section 75 services.

2.3 That the Committee approve General Fund carry forward requests totalling £7.912m as detailed in Appendix 5 and assumed within the provisional outturn.

2.4 That the Committee note the provisional outturn for the separate Housing Revenue Account (HRA), which is a break-even position.

2.5 That the Committee note the provisional outturn position for the ring-fenced Dedicated Schools Grant, which is an underspend of £0.368m.

2.6 That the Committee note the provisional outturn position on the Capital Programme which is an underspend variance of £2.661m.

2.7 That the Committee approve the capital budget variations and re-profiling requests set out in Appendix 7.

2.8 That the Committee approve the new capital schemes requested in Appendix 8.

2.9 That the Committee approve the creation of a 10-Year Lease Dilapidations Provision as set out in paragraph 9.10.

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)

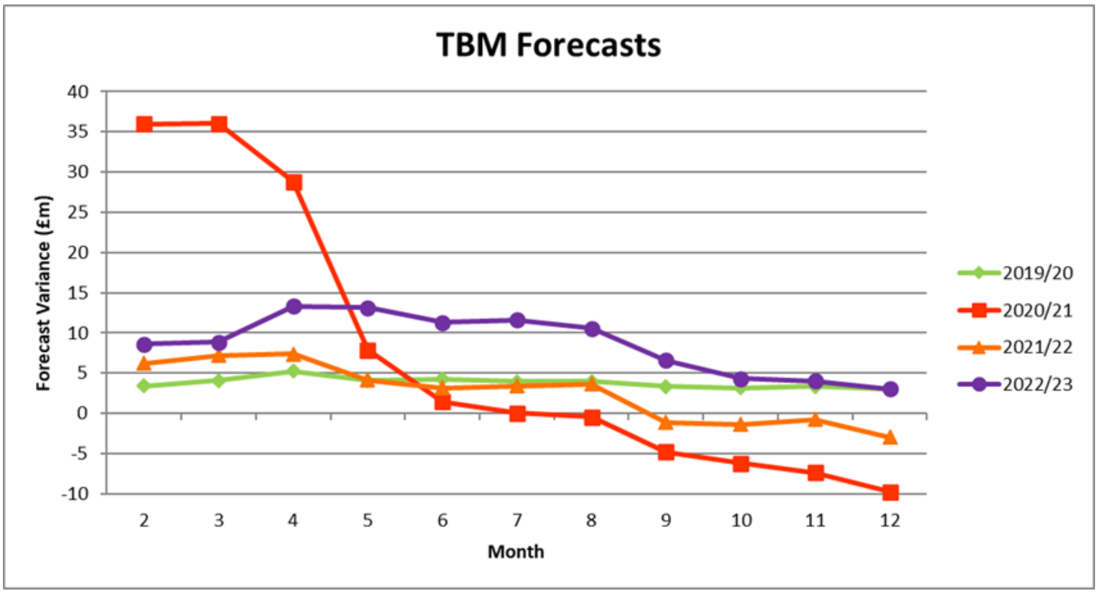
4 General Fund Revenue Budget Performance (Appendix 4)

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 Month 9 £'000	Directorate	2022/23 Budget Month 12 £'000	Provisional Outturn Month 12 £'000	Provisional Variance Month 12 £'000	Provisional Variance Month 12 %
2,763	Families, Children & Learning	102,957	105,794	2,837	2.8%
(586)	Health & Adult Social Care	72,618	70,480	(2,138)	-2.9%
604	Economy, Environment & Culture	31,603	31,701	98	0.3%
144	Housing, Neighbourhoods & Communities	21,754	21,662	(92)	-0.4%
902	Governance, People & Resources	33,609	33,301	(308)	-0.9%
3,827	Sub Total	262,541	262,938	397	0.2%
2,746	Corporately-held Budgets	(35,355)	(32,732)	2,623	7.9%
6,573	Total General Fund	227,186	230,206	3,020	1.3%

4.2 The General Fund includes general council services, corporate budgets and central support services. Corporately-held Budgets include centrally held provisions and budgets (e.g. insurance) as well as some cross-cutting value for money savings targets. However, on this occasion, Corporately-held Budgets also includes the excess cost of the unexpectedly high NJC Local Government pay award which added over £6m more than originally estimated to pay costs.

4.3 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 (e.g. Schools and SEN). The chart below shows the monthly forecast variances for 2022/23 and the previous three years for comparative purposes. The impact of the pandemic in 2020/21 clearly makes comparisons difficult, particularly as the extent of the impact has varied over the last two years. The movement in forecasts during 2022/23 clearly shows the impact of emergency recovery actions and control measures in reducing early forecasts in months 4 and 5 of circa £13m overspends down to £3m by year-end.

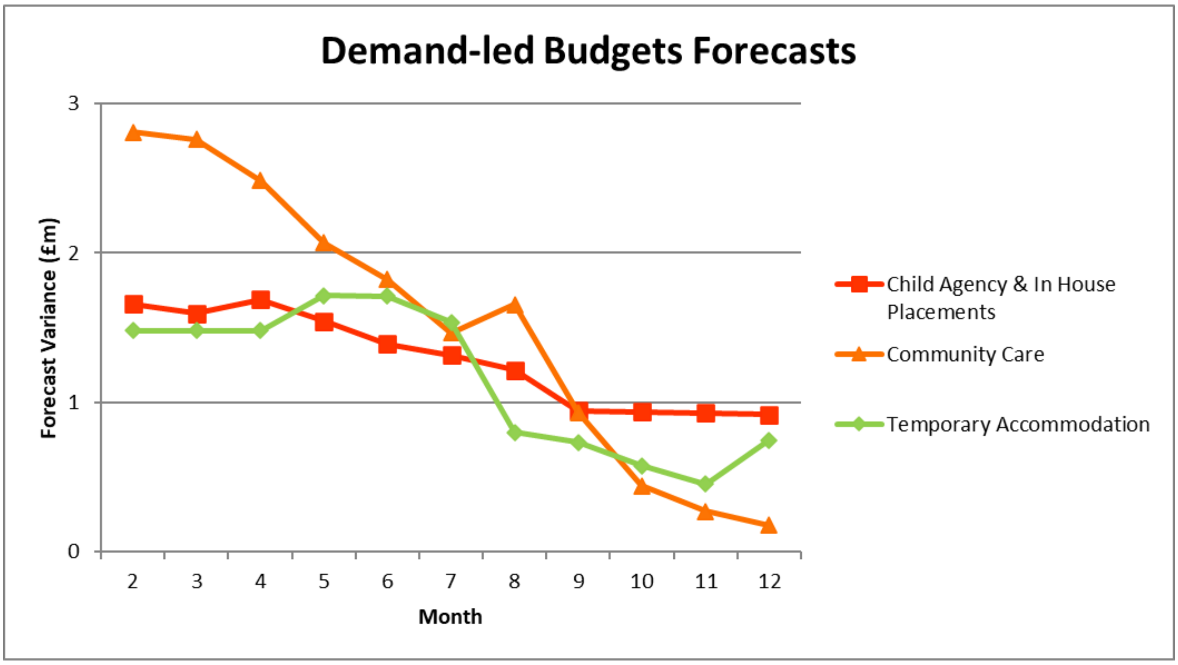


Demand-led Budgets

4.4 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 9 £'000	Demand-led Budget	2022/23 Budget Month 12 £'000	Provisional Outturn Month 12 £'000	Provisional Variance Month 12 £'000	Provisional Variance Month 12 %
943	Child Agency & In House Placements	24,419	25,338	919	3.8%
933	Community Care	86,019	86,197	178	0.2%
734	Temporary Accommodation	2,899	3,647	748	25.8%
2,610	Total Demand-led Budget	113,337	115,182	1,845	1.6%

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



<u>TBM Focus Areas</u>

The main pressures identified at outturn 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:

4.5 **Children's Services:** The final outturn position shows significant cost pressures: £0.770m on Children's Social Care Services, £0.576m on Adult Learning Disabilities Community Care, £0.624m on in-house adult provision and £1.106m on Home to School transport. These, together with other variances of (£0.239m) resulted in a year-end overspend of £2.837m. Key drivers of the overspend are as follows:

- **Children in Care:** Between June 2020 and June 2022 the number of children in care rose by 4.5%. 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 £1.872m at an average unit cost of £13,549 per week. The cost pressures on Residential and Semi-independence placements, resulting in a forecast overspend of £2.375m, has had a significantly adverse impact on the achievement of the 2022/23 savings measures. While a number of the savings targets have been wholly or partially achieved, as a direct result of the sufficiency and complexity pressures identified above the result is unachieved savings of £1.034m.

- **Care Leavers**: The number of care leavers requiring financial support for accommodation has been steadily rising over the last 12 months. As at 31st March 2023 there were 153 care leavers in receipt of financial support compared with 134 at the same time last year – a rise of 14%. The result is the forecast overspend of £0.357m for care leaver expenditure.

- **Adults with Learning Disabilities (Community Care):** The 2022/23 community care budget allowed an initial 2% across-the-board fee uplift to all providers across all care types. However, due to issues such as the increase in the cost of living and the higher than anticipated increase in the living wage, additional uplifts have had to be applied to providers to support with unavoidable increased costs. These additional uplifts equated to approximately £0.600m, and this is very comparable to the year-end outturn position which was an overspend of £0.576m (equivalent to just under 2% of the community care budget). For 2022/23, the savings target of £0.926m within the Adult LD community care budget was largely achieved through the specific savings strategies set out in the 2022/23 corporate budget proposals. At year-end savings of £0.853m were realised against this target

- **Home to School Transport:** There were several factors contributing to the overspend in Home to School Transport. These included 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 last year), settings outside of the city being named in EHCPs (13% increase on 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 resulted in the service receiving fewer and more costly bids on routes. These shortages were not unique to B&H and were seen across the country and a benchmarking exercise was underway to ascertain the scale of the problem by the DfE who declared that nationally HTST was at significant risk of failure due to the unprecedented issues. There was increasingly less capacity in the local system to meet the increasing demand, not just in the numbers of children requiring transport but the nature of the transport requirements.

Elsewhere, the outturn for the 2022/23 central Dedicated Schools Grant is an underspend of £0.368m which will remain ringfenced and be carried forward into 2023/24 as required. The details are described in Appendix 4.

4.6 **Adults Services:** The service faced 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.

£1.344m of the £2.353m 2022/23 savings plan were not achieved this financial year, and this is accounted for in the reported underspend of £2.138m. There are continued actions focussing on attempting to manage demand on and costs of community care placements across Assessment Services and making the most efficient use of available funds. There were additional one-off grants allocated to the service to support hospital discharges and reduce associated pressures on the NHS, which has helped mitigate pressures within the directorate this financial year.

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 redesigning 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 the system due to short-term grant monies and no long-term funding solution;
- Significant pressures on the acute hospital resulting in increased costs to support timely discharge into residential, nursing and home care;
- 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.

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.

4.7 **Housing Services and Temporary Accommodation (TA):** Overall these services overspent by £0.748m. The overspend relates to the following elements:

An overspend of £0.092m on employee costs across TA and Emergency Accommodation (EA).

Overall numbers in EA did reduce significantly from 688 to 523 as part of the savings target for 2022/23. However, EA overspent by £0.043m due to an increase in the volume of households being placed in the last few months of 2022/23. Original savings plans had assumed spot purchase TA would reduce to 45 households, but at the end of March there were 128. The trend of increasing EA numbers is continuing into 2023/24, driven largely by an increase in private landlords selling properties and evicting tenants as a result. There is also an increase in the number of households being placed due to fleeing from domestic abuse. The service is analysing each placement to identify any opportunities to better prevent homelessness and understand the reasons for this and whether this is a sign of a wider trend in increasing demand due to the hardship people are facing as a result of the higher cost of living. Teams from across the service are also reviewing households in spot purchase and prioritising actions to move them on from this type of accommodation.

The cost of private sector leased TA has overspent by £0.613m. Repairs costs have increased substantially compared to 2021/22, and this element of the budget is overspent by £0.464m. This has been driven by the fact that a high number of Private Sector Leased properties on long term leases have come to an end. This has resulted in high levels of repairs (at an inflated rate) before the property can be let again. There is also an overspend on the contribution to the bad debt provision of £0.150m and £0.172m on Housing Benefit Subsidy. The current number of empty leased properties in TA has steadily reduced this year as the backlog of works were cleared. However, there were still more properties empty for longer than the budget allowed for and the budget for rent loss and council tax on voids has overspent by £0.091m. The rental costs of private sector leased properties for TA have continued to rise as landlords seek higher rents to match the current market conditions but there are now fewer properties, and so the net rental costs are underspent by (£0.342m) with further minor overspends across this service of £0.078m.

Separately to this, Seaside Homes has overspent by £0.730m due to similar pressures on repairs costs, the contribution to bad debt provision and void rent loss due to backlogs caused by the pandemic and current inflationary pressures.

There is also a further overspend of £0.193m 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 statutory homeless provision due to ongoing demand. This is due to the two remaining hotels being decanted later than anticipated. With all hotels now decanted, there should be no further costs relating to this service.

There has also been an overspend in accommodation provided under the Severe Weather Emergency Protocol (SWEP). SWEP is local government's emergency response to accommodating rough sleepers during extreme weather events, but as an emergency response is not eligible to be covered by government grant. This service overspent by £0.178m due to a combination of more extreme weather events during 2022/23, as well the need to provide this offer as 'non-congregate accommodation' to reduce the risk of spreading COVID-19. This pressure is likely to be similar for 2023/24

For 2022/23, the housing service had a one-off budget of £1.280m (carried forward from 2021/22) for homelessness prevention to relieve the immediate rising cost of living pressures for households and therefore enable further reduction in EA/TA numbers. This budget underspent by £0.845m which meant that the true overspend level was largely alleviated in-year. This budget will not be available for 2023/24.

Even though numbers of households in EA and TA have reduced and the majority of the planned £1.780m of savings have been made, the service is still overspending, largely as a result of inflationary pressures on repairs, higher void levels early in the year and inflated rental costs of TA and EA. Also, during March the numbers of homeless being placed has risen and if this trend continues, further budget pressures could arise in 2023/24, especially given the challenging savings targets.

Housing is continuing to seek cost reductions through the continuation of the Homelessness Transformation Programme which is an 'end-to-end' improvement programme to help the service improve its processes for reducing the use and length of stay in Temporary Accommodation by improving homeless prevention and enabling move-on to more sustainable accommodation. The service has reduced the number of blocked booked emergency accommodation properties it holds by 120 during 2022/23 through a combination of better prevention from homelessness and improved move-on. However, as mentioned above, more recent data for March, April and May is showing an increase in the number of homeless clients needing emergency accommodation. 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 line with the budget strategy.

4.8 **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 has also been challenging savings to be achieved in-year of which most relate to additional income. Of the £2.730m savings proposed for the

2022/23 financial year £1.130m net of pressures is achieved or anticipated to be achieved, with the remaining £1.600m unachieved.

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 City Clean, £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 ongoing targets will only be achieved if demand returns fully to pre-pandemic levels.

Other pressures within the directorate have been identified where costs have been increasing greater than the budgets available including contract costs under the Royal Pavilion & Museums Trust and Brighton Dome & Brighton Festival Arts Funding within culture. The final outturn position has improved since Month 9, reflecting those identified pressures but offset by greater Traffic Management fee income, improvements to incomes in Venues, improvements to seafront rents and further reductions in supplies & services and staffing costs as a result of the financial control measures introduced in the year.

The overall position has seen the EEC Outturn overspend improve by £0.506m between Month 9 and Outturn from £0.604m overspend to £0.098m overspend, though there are variances across each service.

4.9 **Governance, People and Resources:** There is a final pressure of £1.478m relating to current and former Orbis services which is split into three main components as follows:

£0.680m 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 unable to achieve the planned integration and standardisation of services.

BHCC's contribution to the Partnership has also increased by £0.900m in respect of continuing Orbis services. However, this cost primarily relates to IT&D and includes revenue and capital financing costs of addressing historic under-investment including infrastructure, WAN, security, 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.

The separate surplus relating to BHCC's share of an expected Orbis Partnership underspend on remaining partnership services of £0.499m in 2022/23 is currently £0.102m.

The overall Orbis-related overspend was offset by underspends in other service areas. There was an underspend of £0.502m in locally-held IT&D budgets (know as 'MOBO' budgets) mostly due to vacancy management and £0.496m in Customer Modernisation & Data which was due to vacancy management of £0.250m, and unrequired corporate funding of £0.246m in respect of PPE.

4.10 **Corporately-held Budgets:** There is a final overspend of £2.623m on corporately-held budgets, however, this is primarily because the projected additional costs of the NJC Local Government 2022/23 pay award are held on this budget line. The projected additional cost is £5.067m which is based on the employers' pay award offer of a £1,925 flat-rate increase for all NJC salaries plus an uplift of allowances and an additional day's leave. This is £0.522m higher than initially estimated. 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 a final pressure of £1.430m on Housing Benefit Subsidy income. Of this pressure, £0.598m 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 and identify potential actions to minimise future subsidy losses. There is also a pressure of £0.891m on the net recovery of overpayments and other areas. This is offset by a small surplus on the recovery of overpaid former Council Tax Benefit of £0.059m.

The above are partially offset by increased investment income of £2.495m from investing cash balances, which is predominantly due to the increasing interest rate environment which is driving up investment returns. There is a saving of £0.406m following the reversal of the National Insurance increase from November and £0.383m following the release of unrequired contingency items. There is additional grant income of £0.496m in 2022/23 following the announcement of a redistribution of the national Business Rates Retention Levy surplus and £0.528m following the release of unrequired provision following the settlement of an HSE case.

Carry Forward Requests (Appendix 5)

4.11 Under the council's Financial Regulations, the S151 Chief Finance Officer may agree the carry forward of budget of up to £0.050m per member of the Corporate Management Team (up to a maximum of £1m in total) if it is considered that this incentivises good financial management. However, due to the challenging financial situation, all requests are being presented to this committee for consideration. Similarly, carry forwards have only been proposed where there is clear evidence of a fully-funded, prior commitment that was not able to be completed or undertaken by the end of the financial year. This will normally be supported by a contractual or purchase order commitment.

4.12 Carry forward requests include grant funded and non-grant funded carry forwards totalling £7.912m which have been assumed in the outturn figures above. An analysis of these is provided in Appendix 5 split into two categories as follows:

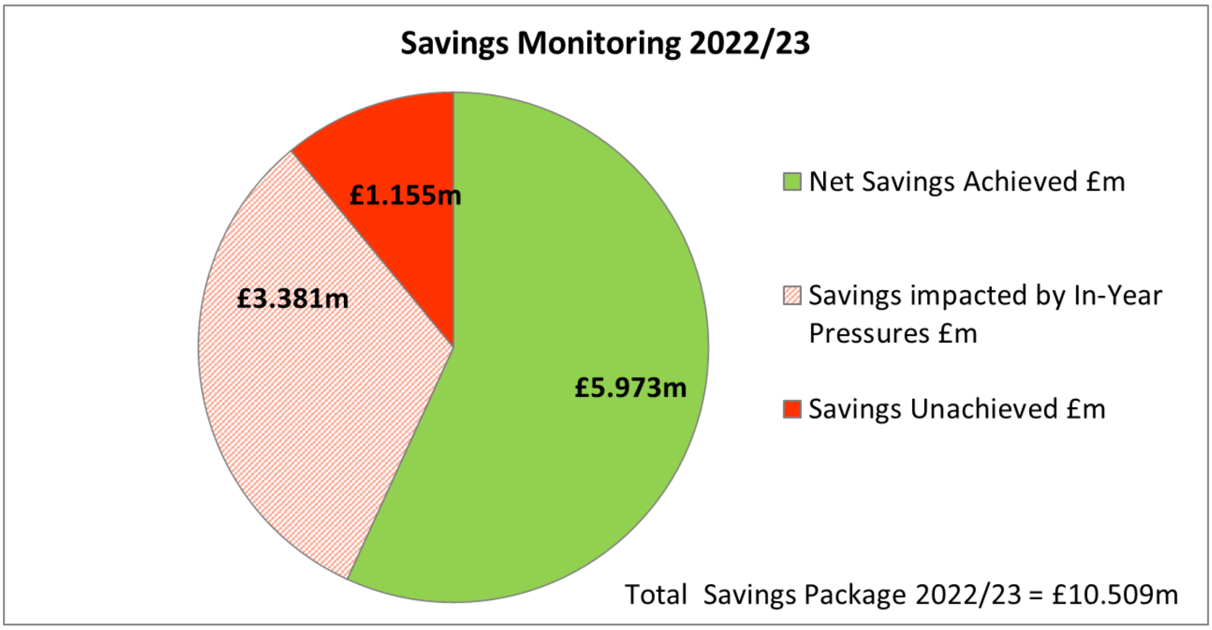
i) The <u>non-grant funded</u> element of carry forwards totals £2.267m. These items have been proposed where funding is in place for contractual commitments, existing projects or partnership working that cross over financial years and it is therefore due to a timing issue that this money has not been spent in full before the year-end.

ii) The <u>grant funded</u> element of carry forwards totals £5.645m. Under current financial reporting standards, grants received by the council that are unringfenced or do not have any conditions attached are now recognised as income in the financial year in which they are received rather than in the year in which they are used to support services. Carry forward is therefore required to ensure the grants are available to fund the commitments against them next year. The total also includes a sum of £0.368m relating to the Dedicated Schools Grant. Under the Schools Finance Regulations, the unspent part of the DSG must be carried forward to support the schools budget in future years.

Monitoring Savings

4.13 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 12 years of substantial packages totalling over £198m that have been necessary to enable cost and demand increases to be funded alongside managing substantial reductions in central government grant funding.

4.14 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 outturn and shows that gross savings of £9.354m have been achieved but that inflationary pressures (exceptional price increases) have reduced this by £3.381m. Including other unachievable savings of £1.155m, this means that a total of £4.536m (43%) was unachieved in 2022/23.



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). Overall the HRA is reporting a break even position and more details are provided below and in Appendix 4.

The outturn for service delivery areas excluding capital financing for 2022/23 is an overspend of £1.401m. During the year, the HRA has had to manage the rising cost of inflation, including costs of utilities and repairs to tenants’ homes. Alongside this there has been increasing need of support for tenants. This year has also seen an increase in the use of temporary accommodation which is directly linked to the housing allocation policy.

Rent loss continued to provide a challenge during the year and as such at the start of the year a fortnightly rent loss recovery group was set up, tasked with bringing the number of empty properties down to pre-pandemic levels. The introduction of this group resulted in the number of empty properties reducing to 180 at 31st March 2023 down from 251 the previous year. The HRA also saw the number of re-let's hit the highest levels of 639 homes in addition to a reduction in the key-to-key re-let time from 210 calendar days to 125 calendar days. Despite overspending against the allocated 2022/23 budget by £0.384m the year-on-year rent loss reduced by 25%.

Financing costs increased during the year as a result of borrowing being undertaken earlier than anticipated in order to take advantage of more favourable interest rates; this resulted in an overspend of £0.662m. Although this created a short-term pressure in 2022/23, over the long term this is a positive decision for the HRA as financing costs will be lower than if a decision to borrow had been delayed.

The reported overspend also includes the use of £0.560m from the earmarked reserve set aside in February 2022 to deal with the repairs backlog which has accumulated since the COVID-19 pandemic.

The HRA has to remain in balance and needs to consider the use of all resources at its disposal to achieve this. The £1.401m overspend has been managed by using the Direct Revenue Funding (DRF) Contribution which had been set aside to fund the capital programme at the start of the financial year. The DRF at 1st April 2022 was £19.622m of which only £17.541m is required to fund the capital investment in existing stock. The balance of £2.081m has therefore been deployed to mitigate the overspend with the remaining balance of £0.680m being added to the HRA general reserve.

6 Schools and Dedicated Schools Grant Performance (Appendix 4)

6.1 The Dedicated Schools Grant (DSG) is a ring-fenced grant 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. At the end of the 2022/23 financial year there was an underspend of £0.368m on the central Dedicated Schools Grant covering Early Years, High Needs and Central Services blocks. The underspend of £0.368m is carried forward and is available for one-off use in 2023/24. However, the January 2023 early years census data showed a reduction in children compared to the position in January 2022 and this means there will be a retrospective clawback made by DfE estimated at £0.392m, which will fully use the 2022/23 underspend carried forward. More details are provided in Appendix 4.

6.2 At the end of the 2022/23 financial year school balances have reduced from £8.135m to £4.540m. This represents a reduction in school balances of £3.595m, with balances reducing across all phases of education as summarised below:

School Balances	Nursery £'000	Primary £'000	Secondary £'000	Special £'000	Total £'000

2021/22 school balances	-20	3,685	4,561	-91	8,135
2022/23 school balances	-81	1,185	3,573	-137	4,540
Movement	-61	-2,500	-988	-46	-3,595

6.3 There was a significant increase in the number of schools with overspends at the end of the 2022/23 financial year. The final position shows that out of 62 local authority maintained schools, there are 26 (42%) that ended the year in an overspend position. There is also expected to be a significant increase in those likely to require a 'licensed deficit' in 2023/24 - a mechanism enabling financially struggling schools to achieve a balanced budget over more than one year.

6.4 Current indications are that the number of schools requiring licensed deficits will increase from 13 in 2022/23 to approximately 35 in 2023/24. Discussions with schools are ongoing regarding licensed deficit requirements for 2023/24 and are subject to agreement by the Chief Finance Officer and Executive Director of Families, Children & Learning in July 2023. The most significant pressure is on primary schools where potentially 30 out of 49 schools (61%) will require licensed deficits.

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 provisional outturn for the Health & Adult Social Care directorate. The provisional outturn is an underspend of £0.562m and more details are provided in Appendix 4.

8 Capital Programme Performance and Changes

8.1 The Capital programme spans more than one financial year and therefore monitoring is different to that of the revenue budget. Performance needs to be looked at from 5 different viewpoints at the end of the year as follows:

i) Variance: The 'variance' for a scheme or project indicates whether it has broken-even, underspent or overspent. If the project is completed, any underspend or overspend will be an outturn variance. Generally, only explanations of significant forecast variances of £0.100m or greater are given.

ii) Budget Variations: These are changes to the project budget within year, requiring members' approval, and do not change future year projections. The main reason for budget variations is where capital grant or external income changes in year.

iii) Slippage: This indicates whether or not a scheme or project is on schedule. Slippage of expenditure from one year into another will generally indicate overall delays to a project although some projects can 'catch up' at a later date. Some slippage is normal due to a wide variety of factors affecting capital projects, however substantial amounts of slippage across a number of projects could result in the council losing capital resources (e.g. capital grants) or being unable to manage the cashflow or timing impact of later payments or related borrowing. Wherever possible, the council aims to keep slippage below 5% of the total capital programme.

iv) Reprofiling: Reprofiling of budget from one year into another is requested by project managers when they become aware of changes or delays to implementation timetables due to unforeseeable reasons outside the council's direct control. Reprofiling requests are checked in advance by Finance to ensure there is no impact on the council's capital resources before they are recommended to Policy & Resources Committee.

v) IFRS changes: These accounting adjustments are only applied at year-end and are necessary for the council to comply with International Financial Reporting Standards (IFRS) for the Statement of Accounts. This concerns the determination of items of expenditure as either capital or revenue expenditure. Only items meeting the IFRS definition of capital expenditure can be capitalised; expenditure not meeting this definition must be charged to the revenue account.

For many capital schemes there may be instances where some of the costs are of a day-to-day servicing nature and are not true capital expenditure. It would be impractical for an authority to assess every item of expenditure when it is incurred as to whether or not it has enhanced an asset. A practical solution is therefore applied instead and as part of the closure of accounts process an assessment is made by capital programme managers and Finance to determine the correct classification of capital or revenue. Where an element of the scheme is deemed to be revenue, the capital budgets are reduced by the same amount as the items that are subsequently charged to the revenue account to ensure no overall budgetary impact. These changes are designated as 'IFRS Adjustments' in Appendix 7.

8.2 The table below provides a summary of capital programme performance by Directorate and shows that there is an overall underspend of £2.661m which is detailed in Appendix 7.

Forecast Variance Month 9 £'000	Directorate	Reported Budget Month 12 £'000	Provisional Outturn Month 12 £'000	Provisional Variance Month 12 £'000	Provisional Variance Month 12 %
(35)	Families, Children & Learning	8,525	8,483	(42)	-0.49%
58	Health & Adult Social Care	483	483	0	0.00%
0	Economy, Environment & Culture	47,161	46,709	(452)	-0.96%
(140)	Housing, Neighbourhoods & Communities	5,938	5,440	(498)	-8.39%
(770)	Housing Revenue Account	73,718	72,049	(1,669)	-2.26%
(115)	Governance, People & Resources	2,188	2,188	0	0.00%
(1,002)	Total Capital	138,013	135,352	(2,661)	-1.93%

(Note: Summary may include minor rounding differences to Appendix 7)

8.3 Appendix 7 shows the changes to the 2022/23 capital budget. 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 in the Month 9 report.

Summary of Capital Budget Movement	Reported Budget Month 12 £'000
Budget approved as at Month 9	161,242
Reported at other committees and IFRS changes (for noting only)	130
New schemes (for approval)	200
Variations to budget (for approval)	1,738
Reprofiling of budget (for approval)	(23,263)
Slippage (for noting only)	(2,034)
Total Capital	138,013

8.4 Appendix 7 also details any slippage into next year. In total, project managers have forecast that £2.034m of the capital budget may slip into the next financial year and this equates to approximately 1.47% of the capital budget. The Committee will note the unusually high reprofiling requirement which is a consequence of a wide range of delays due to working restrictions, procurement delays, supply chain issues, recruitment and skills challenges, impacts on consultation processes and many other impacts.

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 the 2022/23 financial year 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 investment programme. For 2022/23 a total of £1.147m capital receipts (excluding 'right to buy' sales) have been received. Receipts include the sale of Patcham Place Lodge plus a number of lease extension, lease re-gear payments, lease premium payments and some loan repayments The receipts total also includes the disposal of old vehicles for Adult Social Care services.

9.3 The Government receives a proportion of the proceeds from 'right to buy' sales with a proportion required by the council to repay debt; the remainder is retained by the council and used to fund the capital investment programme. The total net usable receipts for 'right to buy' sales in 2022/23 is £5.996m including £5.465m available for replacement homes.

Collection Fund Performance

9.4 The overall net Collection Fund deficit for Brighton & Hove City Council in 2022/23 is £1.200m, including the 3rd instalment of the repayment of the Covid deficit repayable over 3 years. This is an improvement of £0.218m on the position reported to February Budget Council and incorporated in the 2023/24 revenue budget.

9.5 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.

9.6 The council tax collection fund ended the year with an overall deficit of £3.582m which was a £0.007m decrease from the previously forecast position. The deficit includes the final instalment of £1.791m from the planned 3-year spread of repayment relating to Covid from 2020/21 to be made in 2023/24. The remainder of the deficit arose mainly from a combination of exemption and discounts with the main two being the backdated cost of severely mentally impaired exemption awards and an increasing council tax reduction discount caseload. The council's share of the improved deficit of £0.007m is £0.006m and this will be incorporated into the surplus / deficit position for the 2024/25 budget.

9.7 The council's share of the business rates collection fund ended the year with a net surplus of £1.785m after allowing for S31 compensation grant funding and is an increase of £0.212m from the previously forecast position. The surplus has arisen from a combination of the partial release of appeals provisions for both the 2010 and 2017 lists as well as reduced award of mandatory charity relief and increased liability. The £0.212m will be incorporated into the surplus / deficit position for the 2024/25 budget.

Reserves, Budget Transfers and Commitments

9.8 The creation or redesignation of reserves, the approval of budget transfers (virements) of over £0.250m, and agreement to new financial commitments of corporate financial significance require Strategy, Finance & City Regeneration Committee's approval in accordance with the council's Financial Regulations and Standard Financial Procedures.

9.9 As normal, the council's reserves and provisions have been fully reviewed as part of the annual closure of accounts process and a schedule of the reserves is shown at Appendix 9. Current reserves and balances are considered to be appropriate to meet identified risks and expected commitments and liabilities. Similarly, provisions identified during the closedown process are considered appropriate and reasonable (including one proposed new provision below) and will be subject to review by the external auditor to ensure they adequately reflect identified liabilities and obligations.

9.10 It is proposed to establish a 10-Year Lease Dilapidation Costs Provision, initially for £0.039m, in the Housing General Fund. This is to build up necessary provision for dilapidation costs at the end of 10-year leases for Temporary Accommodation properties.

10 ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

10.1 The provisional outturn position on council controlled budgets is an overspend of £3.020m including the council's risk-share of the provisional underspend on NHS managed Section 75 services of £0.562m. This is an improvement of £3.553m compared with the projected position at Month 9 and an improvement of £1.553m on the position assumed in the budget setting process. Together with the net pressure on one-off resources, including the Collection Fund deficit, of £0.356m reported in the February budget report, this means that £3.376m will need to be met from the council's Working Balance of £9m which it is planned to repay over the Medium Term Financial Strategy from 2024/25 to 2026/27 at a rate of £1.125m per annum.

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)

12.1 The council has incurred an overspend of £3.020m for the 2022/23 financial year due primarily to the exceptional inflationary pressures experienced during the year. However, this position is an improvement of £3.553m compared with the forecast position at Month 9 and is therefore £1.553m better than the outturn assumed in the 2023/24 Revenue Budget report to Budget Council in February 2023. While this is a challenging position, the overspend is substantially improved compared to early forecasts (which reached over £13m) and reflects efforts to manage costs, demands and contractual uplifts as well as the impact of recruitment controls from September onward. As noted in paragraph 4.1, this is an overspend of 1.3% on the General Fund against a backdrop of inflation running at between 4% to 7% higher than assumed in the 2022/23 budget across the various expenditure categories, including pay.

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 members and the management and treatment of strategic financial risks is considered by the Audit & Standards Committee.

Finance Officer Consulted: Jeff Coates Date: 26/05/2023

Legal Implications:

Decisions taken in relation to the 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: 30/05/2023

Equalities Implications:

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

Sustainability Implications:

13.3 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 Corporate Plan and Medium Term Financial Strategy priorities. The achievement of a break-even position or better is therefore important in the context of ensuring that there are no adverse impacts on future financial years from performance in 2022/23.

Risk and Opportunity Management Implications:

13.4 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 and which also help to manage unexpected financial shocks.

SUPPORTING DOCUMENTATION

Appendices:

1. Financial Dashboard Summary
2. Revenue Budget Movement Since Month 9
3. Revenue Budget Performance RAG Rating
4. Revenue Budget Performance
5. Year-end Carry Forward Requests
6. 2022/23 Savings Monitoring
7. Capital Programme Performance
8. New Capital Schemes
9. Schedule of Reserves

Documents in Members’ Rooms:
None.

Background Documents
None.