

CALDERDALE MBC

WARDS AFFECTED: ALL

CABINET

14th November 2022

10

2nd 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 second 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 Cabinet approves the earmarking of the £208k refund from HM Courts and Tribunals Service for liability orders for the Welfare Assistance budget to provide support to people during the Cost of Living Crisis.

4. **Executive Summary**

- 4.1 At the time of writing, there is a £3.5m forecast overspend against budgets. This position has been arrived at from a gross starting point of a variance of £12.6m. However, a combination of management action, savings (both historic and new) and use of reserves reduces the gap to £10.6m. Further to this, £7.1m is in this year's budget offsetting the gap funded from monies already agreed by members in last year's MTFS.
- 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 pay (the figures assume a pay settlement of £1,925 for each member of staff), contract and utility 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 (SEND), 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 – £0.275 overspend
 - Chief Executive's Office – breakeven
 - Children and Young People's Services - £1.705m
 - Public Services – £4.419m overspend
 - Regeneration and Strategy – £2.223m overspend
 - Centrally controlled - £1.941m overspend
- 4.4 The table below shows that overall, the Council is currently forecasting a gross overspend of £12.6m by year end but by pursuing additional measures (including the use of reserves) this figure reduces to £3.5m.

Overall Summary	Net Budget £000	Forecast Spend for the Year £000	Variance Over(+) Under(-) £000	Mgmt Action/Use of Reserves £000	Reported Overspend (+) Underspend (-) £000
Adults and Wellbeing	61,554	63,410	1,856	-1,581	275
Chief Executive's	11,821	11,821	0	0	0
Children and Young People's Services	28,225	30,430	2,205	-500	1,705
Public Services	27,510	31,929	4,419	0	4,419
Regeneration and Strategy	16,686	18,909	2,223	0	2,223
Service Controlled budgets	145,796	156,499	10,703	-2,081	8,622
Centrally Controlled budgets	32,566	34,507	1,941	0	1,941
Total	178,362	191,006	12,644	-2,081	10,563
Funding for the current year	-178,362	-178,362	0	0	0
Budget pressures provision/reserves	0	0		-7,100	-7,100
Total Over (+) / (-) Underspend	0	0	12,644	-9,181	3,463

- 4.5 Necessary action will be taken to balance the budget in 2022/23 with further recommendations to address the £3.5m gap being set out in the body of the report.

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 40 year high. 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 of 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 2nd 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. There will be one further monitor for 2022/23, due to be reported to Cabinet in 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	Forecast Previous Monitor £000
All Age Disability & Adult Mental Health Service	27,505	29,176	1,671	1,224
Integrated Commissioning	11,352	11,960	608	207
Personalised Long Term Support	20,493	20,287	-206	-191
Prevention and Early Help	1,785	1,534	-251	-129
Strategic Management	995	1,029	34	70
Sub Total	62,130	63,986	1,856	1,181
Planned Contributions From(-)/(+)To Reserves	-576	-576		0
Service Controlled before management action	61,554	63,410	1,856	1,181
Management Action (incl. new use of reserves)		-1,581	-1,581	-1,181
Reported Position	61,554	61,829	275	0

- 5.3.1 The All Age Disability overspend has continued to increase due to additional pressure from the Short Breaks scheme, and Community Based Day Opportunities programme. Management continues to look into this overspend, and action is being taken to try and reduce it.
- 5.3.2 Although the Personalised Long Term Support area overall position has stayed relatively stable, there has been a significant overspend reported within Care Home Placements, although without an actual increase in the number of placements. This is due to the authority moving to a 'Gross Billing Authority', which has seen an increase in the costs of Placements, and a slowing down of the receipt of Care Charges in the short term. There continue to be costs relating to Hospital Discharge, with no further funding available. Care homes are continuing to ask for extra top up contributions from clients or the Council before accepting placements. There has been reduction in costs in other areas of long-term support, including direct payments which is enabling the area to stay within budget, in the short term.
- 5.3.3 Integrated Commissioning has reported an increase in the overspend due to an additional Extra Care Scheme opening (Railway Bridge View), including extra care hours within the scheme, and void property costs in empty apartments, highlighting insufficient budget within the service.

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	Forecast Previous Monitor £000
Chief Executive Management	1,036	1,036	0	0
Corporate	997	1,047	50	0
Democratic & Partnership Services	2,629	2,779	150	200
Finance	5,961	5,961	0	0
HR & Transformation	2,374	2,174	-200	0
Public Health	1,124	1,124	0	0
Sub Total	14,121	14,121	0	200
Planned Contributions From(-) / (+)To Earmarked Reserves	-2,300	-2,300	0	0
Service Controlled before management action	11,821	11,821	0	200
Management Action (incl. new use of reserves)			0	-200
Reported Position	11,821	11,821	0	0

- 5.4.1 The projections for the second monitor are based on income and expenditure to August 2022, and therefore may be subject to change during the remainder of the year. Based on the current position, Revenue Outturn 2021/22 and issues of which services are already aware, it is projected that there will be no overall over or underspend for the year. There are however, projected overspends relating to Democratic and Partnership Services (DPS) and Corporate costs, which are offset by an underspend on Human Resources and Transformation.

- 5.4.2 The forecast overspending in DPS relates mainly to unachieved savings targets. In addition, there continue to be difficulties in recruiting and retaining staff in Legal Services, requiring the short-term appointment of more expensive agency staff. Whilst it has been anticipated that vacant posts will be filled during the year, this has previously proved difficult, and is therefore possible that projections could significantly vary.
- 5.4.3 The overspend on Corporate costs comprises a number of relatively minor items, the most significant being bank charges. The projected underspend on Human Resources is largely as a result of on-going vacancies, and additional external income from the sale of recruitment services
- 5.4.4 Whilst it forms part of the Chief Executive's Office, the Public Health Service is almost entirely funded by separate "ring-fenced" funding from Central Government, which can only be used to support the delivery of public health outcomes. The service already supports a number of these activities, but further work will be undertaken to determine if further support can be provided.

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	Forecast Previous Monitor £000
Children's Early Intervention & Safeguarding	27,583	29,669	2,086	2,164
Education & Inclusion	-604	-524	80	300
Strategic Management (CYP)	1,246	1,285	39	30
Sub Total	28,225	30,430	2,205	2,494
Service Controlled before management action	28,225	30,430	2,205	2,494
Management Action (incl. new use of reserves)		-500	-500	-500
Reported Position	28,225	29,930	1,705	1,994

- 5.5.1 Children and Young Peoples directorate has seen an improvement in the forecast overspend position from the 1st monitor. There is continuing pressure on the external residential placements budget, the overspend position has reduced by £167k though, leaving the overspend just over £2m. Work is continuing to reduce this further, a new in-house children's home is due to open in the Autumn which should bring back a proportion of the Looked After Children (LAC) in house.
- 5.5.2 The forecast for external fostering has reduced in the main by bringing back LAC in-house provision, this has resulted in the forecast for some provision increasing but the net effect on the budget provision has been positive.
- 5.5.3 Youth services, YOT & Troubled families continue to be underspent, this has helped mitigate the overspending in other areas and reduce the overall overspend for the directorate.

5.6 Public Services

Public Services	Net Budget £000	Forecast Spend for the Year £000	Variance Over(+) / Under(-) £000	Forecast Previous Monitor £000
Customer Services	4,815	5,151	336	406
Digital & IT	4,317	4,317	0	0
Group Director	177	171	-6	-6
Neighbourhoods	18,239	22,328	4,089	4,089
Sub Total	27,548	31,967	4,419	4,489
Planned Contributions From(-) / (+) To Earmarked Reserves	-38	-38		0
Service Controlled before management action	27,510	31,929	4,419	4,489
Management Action (incl. new use of reserves)			0	0
Reported Position	27,510	31,929	4,419	4,489

5.6.1 Public Services are reporting an overspend of £4.419m.

5.6.2 The Sports Service continues to be impacted by the Covid 19 pandemic and reduced levels of demand and income at various sports centres. Current predicted income level forecasts are at 74% compared to 99% pre-covid. This is being closely monitored as the cost of living crisis may have an impact on this in coming months. The closure of 2 further facilities and the resulting reduction in memberships have also contributed towards the forecast overspend.

5.6.3 Vacancy management pending recruitment to posts within service areas across Customer Services has helped to bring the overspend down. Although income levels for the Museums Service are still below Covid 19 pandemic levels but they are steadily increasing, particularly in relation to Shibden Hall. Registrars and Licensing income levels are on par now with pre-covid pandemic levels, in particular income from ceremonies has increased due to the backlog caused by the pandemic. Customer Services is currently forecast to overspend by £336k in the current year which is a slight improvement on the previous revenue monitor.

5.6.4 There is an estimated overspend on transport services of £2.3m, the main issue continues to be the cost of Special Education Needs (SEN) transport which is now forecast to exceed the budget by £1.7m. The cost attached to the service is subject to both demand and decision making within the Council. The current demand for this service has increased significantly in recent years and the cost attached to SEN provision has offset savings achieved by the Transport Service. Discussions are taking place with the relevant stakeholders within the Council but without permanent additional funding, the significant overspend will continue in future years.

5.6.5 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 people to consider other modes of travel as part of the Council's climate change priorities. The drive towards future home working in the business community is impacting on income streams and current predicted income level forecasts are at 73% compared to 91% pre-covid. One town centre based business has already terminated a lease agreement with the Council that will result in an annual

reduction of £50k in 'off street' parking income. The impact of this on the current year forecast is estimated at £1.1m.

- 5.6.6 The forecast overspend in relation to Waste Management is expected to increase to £0.7m. The existing contract is subject to increased costs and general price inflation in relation to waste disposal and refuse collection and discussions are continuing between the contractors and the Council.
- 5.6.7 The Enforcement Service is currently forecasting an overspend of £115k which is a slight improvement on the previous forecast, largely due to increased levels of licensing income. Although the Hackney Carriages has also been impacted by demand, improved levels of income are expected in the remainder of the year. There is currently no budget to cover emergency planning costs which is adding an additional budget pressure.
- 5.6.8 Some of the increased budget pressures identified within Transport and Waste have been offset against improved income levels in Bereavement Services. There are also a number of vacant posts within the Service, including Greenspaces and Streetscene, that have also contributed savings towards the budget pressures identified within Neighbourhoods.

5.7 Regeneration and Strategy

Regeneration and Strategy	Net Budget £000	Forecast Spend for the Year £000	Variance Over(+) Under(-) £000	Forecast Previous Monitor £000
CAFM	8,092	9,922	1,830	1,521
Major Projects	-410	-410	0	0
Business, Skills & Investment	1,983	1,983	0	0
Housing & Green Economy	1,587	1,767	180	180
Markets	-468	-325	143	170
Planning Services	473	473	0	0
Strategic Infrastructure	5,670	5,740	70	400
Sub Total	16,927	19,150	2,223	2,271
Planned Contributions From(-) / (+)To Earmarked Reserves	-241	-241	0	0
Service Controlled before management action	16,686	18,909	2,223	2,271
Management Action (incl. new use of reserves)			0	
Reported Position	16,686	18,909	2,223	2,271

- 5.7.1 At this point in the financial year the second revenue monitor has identified a budget pressure of £2.223m. A significant proportion of the overall forecast relates to the anticipated increase in energy (gas & electricity) prices and the combined overspend of £1.900m (£1.830m + £70k) 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.
- 5.7.2 The current forecast is based on the most recent information provided by the Yorkshire Purchasing Organisation and it is net of the £800k set aside in the Council's budget to meet the cost attached to energy price inflation in the current year.

- 5.7.3 There are other budget pressures within the Housing and Markets Services. The demand for bed and breakfast accommodation continues to increase and it is likely that the current budget pressure will increase in the remainder of the year. The actions agreed in relation to the Markets Review have been implemented and achieved savings within the overall budget of the Service. However, the current trading activity continues to impact on the revenue budget of the service and the overall net cost is forecast to exceed the revenue budget.
- 5.7.4 There are a number of factors that may impact on the overall revenue outturn of the directorate in both a positive and negative manner, including the ability of the directorate to generate the required levels of capital fee, planning and building regulation income. The ability of the directorate to contain the cost of the Winter Service within the approved budget of £1.4m will not be known until later in the financial year. Further updates on the relevant issues will be included in the next revenue monitor to be considered by Cabinet in January 2023.
- 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 recent increases in interest rates, the Council's Treasury Management budget will underspend by around £1.5m overall (although this position has the scope to change as the Bank of England assesses the need for further increases in the base rate as the year progresses).
- 5.8.3 Following audit of the 2019/20 Business Rates Pool position, Leeds City Council has now provided the final allocations due to each member authority. This has resulted in an additional £159k allocation to Calderdale. Offsetting these gains is a small overspend of £0.2m relating to the difference between housing benefit paid and grant funding received by Government.
- 5.8.4 Since the first revenue monitor, the employer's side of the pay negotiations has offered a flat rate £1,925 pay rise for all employees below Chief Officer grade. Although negotiations and union ballots are still on-going, it is estimated that this offer will cost £3.8m more than previously budgeted for. This has been reflected in the centrally controlled line of the forecast for the time being.
- 5.8.5 There is expected to be a saving on the Council's National Insurance contributions as a result of the reversal of the 1.25% social care levy from 6th November. The saving will eventually be felt within directorates but this has been estimated at £400k in 2022/23 and included within the centrally controlled line at this monitor for ease.
- 5.8.6 The Council has also received a refund of £208k from HM Courts and Tribunals Service (HMCTS) for liability orders previously issued. It is recommended that this can be allocated to the Welfare Assistance budget to allow the Council to provide much needed support to people with the Cost of Living Crisis over the next 12-18 months.
- 5.8.7 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 Key pressures are coming from costs and demand increases in looked after children, Transport Services (especially SEND), energy budgets and 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. The figures are also based on the pay rise offered by the Local Government Employers of a flat £1,925 per full time employee (although there is scope for this to potentially change as union ballots are on-going).
- 7.2 The forecast level of gross overspending highlighted in the report is £12.6m. Management action and the one-off use of reserves by directorates is expected to reduce this to an estimated overspend of £10.6m. 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. 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.
- 7.3 Following closedown of the accounts for 2021/22 it was found that Covid costs were lower than anticipated in that year so there is a £0.7m balance on the Covid grant, which, along with some smaller residual reserve balances such as COMF Funding can be released to help balance the budget. This reduces the overall forecast gap to around £3.5m.
- 7.4 Calderdale's position is not unique, and 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".
- 7.5 Although our prudence and good financial management has enabled a position where the majority of in-year pressures can be mitigated, further management action is necessary as it is becoming increasingly likely that no extra funding will be allocated by Central Government to ease the cost-of-living crisis on Local Government.
- 7.6 Directors must bear down on costs where possible and reduce spend over the next 5 months but in the absence of the position changing much between now and the end of the year it is likely that further reserves will be required to balance the Council's budget in 2022/23. Work has begun to identify directorate reserves that have not already been committed or are not specifically ringfenced (e.g. Public Health). A plan will be included in the final Revenue Monitor due to be reported to Cabinet in January along with an updated forecast.

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 Organisational 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, we reported a budget gap of around £2m in 2022/23 that still needed to be addressed, despite allowing for the previously agreed provision, and various mitigations and management actions.
- 13.2 This position has now worsened, as expected, due mainly as a result of the anticipated increase in pay that has been offered to our staff. However, offsetting and partly mitigating this cost are the National Insurance reduction and increase in the income generated from the Council's investments so that the overspend being reported now stands at £3.5m.
- 13.3 Directors are asked to bear down on costs where possible and reduce spend over the next 5 months implementing their own "gatekeeper" processes. In the absence of the position changing much between now and the end of the year further reserves will be used to balance the Council's budget. Work has begun to identify directorate reserves that have not already been committed or are not specifically ringfenced (e.g. Public Health). A plan will be included in the final Revenue Monitor due to be reported to Cabinet in January along with an updated forecast.
- 13.4 As part of the MTFS process, base budget positions have been reviewed to ensure that they are as accurate as possible. This work has identified four key areas (Adults Social Care, SEND Transport, Car Parking Income and Childrens Social Care) that have materially and consistently varied from budget. Additional budget provision has now been reflected in the MTFS and this will help avoid to an extent the overspends highlighted above repeating in future years.
- 13.5 The report also recommends using the refund of £208k from HM Courts and Tribunals Service (HMCTS) for Welfare Assistance as a result of the work that has been carried out by the Council to try to help those most in need during the Cost of Living Crisis.

L Holden, Lead for Accountancy 2nd November 2022

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