

CALDERDALE MBC

WARDS AFFECTED: ALL

CABINET

8th August 2022



1st REVENUE MONITORING 2022/23

Report of the Chief Finance Officer

1. Purpose of Report

This report is to inform members and officers of the financial position of the council as at the first revenue monitoring position for 2022/23. It also details the forecast service and centrally controlled budgets for the same period and the proposed actions to mitigate forecast variances from budget.

2. Need for a Decision

- 2.1 This report is presented primarily for information for Members to note the forecast budget position and agree the proposed approach for mitigating any forecast variances at the year end.

3. Recommendations

- 3.1 That Members note the current budget position and agree the approach to managing predicted variances from budget during the year.
- 3.2 That directorates deliver the savings currently approved as part of the medium term financial plan. In addition, directorates will lead reviews of their base budget positions to ensure they are as accurate as possible and develop plans to achieve a balanced budget by year end including a review of reserves.
- 3.3 That the report be referred to the Strategy and Performance Board for their consideration.

4. Executive Summary

- 4.1 At the time of writing, there is a £2m forecast overspend against budgets. This position has been arrived at from a gross starting point of a variance of £10.1m. However, a combination of management action, savings (both historic and new) and use of reserves reduces the gap to £8.2m. Further to this, £6.1m is in this years budget offsetting the gap funded from monies already agreed by members in last year's MTFS. The recommendations to address the £2m gap are as above and detailed in the body of the report.
- 4.2 This forecast deficit needs to be understood in the context of an extremely uncertain economic position, with political instability in government and significant uncertainty from high inflationary pressures, in areas such as materials and fuel costs. There are also systemic challenges in base budget positions which will need to be addressed through budget challenge sessions, the MTFS and in budget setting for next year. These are particularly challenging in relation to school transport, CAFM, children's placements, charging reform and legal services.
- 4.3 Directorates are reporting the following forecast positions on their service and centrally controlled budgets:-
- Adults and Wellbeing Services – breakeven
 - Chief Executive's Office – breakeven
 - Children and Young People's Services - £1.994m service overspend
 - Public Services – £4.489m overspend
 - Regeneration and Strategy – £2.271m overspend
 - Centrally controlled - £0.5m underspend
- 4.4 The table below shows that overall, the Council is currently forecasting a gross overspend of £10.1m by year end but by pursuing additional measures (including the use of reserves) this figure reduces to £8.2m.

Overall summary	Net Budget £000	Forecast Spend for the Year £000	Variance Over(+) Under(-) £000	Management Action £000	Reported Overspend (+) Underspend (-) £000
Adults and Wellbeing	61,550	62,731	1,181	-1,181	0
Chief Executive's	11,806	12,006	200	-200	0
Children and Young People's Services	28,093	30,587	2,494	-500	1,994
Public Services	27,649	32,138	4,489	0	4,489
Regeneration and Strategy	17,018	19,289	2,271	0	2,271
Service Controlled budgets	146,116	156,751	10,635	-1,881	8,754
Centrally Controlled budgets	32,120	31,620	-500	0	-500
Council Tax and Business Rates					
Total	178,236	188,371	10,135	-1,881	8,254
Funding for the current year	178,236	-178,236	0	0	0
Planned Contribution to Balances	0	0	0	0	0
Total Over (+) / (-) Underspend	0	10,135	10,135	-1,881	8,254

4.5 The above table is based on a pay settlement of 3% which is in the current MTFS.

5. **Background and Details**

5.1 **Background**

5.1.1 This monitor is being presented at a particularly challenging time for the council. As it emerges to a changed world following the global pandemic, the Council is facing a new threat to service delivery and finances in the form of increasing inflation, which is currently at a forty year high. This is driving an increase in the costs of materials, staffing and energy for both projects and day to day service delivery. This is making it very difficult for services to forecast accurately, get their base budget positions in line to reflect it, and deliver projects which were commissioned before the inflationary pressures to this scale were anticipated.

5.1.2 Further savings need to be identified wherever possible to mitigate the remaining forecast budget gap. Directorates will review non statutory spend areas to determine if any savings are possible in these areas, supported by finance colleagues, to ensure proposals are as robust as possible.

5.1.3 To enable the review of the directorates base budget positions, finance will provide directorates reports which detail any areas which consistently vary from budget, the directorates will then seek to determine reasons why and where possible suggest changes.

5.1.4 This report sets out the projected year end position for the Council's revenue budget for 2022/23 following this first monitor. The monitor brings together both service and centrally controlled budgets and takes account of the use of reserves and any other action in arriving at that position.

5.1.5 This report will be presented to the Strategy and Performance Board. There will be two further monitors for 2022/23, due to be reported to Cabinet in October 2022 and January 2023.

5.2 **Latest Forecasts of Spend**

5.2.1 The key financial issues and pressures arising from the monitor which directorates are required to manage within the overall budget resources allocated to them are summarised below

5.3 **Adult Services and Wellbeing**

Adult Services and Wellbeing	Net Budget £000	Forecast Spend for the Year £000	Variance Over(+) Under(-) £000
All Age Disability Service and Adult Mental Health Service	27,373	28,597	1,224
Integrated Commissioning	11,040	11,247	207
Personalised Long Term Support	20,714	20,523	-191
Prevention and Early Help	1,756	1,627	-129
Strategic Management	729	799	70
Sub Total	61,612	62,793	1,181
Planned Contributions From(-) / (+)To Earmarked Reserves	-62	-62	0
Service Controlled before management action	61,550	62,731	1,181
Management Action (incl. new use of reserves)		-1,181	-1,181
Reported Position	61,550	61,550	0

5.3.1 All Age Disability costs remain as the main underlying cost pressure and attention is being focused on this area to reduce this overspend. The Council's MTFS allows for £0.5m of additional budget each year for demographic growth. The extent to whether this is sufficient will be considered as part of the update of the MTFS (obviously taking account of the clear budgetary restraints we have in the Council).

5.3.2 There is a small underspend identified in relation to Personalised Long Term Support. This is largely due to extra funding in relation to discharge to assess beds agreed with the CCG for Quarter 1 only. Much of this support is for the current year only but discussions are ongoing in relation to securing further funding for the remainder of 2022/23.

5.3.3 The review of day care services continues into 2022/23 with a view to reducing costs going forward.

5.4 **Chief Executive's Office (including Public Health)**

Chief Executive's	Net Budget £000	Forecast Spend for the Year £000	Variance Over(+) Under(-) £000
Chief Executive Management	968	968	0
Corporate	1,017	1,017	0
Democratic & Partnership Services	2,629	2,829	200
Finance	5,994	5,994	0
HR & Transformation	2,374	2,374	0
Public Health	801	801	0
Sub Total	13,783	13,983	200
Planned Contributions From(-) / (+)To Earmarked Reserves	-1,977	-1,977	0
Service Controlled before management action	11,806	12,006	200
Management Action (incl. new use of reserves)		-200	-200
Reported Position	11,806	11,806	0

- 5.4.1 The projections for the first monitor are based on income and expenditure at 31st May 2022, and therefore the forecasts made at this point in the year are subject to change during the remainder of the year.
- 5.4.2 It is projected that Democratic and Partnership Services (DPS) will overspend by £200k. Subject to approval by Cabinet, it is anticipated that the underspend from the previous year will be carried forward and available to offset this projected overspend.
- 5.4.3 The forecast overspend in DPS relates partly to unachieved savings targets and fee income shortfalls, but mainly difficulties in recruiting and retaining staff in Legal Services, requiring the short-term appointment of more costly agency staff.
- 5.4.4 Previous years underspends achieved by Finance and Human Resources identified in the Revenue Outturn 2021/22 Cabinet report will likely not continue into 2022/23. This is in part, because appointments have been made to posts that remained vacant throughout the previous year. This is a key area where the base budget will need review to ensure that democratic and partnership services have sufficient resources to deliver a service moving forwards without other areas underspends to balance their budget.

5.5 **Children and Young People's Services**

Children and Young People's Services	Net Budget £000	Forecast Spend for the Year £000	Variance Over(+) / Under(-) £000
Children's Early Intervention & Safeguarding	27,542	30,385	2,843
Education & Inclusion	-711	-1,090	-379
Strategic Management (CYP)	1,262	1,292	30
Sub Total	28,093	30,587	2,494
Planned Contributions From(-) / (+) To Earmarked Reserves	0		0
Service Controlled before management action	28,093	30,587	2,494
Management Action (incl. new use of reserves)			-500
Reported Position	28,093	30,587	1,994

- 5.5.1 Budget pressures exist around external placement provision. A continued increase in the caseload of external placements for looked after children has led to a sizeable increase in the forecast overspend (£2.215m) in Children's Early Intervention and Safeguarding. Efforts continue to be made to reduce this number in the longer term by looking at bringing more placements back in house through the acquisition of new properties to use as residential children's homes. However, the unpredictability in service demand remains a concern and a significant overspend remains.
- 5.5.2 The forecast for Education and Inclusion has continued to worsen due to increased D-catch caseloads. Work is being done to alleviate budget pressures in this area by reviewing the discretionary offer available to users, which is unsustainable in the context of other pressures.
- 5.5.3 Current foster care arrangements are attracting significant additional costs. External placements have been required which attract a significantly higher cost leading to a forecast overspend (£371k). Work is being done to bring these cases back in-house.

Exercises are underway to attract additional in-house foster carers.

5.6 **Public Services**

Public Services	Net Budget £000	Forecast Spend for the Year £000	Variance Over(+) / Under(-) £000
Customer Services	4,777	5,183	406
Digital & IT	4,317	4,317	0
Group Director	177	171	-6
Neighbourhoods	18,378	22,467	4,089
Sub Total	27,649	32,138	4,489
Planned Contributions From(-) / (+)To Earmarked Reserves	0		0
Service Controlled before management action	27,649	32,138	4,489
Management Action (incl. new use of reserves)			0
Reported Position	27,649	32,138	4,489

5.6.1 Public Services are reporting an overspend of £4.489m.

5.6.2 In Neighbourhoods, the main issue continues to be the cost of (Special Education Needs) SEN transport services. This provision has a £1.6m deficit reflecting escalating demand and an increased caseload of 23% over the past year. However, the underlying budget pressure is nearly twice that. This service is managed within Public Services but relates to services provided to children and young people. This systemic deficit will need to be addressed within the Medium Term Financial Strategy being brought to Cabinet in the autumn, with budgets adjusted accordingly.

5.6.3 Two further areas of budget pressure are Parking Services and Waste Management. It is expected that parking revenues will be permanently impacted by the drive towards future home working and encouraging more sustainable modes of travel. The impact of this on the current year forecast is estimated at £1.0m.

5.6.4 The forecast impact on Waste Management in the current year is £0.4m and this cost is expected to continue to some degree in future years. The existing contract is subject to increased costs in relation waste disposal and refuse collection, on-going legal discussions are taking place in how this may be managed.

5.6.5 Enforcement are currently reporting an overspend (£150k). This is due to reduced licensing income from premises closures. Hackney carriages have also been affected but improved levels of income are expected towards the end of the current year. There is currently no budget to cover emergency planning costs which is adding an additional budget pressure within the service.

5.6.6 Customer Services are reporting an overspend (£0.4m) due to reduced levels of income at sports sites. It is envisaged that these reduced levels of income may continue into 2023/24.

5.7 Regeneration and Strategy

Regeneration and Strategy	Net Budget £000	Forecast Spend for the Year £000	Variance Over(+) Under(-) £000
CAFM	8,243	9,764	1,521
Major Projects	-410	-410	0
Business, Skills & Investment	1,983	1,983	0
Housing & Green Economy	1,587	1,767	180
Markets	-468	-298	170
Planning Services	478	478	0
Strategic Infrastructure	5,846	6,246	400
Sub Total	17,259	19,530	2,271
Planned Contributions From(-) / (+)To Earmarked Reserves	-241	-241	0
Service Controlled before management action	17,018	19,289	2,271
Management Action (incl. new use of reserves)			
Reported Position	17,018	19,289	2,271

5.7.1 At this point in the financial year the initial revenue monitor has identified a budget pressure of £2.271m.

5.7.2 A significant proportion of the overall forecast relates to the anticipated increase in energy (gas & electricity) prices and the combined overspend of £1.921m reported for Corporate Asset and Facilities Management (CAFM) and Strategic Infrastructure reflects the forecast additional cost of energy attached to the Council's Corporate Estate and Street Lighting assets. The current forecast is net of the £800k already earmarked in last time's MTFS to offset rising energy price inflation. Prices have continued to rise since last year and the budget set aside is now not sufficient to cope with the extraordinary increases we have seen.

5.7.3 Contract and general price inflation has the potential to impact on the revenue programmes of work, primarily within CAFM and Strategic Infrastructure. In addition to this, capital schemes funded by revenue may also be impacted by price increases.

5.7.4 Demand for bed and breakfast accommodation reported in the previous year will continue and impact on the overall budget of the Housing Service.

5.7.5 The actions agreed in relation to the Markets Review have been implemented, improving the revenue position. This demonstrates the importance of delivering and seeing agreed budget savings fully implemented. However, until the impact of the challenges to current trading activity on the overall service has been reviewed it is forecast that the overall budget pressure will be in line with the previous year's outturn.

5.8 Centrally Controlled Items and Funding

5.8.1 There are a small number of budget areas which are managed centrally with variances being taken into balances. These items include treasury management costs; benefits; levies; apprentice levy; unfunded pensions; insurance.

- 5.8.2 It is currently anticipated that, due to the recent increases in interest rates, the Council's investments will produce £0.7m of additional income this year although this position has the scope to improve as the Bank of England assesses the need for further increases in the base rate as the year progresses. Offsetting this is a small overspend of £0.2m relating to the difference between housing benefit paid and grant funding received by Government.
- 5.8.3 Funding consists of some Central Government grants, retained Business Rates and Council Tax. Funding can vary if the Government announce new sources of funding. No variance has been identified on these budgets at this time.

6. Options Considered

- 6.1 This report is primarily for information.

7. Financial Implications

- 7.1 The financial position in this first revenue monitor for 2022/23 reflects the impact of inflation right across the economy, but especially in energy, materials and pay (the minimum wage).
- 7.2 The forecast level of service overspending highlighted in the report is £10.1m. Management action and the one-off use of reserves is expected to reduce this to an estimated overspend of £8.2m. This is then further mitigated in year as in last year's MTFS, Members made budgetary provision of £2.4m in 2022/23 to manage demand and cost pressures. This could be released to support the Council's budget. Again, as part of the MTFS that went to Council November 2021, the remainder of the general Covid funding was earmarked to help the Council's budget recover from the pandemic with £3.7m notionally allocated to 2022/23. This reduces the forecast gap to around £2m. Key pressures are coming from costs and demand increases in looked after children, Transport Services (especially SEND), energy budgets along with other inflation affected contracts. There is also some continued impact on the Council's income streams as a result of Covid and the cost-of-living crisis.
- 7.3 The overspend quoted above is based on the 3% we have budgeted for in terms of a pay rise this year. The Trade Unions have submitted a pay claim to Local Government employers for 11.1% or £2,000 (whichever is the higher).
- 7.4 Calderdale's position is not unique, and our prudence and good financial management has enabled a position where the majority of in year pressures can be mitigated, but further management action is also necessary. It needs to be noted that during the Covid pandemic short term, one off, funds were provided to mitigate the impact of the crisis. As yet no extra funding has been allocated by Central Government to ease the cost-of-living crisis on Local Government.
- 7.5 The Local Government Association recently said that inflationary pressures on the back of more than a decade of austerity pose a "serious risk to the future financial viability of some services and councils". Additional funding though cannot be assumed by the Council so we must address the challenges this situation creates.
- 7.6

- 7.7 For the purposes of this monitor, it has been assumed that winter maintenance costs will be within budget (predicated on a relatively normal winter), and that looked after children and all age disability numbers will not increase any further.
- 7.8 The majority of the inflationary impact on future years' budgets has not been provided for so far in the MTFS. Unless permanent budget savings are found, the basic strategy above will only provide a temporary in-year solution, it is therefore vital that directors and members use the budget challenge meetings to agree budget reductions so that future spend is directed to core priorities going forwards.

8. Legal Implications

- 8.1 The Council has a statutory requirement to set a balanced budget each year. This report sets out the forecast position against those budgets during 2022/23 and the actions required to remain within budget.

9. HR and Organisation Development implications

- 9.1 There are no HR or OD implications at this stage.

10. Consultation

- 10.1 These financial forecasts were compiled in consultation with Directors and Heads of Service.

11. Environmental, Health and Economic Implications

- 11.1 The environmental, health and economic implications of the individual budget proposals were considered as part of the budget process and during the consultation.

12. Equality and Diversity

- 12.1 Equality Impact Assessments were undertaken and made available for all of the new budget proposals agreed for 2022/23.

13. Summary and Recommendations

- 13.1 At this first revenue monitor, there is a budget gap of around £2m in 2022/23 that still needs to be addressed, despite previously agreed provision, mitigating and management actions taken to date. It is therefore recommended that as part of the Budget Challenge process:-
- Finance work with the directorates to review reserves which are being held that are not currently ring fenced or committed. Reserve amounts which are released can be used to mitigate overspends in each directorate area.
 - Savings need to be identified wherever possible. Directorates will review non statutory spend areas to determine if any savings are possible in these areas

working with finance to ensure proposals are as robust as possible. While many services are statutory as a whole there is scope to review the cost/means of delivery.

- As part of the medium-term financial plan budget setting base budget positions will be reviewed to ensure that they are as accurate as possible. This work will identify if there are any areas which consistently vary from budget, the reasons why and where possible correct.

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