

# Brighton & Hove City Council

## Cabinet

## Agenda Item 13

**Subject:** Targeted Budget Management (TBM) Provisional Outturn 2023/24

**Date of meeting:** 27 June 2024

**Report of:** Cabinet Member for Finance & Resources

**Contact Officer:** Nigel Manvell Chief Finance Officer

**Tel:** 01273 291233

**Email:** nigel.manvell@brighton-hove.gov.uk

**Ward(s) affected:** (All Wards)

**Key Decision:** Yes

**Reason(s) Key:** It is significant in terms of its effect on communities living or working in an area comprising two or more wards

**For general release**

### **1. Purpose of the report and policy context**

- 1.1 The Targeted Budget Monitoring (TBM) report is a key element 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 2023/24 which indicates that council services have been managed within budget. Effective financial management is a core component of providing a well-run council, a key priority within the Council Plan that demonstrates that the council manages within its finite resources and optimizes the use of those resources.
- 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, due to be published by 30 September 2024.
- 1.3 The provisional outturn is a £2.268m underspend on the General Fund revenue budget. This includes an underspend of £0.281m on the NHS managed Section 75 services. This is an improvement of £2.289m from Month 9, due to significant improvements in City Environmental Management costs, the impact of ongoing vacancy and spending controls across all services, and use of new grant funding to alleviate pressures on revenue budgets. An improvement of £0.500m from the Month 9 position was assumed when setting the 2024/25 budget and therefore the outturn position represents an additional improvement of £1.789m compared to the

assumed outturn of resources available. Section 11 sets out proposals for the allocation of this additional resource.

- 1.4 The report also indicates that £3.945m (28%) of the substantial savings package in 2023/24 of £14.173m was not achievable largely due to exceptional inflationary pressures experienced during the year.

## **2. Recommendations**

Cabinet:

- 2.1 Notes that the provisional General Fund outturn position is an underspend of £2.268m and that this represents an improvement of £1.789m compared to the projected and planned resource position at Month 9 and taken into account when setting the 2024/25 budget.
- 2.2 Notes the provisional outturn includes an underspend of £0.281m on the NHS managed Section 75 services.
- 2.3 Approves General Fund carry forward requests totalling £7.816m as detailed in Appendix 5 and assumed within the provisional outturn.
- 2.4 Approves the proposed allocation of additional resources as set out in paragraph 11.1.
- 2.5 Notes the provisional outturn for the separate Housing Revenue Account (HRA), which is a break-even position.
- 2.6 Notes the provisional outturn position for the ring-fenced Dedicated Schools Grant, which is an underspend of £1.275m.
- 2.7 Notes the provisional outturn position on the Capital Programme which is an overspend variance of £1.982m.
- 2.8 Approves the capital budget variations and re-profiling requests set out in Appendix 7.
- 2.9 Approves the new capital schemes requested in Appendix 8.
- 2.10 Approves the creation of the new reserve as set out in paragraph 9.9 and new provision in paragraph 9.10.
- 2.11 Notes the Treasury Management end of year review 2023/24 as set out in Appendix 10.
- 2.12 Agrees that the allocation of £01.85m resources held for investment in priority services or improvements set out in Section 11 be delegated to the Cabinet Member for Finance & Regeneration in consultation with the Leader of the Council.

### 3. Context and background information

#### Targeted Budget Management (TBM) Reporting Framework

3.1 That 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 Cabinet. 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:

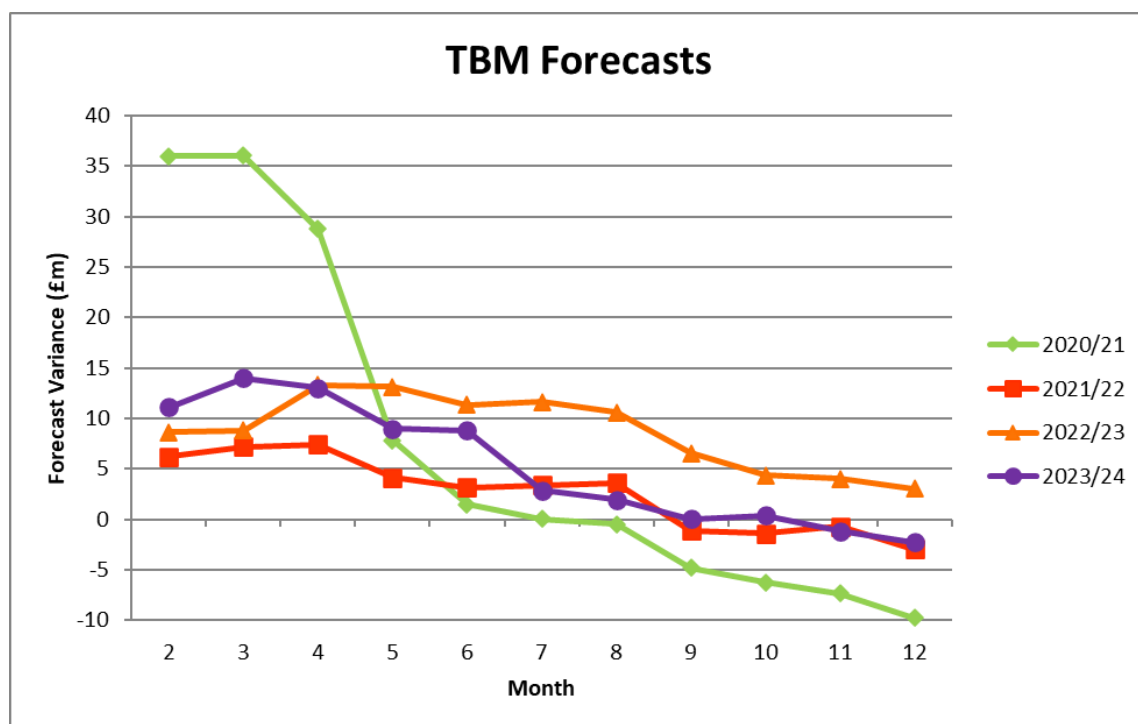
- i) General Fund Revenue Budget Performance
- ii) Housing Revenue Account (HRA) Performance
- iii) Dedicated Schools Grant (DSG) Performance
- iv) NHS Controlled S75 Partnership Performance
- v) Capital Investment Programme Performance
- vi) Capital Programme Changes
- vii) Implications for the Medium 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 Corporate Leadership Team. More detailed explanation of the variances can be found in Appendix 4.

Forecast Variance Month 9 £'000	Directorate	2023/24 Budget Month 12 £'000	Provisional Outturn Month 12 £'000	Provisional Variance Month 12 £'000	Provisional Variance Month 12 %
(1,564)	Families, Children & Learning	61,792	60,156	(1,636)	-2.6%
369	Health & Adult Social Care	103,704	103,692	(12)	0.0%
1,579	Economy, Environment & Culture	34,093	34,134	41	0.1%
794	Housing, Neighbourhoods & Communities	18,677	19,325	648	3.5%
(227)	Governance, People & Resources	33,108	32,453	(655)	-2.0%
951	Sub Total	251,374	249,760	(1,614)	-0.6%
(930)	Corporately-held Budgets	(11,028)	(11,682)	(654)	-5.9%
21	Total General Fund	240,346	238,078	(2,268)	-0.9%

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 2023/24 and the previous three years for comparative purposes.

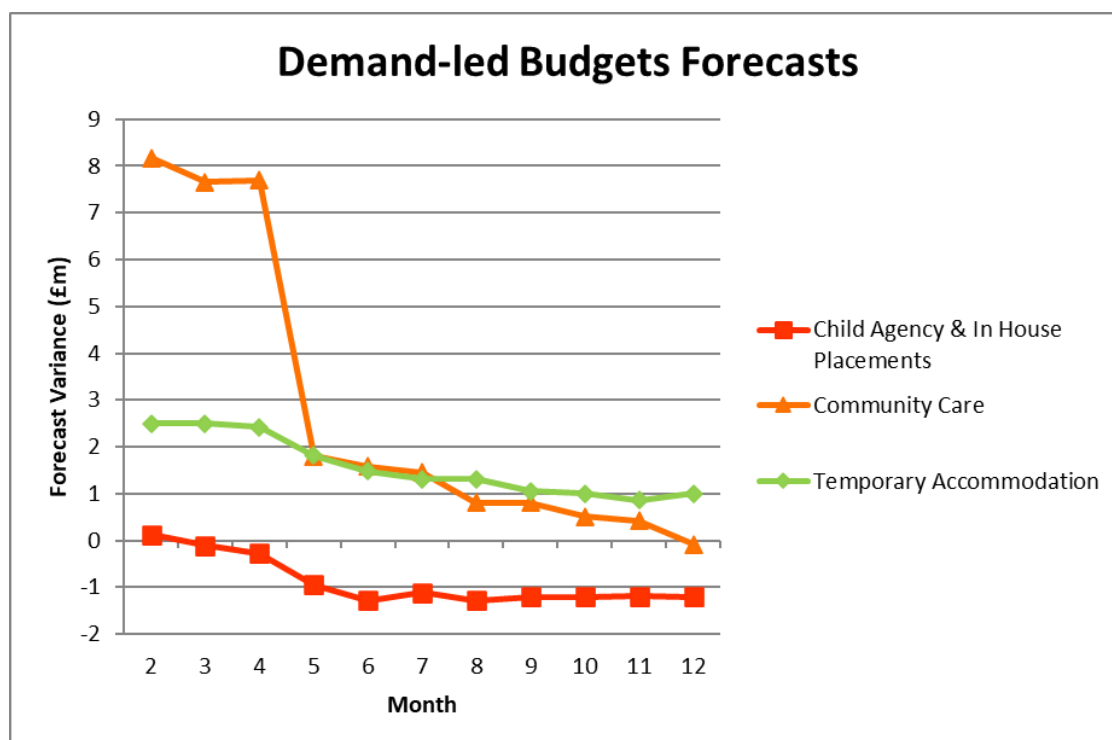


### Demand-led Budgets

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 9 £'000	Demand-led Budget	2023/24 Budget Month 12 £'000	Provisional Outturn Month 12 £'000	Provisional Variance Month 12 £'000	Provisional Variance Month 12 %
(1,201)	Child Agency & In House Placements	26,333	25,133	(1,200)	-4.6%
430	Community Care	72,700	72,615	(85)	-0.1%
1,001	Temp. Accommodation	3,279	4,281	1,002	30.6%
230	<b>Total Demand-led Budget</b>	<b>102,312</b>	<b>102,029</b>	<b>(283)</b>	<b>-0.3%</b>

The chart below shows the monthly forecast variances on the demand-led budgets for 2023/24.



- 4.4 The large downward movement on Community Care (Adult Social Care) was due to the confirmation from the NHS of funding toward S117 Mental Health Care packages which had been under negotiation for some months.

### **TBM Focus Areas**

There are clearly widespread pressures across most areas of the council, particularly front-line, demand-led areas which is a clear indicator of the inflationary and demand pressures driven by current economic conditions. Key areas of pressures are outlined below:

- 4.5 **Children’s Services:** The final outturn position showed significant cost pressures: £0.627m on Home to School transport and £0.405m on the Schools’ PFI. These, together with underspends on Children’s Placements of (£1.200m), one-off Public Health funding to support development of the Family Hub model (£1.316m) and other variances of (£0.152m) resulted in a year-end underspend of (£1.636m). Key drivers of the projected position are as follows:

- **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, lack of local SEND school sufficiency, and increased numbers of routes

required to accommodate individual post 16 learners' timetables. Market forces within SEND transport also contributed to the overspend in Home to School Transport. The service was increasingly impacted by local driver, vehicle passenger assistant, vehicle shortages and increased running costs. There was also a lack of competition in the transport market, particularly minibus providers, which pushed up contract prices still further. Home to School Transport price rises in September had been significant with the average cost per pupil increasing by 18%. There was also increasingly less capacity in the local system to meet demand, not just in the numbers of children requiring transport but the nature of the transport requirements.

- **Children in Care and Care Leavers:** The post pandemic period has seen children with increasingly complex needs coming into care, as well as challenges in foster care recruitment causing an acute sufficiency issue and making placing children in families either in-house or with external providers very difficult. This 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 resulted in a small number of very high-cost placements. There are various ongoing initiatives and alternative service offers, attempting to reverse the trend of reducing foster carer numbers and address the complex needs of the children being referred. These include a revised and enhanced foster carer allowance structure, new foster care recruitment and supervision practices, Early Help and alternative family support provision. These initiatives have had significant success and the costs of placements for children in care and care leavers was under budget in 2023/24.
- **Schools PFI:** The Schools' PFI (Private Finance Initiative) was set up in 2003 to improve the facilities at four schools within the city - Dorothy Stringer, COMART (now closed), Patcham High and Varndean – using private finance to fund the capital improvements. The scheme runs for 25 years and a Special Purpose Vehicle (a legal entity created to fulfil specific or temporary objectives) "Brighton & Hove City Schools Ltd" was set up as part of it. This is currently owned by SEMPERIAN. The scheme is funded partly by a DfE grant with schools paying an annual charge back to the council and partly via an annual drawdown of earmarked reserves. The annual charge is updated each March for the RPIX (RPI All Items Excluding Mortgage Interest) for the 12 months to February. Once the 25-year period is complete (31st March 2028) the contract with SEMPERIAN ends and the assets will be transferred back to the council.

At the end of the 2023/24 financial year the Schools' PFI contract budget is overspent by £0.405m. This is largely down to the high level of inflation experienced in 2022/23 and the knock-on impact this had on our PFI contractor costs. The increased costs meant a higher amount was required to be drawn down on the reserve reducing it to a level that was not sufficient to cover costs in 2023/24. Additionally, the rate of inflation in 2023/24 is in excess of that allowed in the PFI model and this has meant costs have increased significantly. Though inflation is falling and is

expected to drop back further, it is still at a higher rate than allowed for in the PFI model.

## Schools Budgets

At the end of the 2023/24 financial year there is a net surplus school balance position of £0.281m. However, this is a substantial reduction of £4.259m from the net surplus of £4.540m at the end of 2022/23. There are 33 schools (out of a total of 61 maintained schools) that have overspends at the end of the 2023/24 financial year. This represents 54% of all schools. The outturn position for schools is broadly in line with forecasts provided throughout the financial year. Draft school budget plans for 2024/25, which accommodate carry forwards from 2023/24 continue to show a worsening financial position for the city's schools.

The outturn position for the 2023/24 central Dedicated Schools Grant is an underspend of £1.275m. This is described in more detail in Appendix 4.

Linked to the above, potential school organisational changes are anticipated to give rise to additional costs that would not be chargeable to the Dedicated Schools Grant. These are estimates at present and a prudential provision of £0.500m has been included under Corporately-held Budgets to reflect potential costs. Further provision of £0.256m was provided from one-off resources as per the budget report to the 22 February 2024 Council meeting.

- 4.6 **Adults Services:** The service faced significant challenges in 2023/24 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 £9.639m in 2023/24 which was used to fund budget pressures resulting from the increased complexity and costs of care.

The 2023/24 savings plan for HASC totalled £4.316m. There were several, continuing actions focused 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, develop a community re-ablement offer and re-designing the front door service. During 2023/24 the Health & Social Care system was under considerable pressure, and this generated additional costs for the council due to:

- Pressures on the system due to short-term grant monies and an unresolved national, 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):** The current overspend in this service is driven by an increase in demand for temporary accommodation since January 2023 together with an increase in the rental costs of the accommodation. This demand on temporary accommodation is a national issue. The latest figure for households in TA reported by government is the highest it has ever been at 105,750. As a result of these pressures, the service has overspent by £1.002m and has not met £0.976m of savings for 2023/24. The overspend relates to the following elements:

Emergency nightly booked (Spot Purchased) accommodation has overspent by £1.138m. The underlying trend is that the number of households using nightly booked accommodation is increasing which will inevitably increase costs. The service has seen increasing numbers of applicants presenting as 'homeless on the day' and on assessment found 'in priority need' for emergency accommodation, during 2023/24. The service is working hard to prevent homelessness in these instances and on average are able to identify alternative accommodation options (other than emergency accommodation) for 55% of applicants who fall within this statutory threshold. The increase is partly driven by an increase in private property owners selling properties and evicting tenants as a result. There is also an increase in the number of households being placed who are fleeing domestic abuse.

As at 31/3/2024, 256 households were housed in nightly booked accommodation which is almost five times higher than budgets allow. This increase is partially offset by a reduction in the number of private sector leased properties available to the authority. However, the cost of nightly booked accommodation is generally higher than contracted leased properties and therefore this causes further cost pressures. The service is continuing to look for measures to reduce the number of households accommodated as part of the Homelessness Transformation Programme and future budget strategy.

The service is also facing further pressures on the overall costs of block-booked emergency accommodation. The budget assumed that there would be a reduction of 125 units of block booked accommodation during 2023/24. However, due to the demands on the service, there has only been a reduction of 16 units as one block was handed back to the provider. Additionally, the council is facing large increases to contract prices and therefore this budget has overspent by £1.829m.



Private Sector Leased (PSL) TA budget is underspent by (£0.241m). The net cost of accommodation is underspent for 2023/24 by (£0.172m). This is partly driven by lower numbers of leased properties being used for TA as landlords request them back, combined with difficulty in securing new units because there are less landlords in this market. There are 45 fewer properties now than in April 2023. This is part of the reason for the increased numbers in spot purchased accommodation identified above. Linked to this, there is also an underspend on the cost of repairs (£0.146m) offset with the extra cost of the loss of Housing Benefit Subsidy £0.112m and other minor variances. The service has been working to improve empty property turnaround times and as a result has also seen an improvement in the void rent loss. Future forecasts will depend on the costs associated with any new contracts agreed with landlords as and when new contracts are agreed.

These variances have been offset by the use of one-off Grant funding of (£1.801m) net of an overspend on temporary accommodation staffing costs of £0.077m.

Housing is continuing to seek cost reductions through the continuation of the Homelessness Transformation Programme to help the service improve its processes to reduce the use and length of stay in Temporary Accommodation by focusing on homeless prevention and enabling move-on to more sustainable accommodation. This is challenging in a city where private sector rents are very high, supply is growing but limited, and benefit levels remain static. Note that although Local Housing Allowance (LHA) rates have been increased for 2024/25, the Housing Benefit rate for those in TA was not increased and remains at the 2011 level.

Further efficiencies are being sought by reducing the use of expensive emergency accommodation and the average nightly charge and by seeking more cost-effective opportunities. Also, by (for example) continuing to improve the prevention of homelessness, looking for further move-on opportunities; endeavouring to get the best prices for all temporary and emergency accommodation; improving 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, commercial activity, the property market and the general economy. There were challenging savings targets in-year of which most relate to generating additional income. Of the £4.727m savings implemented for the 2023/24 financial year, £3.338m net of pressures was achieved, with the remaining £1.389m at risk. The most significant areas of shortfall are £1.091m for parking tariff and permit fees increases, £0.100m reduction of the lifeguard service which was overturned to ensure a full summer season in 2023 and £0.165m for new and increased commercial income activities.

Directorate activities and services were heavily impacted by Covid-19 in previous years and the services are starting to see a steady return, in line

with city recovery. These targets can only be achieved if demand exceeds pre Covid levels for key income areas such as paid parking, commercial activities and Planning & Building Control fee incomes. As well as income pressures, the Directorate has been forecasting other known expenditure pressures throughout the year where costs were exceeding budgets, including contract costs under RPMT and Brighton Dome & Brighton Festival Arts funding within culture. The final outturn position has improved since Month 9 despite further income reductions in paid parking incomes, planning & building control fees and commercial rents. Offsets have been achieved by improvements to seafront rents, significant utility credits, further reductions in supplies & services and holding vacant posts to reduce staffing costs, but this does affect service delivery and has a visible impact on the city. Extensive financial controls were introduced in-year to mitigate the impact of revenue generation being below target. The overall position has seen the Economy, Environment & Culture Directorate outturn overspend improve by £1.538m between Month 9 and Outturn from £1.579m overspend to almost break even.

- 4.9 **Governance, People & Resources:** There is a final underspend of £0.655m. The largest element of this is a £0.585m underspend in IT&D which largely relates to vacancy savings. There are also underspends of £0.215m in HROD (mostly underspends on staff training and additional income) and £0.213m in WRBS (mostly staffing underspends). This is partially offset by an overspend of £0.246m in Finance which is primarily due to the cost of the new nationally procured External Audit contract fees which have added an in-year cost of over £0.202m. There are a range of other smaller variances which are detailed in Appendix 4.
- 4.10 **Corporately-held Budgets:** There is a final underspend of £0.654m on corporately-held budgets, however, this incorporates significant under and over-spends. The additional costs of the NJC Local Government 2023/24 pay award are held on this budget line. The additional unbudgeted cost is £3.535m which is based on the confirmed pay award of a £1,925 flat rate increase or 3.88%, whichever is greater, for all NJC salaries plus the agreed pay award of 3.50% for JNC Chief Officers. This is equivalent to a 6.0% increase on the payroll compared with the 3.75% increase included in the budget for 2023/24.

An accounting provision of £1.500m has also had to be made as a contribution towards severance costs resulting from the 2024/25 savings proposals.

There is a final net pressure of £1.275m on the Housing Benefit Subsidy budgets. Within this £1.320m relates to the main subsidy budgets and is based on the final subsidy claim produced in April 2024. Of this pressure, £0.161m relates to particular benefit types for vulnerable tenants (Regulations 11 & 13) which are not fully subsidised and which has continued to grow despite service pressure funding of £0.450m provided in the 2023/24 budget. Action taken this year has reduced this pressure £0.290m compared to Month 9 and it is anticipated that this action will lead to continued reduction next year. There is also a pressure of £1.025m on the

net recovery of overpayments. There is a provision of £0.100m for a potential reduction in 2022/23 subsidy following audit and minor variances of £0.034m. The surplus on the recovery of overpaid former council Tax Benefit was £0.045m. Service pressure funding of £0.700m has been provided in the 2024/25 budget and this, together with action taken to reduce the subsidy loss on Regulation 11 & 13 payments, should bring this budget much closer to a break even position.

Other items include a provision of £0.500m relating school organisation costs as noted in paragraph 4.5 above and there is a pressure of £0.500m on Insurance budgets caused by an increase in premium costs and the value of claims/excesses paid.

In contrast, there is a final underspend of £2.223m on the Financing Costs budget due to improved investment income linked to increases in the Bank of England Base Rate together with higher than budgeted cash balances. There are also reduced borrowing costs as a result of considered delays in undertaking new borrowing. However, these are offset by an under-payment by the i360 of £0.800m which the company states is due partly to challenging economic conditions and partly to the impact of transitioning to a new business model put in place earlier this year.

£1.183m of unrequired Adult Social Care bade debt provision has been released to revenue and £0.496m of unbudgeted income has been received in respect of distributed Business Rates Levy Surplus as announced alongside the final Local Government Financial Settlement for next year

Significantly, the 50:50 profit-share from the Housing Joint Venture with Hyde Housing was confirmed earlier in the year following completion of a scheme and this has provided £3.668m one-off corporate resources to contribute to the management of the council's overall financial position.

### **Carry Forward Requests (Appendix 5)**

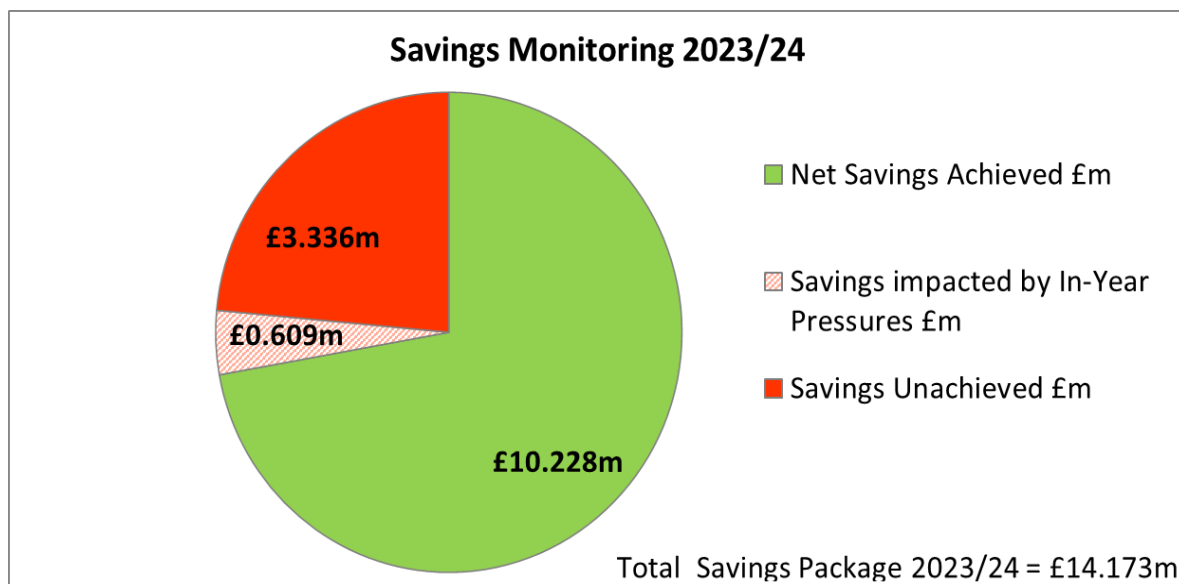
- 4.11 Under the council's Financial Regulations, the S151 Chief Finance Officer may agree the carry forward of budget of up to £0.050m per member of the Corporate Management Team (up to a maximum of £1m in total) if it is considered that this incentivises good financial management. Due to the challenging financial situation, these have been kept to a minimum and only £0.087m has been agreed for 4 service areas to ensure planned commitments can be met in 2024/25.
- 4.12 Cabinet approval is required for carry forward requests in excess of £0.050m. These include grant funded and non-grant funded carry forwards totalling £7.816m that have been assumed in the outturn figures above. The principles outlined in paragraph **Error! Reference source not found.** above also apply. An analysis of these is provided in Appendix 5 split into two categories as follows:
- The non-grant funded element of carry forwards totals £1.657m. 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.

- The grant funded element of carry forwards totals £6.159m. 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 £1.275m 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 2023/24 was £14.173m following directly on from a £10.509m savings package in 2022/23. This is very significant and follows 13 years of substantial packages totalling over £209m since government grant reductions commenced in 2010, and which have been necessary to enable cost and demand increases to be funded alongside managing the reductions in central government grant funding.
- 4.14 Appendix 4 provides a summary of savings in each directorate and indicates in total what has been achieved, what has been offset by in year pressures and the net position of unachieved savings. Appendix 6 summarises the position across all directorates and presents the entire savings programme. The graph below provides a summary of the position as at Month 12 and shows that gross savings of £10.837m have been achieved but that inflationary pressures (exceptional price increases) have reduced this by £0.609m. Including other unachievable savings of £3.336m, this means that a total of £3.945m (28%) was unachieved in 2023/24. However, as indicated by the overall forecast position, this has been mitigated through other financial management actions and one-off measures.



## 5. Housing Revenue Account Performance (Appendix 4)

- 5.1 The Housing Revenue Account (HRA) is a separate ring-fenced account which covers income and expenditure related to the management and operation of the council's housing stock. The majority of the expenditure is funded by Council Tenants' rents and housing benefit (rent rebates).

The outturn is breakeven position with more details provided in the tables below. Within the breakeven position there are variances within specific service areas, the net overspend across services including financing costs related to new borrowing to fund the capital programme is £1.095m a £0.376m worsened position from TBM month 9. This overspend is funded by reducing the use of Direct Revenue Funding (DRF) against the HRA capital programme, making the HRA balance to zero overall. The impact of doing this results in an increase in borrowing for 2023/24 of £1.095m, the alternative option would be to use general reserves, which are a finite resource.

The 2023/24 budgets include an allowance for a pay award of 4% across all posts, this added £0.805m to the salary budgets for the financial year. Following confirmation of the NJC pay award, a further £0.418m was required against the 2023/24 base salary budgets. The total increase is equivalent to a 5.6% increase on payroll compared to the 4% already allowed for, this increase has been funded from Direct Revenue Funding during 2023/24 and forms part of the base budget for 2024/25. This has further increased the borrowing requirement for the HRA in 2023/24.

The investment made for the 2023/24 budgets went some way to address pressures, but inevitably additional pressures have surfaced since the budget was formally agreed at Full Council in February 2023, some of which are described below.

Financing costs have increased since TBM month 9 by £0.177m; this is a result of an increased borrowing need, the capital programme overspent by £2.087m and the increased use of direct revenue funding (DRF) to balance the revenue budget. It was reported at month 9 that following a change in assumption regarding the timing of interest being charged to the HRA an increase in interest costs of £0.488m offset by an increase in the interest on cash balances received of £0.128m was forecast. In addition to this, the HRA is subject to an increase in insurance costs of £0.200m following the procurement of the council's insurer; this cannot be recharged to leaseholders and so is a cost that the HRA needs to account for.

Rent loss related to the empty homes in the HRA was £1.006m, an overspend of £0.147m for the year; this is an improvement in rent loss of £0.100m from 2022/23. Throughout the year the empty properties recovery working group has met to address the rent loss and other costs such as the cost temporary accommodation, council tax and repairs associated with those empty properties. Positive progress continues to be made against key

performance indicators, including the number of empty council homes and average re-let times. The overspend on void rent loss during 2023/24, is in part due to a greater number of new affordable homes being delivered during the year than was anticipated at the time of setting the budget. This overspend has been offset by the increase in income from those new homes, the net impact of the increase in rent and empty property homes is estimated to be £0.776m.

Since Month 9 there has been an improved position for leaseholder income as a result of a higher than expected level of income of £0.200m and the decision to not make a provision for bad debt of leaseholder arrears, saving £0.150m during 2023/24. This decision was in liaison with the leaseholder manager where it was deemed that a provision of 34% was sufficient at this stage against a lease holder arrears of £2.999m.

The outturn position for the bad debt provision was £0.571m for general needs and temporary accommodation properties resulting in an overspend of £0.012m; this is a result of an increase in the arrears offset by a review of the estimation method. There has been an increase in arrears of £1.079m for current and former tenants. The income collection rate for 2023/24 is 93.46% a decrease from month 9 forecasts of 0.16% and a reduction of 0.56% from 2022/23. There are mitigations in place as part of a recovery plan to improve rent collection that will address this issue and look to increase the collection rate and reduce the monthly arrears. This position remains a significant risk for the HRA and will be reviewed over the coming months.

Legal, compensation and decant costs associated with disrepair claims remain a pressure for the HRA with a £0.530m overspend. This overspend does not include the remedial works associated with those claims, which are included in the Repairs & Maintenance costs for the year. The number of claims being made will be continued to be monitored and analysis undertaken to inform the approach and planning to address this growing area of concern, with updates reported accordingly.

A report was presented to Housing & New Homes Committee on 23rd June 2023 with an update on the Health & Safety action plan presented on 17th September 2023 outlining the implications of increased Health & Safety legislation and regulations on the HRA. The report updated Housing & New Homes Committee on the key outcomes, actions to date, and resourcing plans arising from our Housing health & safety review against the following six areas of compliance and assurance: fire safety; asbestos; electrical safety; gas / fuel safety; lifts and lifting equipment; water safety. The timing of investment means the financial implications for 2023/24 are such that the costs were managed within the existing resources already approved. Implications for 2024/25 and beyond are included in the 2024/25 HRA budget report.

Repairs & maintenance costs continue to create a pressure for the HRA, this is related to the cost of inflation and the volume of jobs to be completed. The overspend for 2023/24 was £1.939m an increase of £0.476m from month 9;

this has been directly offset by an increase in the capitalised salaries relating to the EICR work. This overspend, at month 2, was assumed to be mitigated through the use of earmarked reserves and underspends from within the service. However upon review this work did not relate to the backlog of works and as such has been met from DRF instead. Housing & New Homes Committee on 17th September 2023 approved procurement of an additional specialist contractor resource to support the Housing Repairs & Maintenance service repairs recovery plan which is assumed to be funded from the backlog reserve of £0.940m.

Offsetting a lot of these increased costs is a forecast underspend on staffing budgets particularly in Repairs & Maintenance. Recruitment is underway but only had a part year impact for 2023/24.

## **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 underspend of £1.275m and more details are provided in Appendix 4. Under the Schools Finance Regulations any underspend or overspend must be carried forward within 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. The provisional outturn is an underspend of £0.281m 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 overspend of £1.900m 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	13,091	13,087	(4)	0.0%
97	Health & Adult Social Care	623	621	(2)	-0.3%
0	Economy, Environment & Culture	51,797	51,633	(164)	-0.3%
0	Housing, Neighbourhoods & Communities	3,513	3,513	0	0.0%
(2,213)	Housing Revenue Account	68,587	70,739	2,152	3.1%
0	Governance, People & Resources	4,628	4,628	0	0.0%
(2,151)	<b>Total Capital</b>	<b>142,239</b>	<b>144,221</b>	<b>1,982</b>	<b>1.4%</b>

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

8.3 Appendix 7 shows the changes to the 2023/24 capital budget. Cabinet'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	154,905
Reported at other committees and IFRS changes (for noting only)	847
New schemes (for approval)	0
Variations to budget (for approval)	5,039
Reprofiling of budget (for approval)	(14,345)
Slippage (for noting only)	(4,208)
<b>Total Capital</b>	<b>142,239</b>

8.4 Appendix 7 also details any slippage into next year. In total, project managers have forecast that £4.208m of the capital budget may slip into the next financial year and this equates to approximately 2.96% of the capital budget. Cabinet will note the 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 full Council. This section highlights any potential implications for the current MTFS arising from the 2023/24 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 2023/24 a total of £0.835m capital receipts (excluding 'right to buy' sales) have been received. Receipts include the sale of Stanmer house, 8-9 Kings Road plus a number of lease extension and some loan repayments.
- 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 2023/24 is £3.542m including £3.005m available for replacement homes. There was a total of £0.810m receipts for the HRA for non RTB sales including the disposal of land and loan repayments.

### **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 ended the year with a deficit of £1.535m which is a £0.147m increase from the previously forecast position. The main factor relates to in-year collection challenges for council tax income and the current forecast assumes there will be a shortfall in ultimate collection. This is linked to challenging economic conditions and cost of living pressures. More encouragingly, Council Tax Reduction (CTR) claimant numbers ended up being in line with original budget assumptions. Elsewhere, there is a high level of upward banding changes although this is only helping to offset previous years' costs from backdated awards of exemptions and discounts. The council's share of the additional deficit of £0.147m is £0.125m and this will be incorporated into the surplus / deficit position for the 2025/26 budget.
- 9.6 The business rates collection fund ended the year with a deficit of £6.011m for the year-end position which is a £2.306m increase from the previously forecast position. After incorporating Section 31 compensation grant, the council's overall share of the deficit is £2.447m. The main reason for the

overall and additional deficit is higher than anticipated appeals being processed against the 2017 list, with many backdated to 1 April 2017. The appeals provision is insufficient to cover this higher level of successful appeals and therefore affected the in-year position. In 2023/24 successful appeals have resulted in £5.469m being credited to accounts against a provision of £3.786m. In addition to the amounts settled to date, the council also needs to provide for the future outcome of the 230 challenges that remain outstanding against the 2017 list. The empty relief awarded ended up £0.395m above the level forecast in the annual government return (NNDR1 form) for the year, however, there has been £0.593m awarded for previous financial years which also affects the in-year position. The council's share of the additional deficit of £2.306m is £0.935m and this will be incorporated into the surplus / deficit position for the 2025/26 budget.

### **Reserves, Budget Transfers and Commitments**

- 9.7 The creation or redesignation of reserves, the approval of budget transfers (virements) of over £1 million, and agreement to new financial commitments of corporate financial significance require Cabinet approval in accordance with the council's Financial Regulations and Standard Financial Procedures.
- 9.8 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 (including one proposed new reserve below) but are at minimum sustainable levels. 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.
- 9.9 At year-end, it is proposed to establish a reserve of £0.033m to contribute towards the project costs within Orbis of establishing a new IT Helpdesk. This sum has been agreed by all partners and is equivalent to the council's share of the IT&D Orbis underspend and the cost of this is included within the outturn figures reported above.
- 9.10 During the audit of the 2022/23 Housing Benefit subsidy claim (which is still ongoing) some award calculations have been challenged by the external auditors. This is likely to result in a reclaiming of previously paid subsidy in the region of £0.100m and it is proposed to establish a provision for this sum to cover this. The cost of this is included within the outturn figures reported above.

## **10. Treasury Management End of Year Review 2023/24**

- 10.1 The 2023/24 Treasury Management Strategy, including the Annual Investment Strategy was approved by full Council on 23 February 2023.

- 10.2 The CIPFA Treasury Management Code requires the performance of the treasury management activity against the strategy and key prudential and treasury indicators to be reported at least twice a year. This was previously presented to Strategy, Finance and City Regeneration Committee as separate reports in July and December of each year and will now be reported to Cabinet as part of the TBM process.
- 10.3 The treasury management activity for the second half of 2023/24 is provided in Appendix 10. The main points are:
- The council did not enter into any new borrowing in the last 6 months of 2023/24;
  - The highest risk indicator during the period was 0.016% which is below the maximum benchmark of 0.050%;
  - The return on investments has exceeded the budgeted rates but has lagged slightly behind the target benchmark rates in the 6 months as a result of the sharp reduction in new fixed-term investments undertaken due to reducing cash balances;
  - The two borrowing limits approved by full Council have not been exceeded, and;
  - The Annual Investment Strategy parameters have been met throughout the 6-month period.

## 11. Proposed allocation of available outturn resources

- 11.1 The outturn underspend of £2.268m provides additional one-off resources that it is proposed to allocate to the following items in support of Council Plan priorities together with a prudential risk provision:

<b>One-off Item/Allocation</b>	<b>£m</b>
School Organisation/Diseased Tree Management as per February Budget Council approval	0.430
Business Prospectus/BID District feasibility resource as per February Budget Council approval	0.070
Prudential Risk Provision	1.000
'Doubling' of the Fairness Fund	0.307
Provision for the Women's Rugby World Cup	0.052
Additional Graffiti removal resources	0.100
Additional Road Maintenance provision	0.022
Management of street Tree Bases and Whiskering	0.050
Additional Tree Planting Programme	0.050
Participatory Budgeting	0.002
Investment in Priority Services	0.185
<b>Total Allocations</b>	<b>2.268</b>

Details of additional items not previously approved by Budget Council are given below:

- 11.2 The proposed risk provision of £1.000m recognises a range of financial challenges in 2024/25 including one of the largest savings requirements in

the council's history due to cumulative demand and inflationary pressures that have outstripped available local and national funding and taxation.

- 11.3 The doubling of the council's financial contribution to the Fairness Fund was signalled at the Budget Council in February 2024 and will provide for continuation of a base level of funding over the whole year to augment the current time-limited Household Support Fund.
- 11.4 Provision for the Women's Rugby World Cup will contribute to and enable a well-run tournament that aims to promote the uptake of sport among women and girls.
- 11.5 It is proposed to allocate £0.100m to improve the city's environment and tackle graffiti in key areas including difficult to reach and deal with graffiti. This will potentially use contractor resources but will also help to build capacity for future years.
- 11.6 An additional allocation of £0.022m is proposed to help improve road maintenance and tackle potholes, which is a widespread problem across the city (and the country). This will be with a particular focus on roads leading into parks, allotments and cemeteries, ensuring safe access for residents. Including the cost of tarmac and an additional, time-limited laying gang, it is estimated this would fill about 60 potholes depending on distribution.
- 11.7 It is proposed to allocate £0.050m for the removal of basal suckers and side shoots from street trees, which cause a number of problems including further damage to footpaths and highways. It is also proposed to allocate an additional £0.050m to a tree planting programme to provide for new trees in areas that lack 'canopy' cover and/or where there is an identified air quality issue. It will also be used to establish a programme to allow groups (business, individuals, charities) to provide additional sponsorship.
- 11.8 The proposed allocation of £0.002m will allow for venue hire, and officer support, for a series of 'participatory budgeting' engagement sessions in deprived communities.
- 11.9 An allocation of £0.185m will be held to invest in priority services and improvements aligned to the Council Plan and will be agreed under delegations by the Cabinet Member for Finance & Regeneration in consultation with the Leader of the Council.

## **12. Analysis and consideration of alternative options**

- 12.1 The provisional outturn position on council-controlled budgets is an underspend of £2.268m including an underspend on NHS managed Section 75 services of £0.281m. This is an improvement of £2.289m compared with the projected position at Month 9 and an improvement of £1.789m on the position assumed in the budget setting process. The underspend provides available resources for which the basic options are to:

- i) Replenish the Working Balance toward the minimum recommended level (£9m) as far as possible, following its reduction in respect of the overspend in 2022/23;
- ii) Hold the resources in whole or in part as a separate risk provision to support the sustainability of the 2024/25 budget position given the large savings programme of £23.627m;
- iii) Allocate the resources in whole or in part to identified priorities.

12.2 The proposed allocations at 11.1 above provide some recognition of ii) and iii) above.

### **13. Community engagement and consultation**

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

### **14. Financial implications**

14.1 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 consulted 20/05/2024

### **15. Legal implications**

15.1 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.

15.2 The Treasury Management actions reported in the review document at Appendix 10 are carried out in accordance with the powers conferred by Part 1 of the Local Government Act 2003, which permit local authorities to invest for the purposes of the prudent management of their financial affairs. Regard must be had to statutory guidance in the form of the Prudential Code for Capital Finance in Local Authorities issued by the Chartered Institute of Public Finance and Accountancy. The Council's approach is considered to be consistent with that Code and the requirements of the Act.

Lawyer consulted: Elizabeth Culbert and Victoria Simpson      Date consulted 20/05/2024

### **16. Equalities implications**

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

## **17. Sustainability implications**

- 17.1 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 2023/24.

## **18. Health and Wellbeing Implications:**

- 18.1 The council's budget includes many statutory and preventative services aimed at supporting vulnerable children and adults. The budget prioritises support to these core and critical services including management of any emerging in-year pressures to minimise impacts on statutory provision.

## **19. Conclusion and comments of the Chief Finance Officer (Section 151 Officer)**

- 19.1 The achievement of an outturn underspend is a favourable position, particularly when compared to early forecasts in the year which indicated pressures of over £14 million. However, alongside normal financial management actions across services, this has required the use of strict council-wide vacancy and spending controls to support the position for most of the year, which has had unavoidable impacts on some service delivery. The position has also been supported by significant one-off resources including a profit-share from the Housing Joint Venture, increased energy sales through the Waste PFI, a returned distribution from the Business Rate levy, increased investment income from high cash balances resulting from delayed capital project spending, and one-off support from the Public Health budget for eligible children and family services (Family Hubs).
- 19.2 The underlying position is therefore very challenging which has been recognised in the 2024/25 budget process resulting in the need to provide for around £28 million additional inflationary and demand pressures, contributing to a large savings requirement in 2024/25 of nearly £24 million.

## **Supporting Documentation**

### **1. 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. 2023/24 Savings Monitoring
7. Capital Programme Performance
8. New Capital Schemes
9. Schedule of Reserves
10. Treasury Management End of Year Review 2023/24

