

CABINET

10 NOVEMBER 2023

REPORT OF THE PORTFOLIO HOLDER FOR CORPORATE FINANCE AND GOVERNANCE

A.3 FINANCIAL PERFORMANCE REPORT 2023/24 – GENERAL UPDATE AT THE END OF SEPTEMBER 2023

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To provide a general update and overview of the Council's financial position against the 2023/24 budget and looking ahead to 2024/25 and beyond.

EXECUTIVE SUMMARY

- These regular finance reports present the overall financial position of the Council by bringing together in-year budget monitoring information and timely updates on the development of the long-term forecast.

The report is split over two distinct sections as follows:

- 1) *The Council's in-year financial position against the budget at the end of September 2023*
- 2) *An updated long term financial forecast*

- Last year an additional section was included within these reports that took a detailed view of items that will have an impact on the in-year position but also an on-going impact on the later years of the forecast. Although this report sets out a number of adjustments to the in-year budget, any longer term impact remains under review at the present time. However, they will be revisited as part of developing the forecast for 2024/25 and beyond and reported within future financial performance / budget reports.

SECTION 1 - In respect of the in-year financial position at the end of September 2023:

- The position to the end of September 2023, as set out in more detail within the appendices, shows that overall the General Fund Revenue Account is underspent against the profiled budget by **£1.857m**.
- As part of developing the budget for 2023/24, which was agreed by Full Council in February 2023, a number of adjustments were made to reflect emerging and/or on-going issues. Therefore, only a limited number of variances have developed during the first half of this year. Where variances have been highlighted, these broadly reflect known issues where further review / consideration may be necessary or reflects the timing of general expenditure and/or income budgets.

- The additional issues that have emerged during the second quarter of the year are discussed in more detail further on in this report. It is acknowledged that other expenditure or income trends may still emerge / develop over the remainder of the year.
- In respect of other areas of the budget such as the Housing Revenue Account, capital programme, collection performance and treasury activity, additional details are set out later on in this report where necessary.
- A half-year treasury management review has been carried out with a summary set out later on in this report. A further update is also provided in respect of the recent treasury transactions undertaken with Birmingham City Council.
- Any emerging issues will be monitored and updates provided in future reports, which will include their consideration as part of updating the long-term financial forecast.
- A limited number of in-year budget adjustments are proposed as set out in **Appendix 1H**, with an associated recommendation also included within this report. The same appendix also sets out a number of outstanding carry forward requests from Services, which Cabinet requested the provision of additional information to allow them to be considered further within this report.
- The net impact of the proposed budget adjustments will be moved to the Forecast Risk Fund. At the end of September 2023, it has been possible to make a further contribution to the fund of **£0.671m**.

In respect of the updated long term financial forecast:

- The forecast has been reviewed and updated at the end of September 2023 and is set out in **Appendix 2A**. It continues to reflect the very challenging financial position faced by Local Authorities and now includes revised inflationary assumptions.
- The revised forecast continues to seek to better balance optimism / pessimism bias that is inherent in any forecasting process and includes the use of one-off funding such as the New Homes Bonus in the short term. The forecast also now includes additional income from increases in the property 'base' for both council tax and business rates based on historical averages.
- Work remains ongoing within Departments and with Portfolio Holders with the aim of remaining 'sighted' on potential future cost pressures.
- Taking into account the adjustments to the forecast set out in this report, the annual estimated deficits have increased, which in turn reduce the balances held within the Forecast Risk Fund. However, based on the latest forecast, the Forecast Risk Fund still remains in surplus to support the Council's financial position over the period from 2024/25 to 2026/27.
- Based on the updated forecast, ongoing savings of **£3.000m** are still required across 2024/25 to 2026/27. This is significant, especially in the context of the Council's overall net budget being just over **£14.000m** and it continues to present the Council with a major challenge.

- Although significant on-going savings are still required, the long-term approach alongside the Forecast Risk fund provides additional flexibility and time to make better-informed decisions.
- Developing the framework against which the required savings can be identified therefore remains a key activity over the coming months alongside the development of the new Corporate Plan. The level of resources required to not only develop the above framework but to deliver the required savings, should not be underestimated, especially when set against other existing commitments such as delivering the Levelling Up projects and Freeports. There therefore needs to be a clear focus on the timely development of the plan whilst managing competing resources over the coming months.
- Although consideration will be given to extending the current forecast period beyond 2026/27, the long-term forecast approach still provides an effective method of managing financial risks, and remains underwritten by the Forecast Risk Fund.
- As mentioned during the development of the longer-term approach to the budget over recent years, it is important to continue to deliver against this plan as it continues to provide a credible alternative to the more traditional short-term / annual approach.
- An updated risk assessment for each line of the forecast has now been completed and is attached as **Appendix 2B**. The primary risks remain as in earlier forecast periods and these relate to the successful delivery of the necessary savings alongside the management of emerging cost pressures.
- The challenges faced by the Housing Revenue Account also remain significant and include increased expectations and requirements that are likely to emerge from the Social Housing Regulation Act and associated enhanced powers of the Housing Regulator. The HRA 30 Year Business plan will be developed over the coming weeks / months with the aim of responding to such challenges set against the wider context of continuing to provide a financially sustainable position in the long term.

RECOMMENDATION(S)

It is recommended that Cabinet:

- notes the Council's in-year financial position at the end of September 2023 along with the updated financial forecast for 2024/25 and beyond;**
- approves the proposed adjustments to the 2023/24 budget as set out in Section 1 of Appendix 1H and requests Officers to review the potential on-going impact in 2024/25 and beyond where necessary as part of developing the forecast and detailed estimates for further consideration by Cabinet later in the year;**
- approves the carry forwards from 2022/23 as set out in Section 2 of Appendix 1H and that in respect of items 1) and 2), Officers be requested to provide an update on the associated work / activities within the Q3 Financial Performance later in the year.**
- notes the updated position in respect of the treasury transactions with Birmingham City Council set out in this report;**

(e) notes the updated financial forecast set out in this report and requests Officers, in consultation with Portfolio Holder's to continue to develop the financial forecast proposals alongside the development of the Council's priorities as part of the wider framework within which to identify the necessary budget reductions to support the Council's long-term financial sustainability; and

(f) requests that the Resources and Service Overview and Scrutiny Committee be consulted on the latest financial position of the Council set out in this report.

REASON(S) FOR THE RECOMMENDATION(S)

To set out the latest financial position for the Council and to respond to emerging issues in 2023/24 and to develop the budget and long term forecast from 2024/25.

ALTERNATIVE OPTIONS CONSIDERED

This is broadly covered in the main body of this report.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

Effective budgetary control is an important tool in ensuring the financial stability of the authority by drawing attention to issues of concern at an early stage so that appropriate action can be taken. Financial stability and awareness plays a key role in delivering the Council's corporate and community aims and priorities.

Cabinet approved its emerging Corporate Plan and Vision at its meeting in July 2023, which has been the subject of public consultation and the outcome will be reported back to the November Cabinet meeting. One of the 5 themes proposed is Financial Sustainability and Openness, with a commitment to continue to deliver effective services and get things done whilst looking after the public purse; that means carefully planning what we do, managing capacity, and prioritising what we focus our time, money and assets on. Tough decisions will not be shied away from, but will be taken transparently, be well-informed, and based upon engagement with our residents.

The forecasting and budget setting process will have direct implications for the Council's ability to deliver on its objectives and priorities. The current 10-year approach to the forecast seeks to establish a sound and sustainable budget year on year through maximising income whilst limiting reductions in services provided to residents, business and visitors. The approach set out in this report continues to be set against this wider context.

OUTCOME OF CONSULTATION AND ENGAGEMENT

Internal consultation is carried out via the Council's approach to developing the budget as set out within the Constitution. External consultation also forms part of developing the budget, and is carried out early in the year as part of finalising the position for reporting to Full Council in February.

LEGAL REQUIREMENTS (including legislation & constitutional powers)			
Is the recommendation a Key Decision (see the criteria stated here)	Yes	If Yes, indicate which by which criteria it is a Key Decision	<input type="checkbox"/> Significant effect on two or more wards <input checked="" type="checkbox"/> Involves £100,000 expenditure/income <input type="checkbox"/> Is otherwise significant for the service budget
		And when was the proposed decision published in the Notice of forthcoming decisions for the Council (must be 28 days at the latest prior to the meeting date)	This item has been included within the Forward Plan for a period in excess of 28 days via the inclusion of the regular Financial Performance Update Report item.
Yes	The Monitoring Officer confirms they have been made aware of the above and any additional comments from them are below:		
<p>The Best Value Duty relates to the statutory requirement for local authorities and other public bodies defined as best value authorities in Part 1 of the Local Government Act 1999 (“the 1999 Act”) to “make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness”. In practice, this covers issues such as how authorities exercise their functions to deliver a balanced budget (Part 1 of the Local Government Finance Act 1992), provide statutory services and secure value for money in all spending decisions.</p> <p>Best value authorities must demonstrate good governance, including a positive organisational culture, across all their functions and effective risk management. They are also required, pursuant to section 3 of the 1999 Act, to consult on the purpose of deciding how to fulfil the Best Value Duty.</p> <p>Government have recently consulted on revised Statutory Guidance on the Best Value Duty issued to local authorities in England under section 26 of the 1999 Act, which best value authorities are required to have regard to. To provide greater clarity to the sector on how to fulfil the Best Value Duty, the draft statutory guidance sets out seven overlapping themes of good practice for running an authority that meets and delivers best value. These seven best value themes build on the lessons learned from past interventions, including those which the Government published in June 2020, and reflect what most local authorities already do or are striving to achieve. While these themes are all interdependent, strong governance, culture, and leadership underpin effective partnerships and community engagement, service delivery, and the use of resources, continuous improvement is the outcome of all the themes working well together. A detailed description of these themes, including characteristics of a well-functioning local authority and indicators used to identify challenges that could indicate failure, is set out within the draft guidance and financial management and sustainability is a reoccurring expectation throughout the themes and indicators.</p>			
FINANCE AND OTHER RESOURCE IMPLICATIONS			
The financial implications are set out in the body of the report.			

Although the availability of financial resources is a key component in the delivery of services there will also need to be appropriate input of other resources such as staffing, assets and IT.

The long term approach to the forecast set out in this report has been discussed with the Council's new External Auditor, albeit informally. There were no major concerns raised but they will undertake their own independent and detailed review as part of their commentary on the Council's use of resources.

In terms of the Council's previous External Auditor, their work remains focused on the outstanding Statement of Accounts for 2020/21 to 2022/23. It is hoped that they will be in a position to provide their own updated commentary on the Council's use of resources in November / December 2023.

Yes	The Section 151 Officer confirms they have been made aware of the above and any additional comments from them are below:
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The Section 151 Officer is the author of this report.

USE OF RESOURCES AND VALUE FOR MONEY

The following are submitted in respect of the indicated use of resources and value for money indicators:

A) Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;	This is addressed in the body of the report.
B) Governance: how the body ensures that it makes informed decisions and properly manages its risks, including; and	
C) Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.	

MILESTONES AND DELIVERY

This reports forms part of the Council's wider budget setting processes. Additional update reports will therefore be presented to Cabinet in December and January as part of developing the detailed estimates that will be presented to Full Council in February 2024.

ASSOCIATED RISKS AND MITIGATION

There are significant risks associated with forecasting such as cost pressures, inflation and changes to other assumptions that form part of the financial planning process. The Council's response is set out in the body of this report and will continue to be addressed as part of the future financial updates reports highlighted earlier.

It is also worth highlighting emerging risks associated with the establishment of the Office for Local Government (OFLOG) and the enhanced role of the Housing Regulator via the Social Housing Regulation Act. These will undoubtedly have significant financial consequences for Local Authorities, either directly or where increased capacity may be required to respond to any emerging requirements. This will be considered further as part of developing the forecast over the coming months.

As set out in **Appendix 2A**, the Forecast Risk Fund remains available to support the longer-term approach, with the additional contributions made to the reserve in 2023/24 providing

further flexibility in terms of developing the required framework in which to identify the necessary savings to support an on-going financially sustainable position over the next few years.

However, it is important to note that the Council still prudently maintains reserves to respond to significant / specific risks in the forecast such as **£1.758m** (NDR Resilience Reserve) and **£1.000m** (Benefits Reserve), which can be taken into account during the period of the forecast if necessary. The Council also holds **£4.000m** in uncommitted reserves, which reflects a best practice / risk based approach to support its core financial position.

EQUALITY IMPLICATIONS

There are no direct implications that significantly impact on the financial forecast at this stage. However, the ability of the Council to appropriately address such issues will be strongly linked to its ability to fund relevant schemes and projects and determination of the breadth and standard of service delivery to enable a balanced budget to be agreed.

An impact assessment will be undertaken as part of any separate budget decisions such as those that will be required to deliver savings.

SOCIAL VALUE CONSIDERATIONS

There are no direct implications that significantly impact on the financial forecast at this stage.

However, such issue will be considered as part of separate elements of developing the budget as necessary.

IMPLICATIONS FOR THE COUNCIL'S AIM TO BE NET ZERO BY 2030

There are no direct implications that significantly impact on the financial forecast at this stage.

However, such issue will be considered as part of separate elements of developing the budget as necessary.

OTHER RELEVANT CONSIDERATIONS OR IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

Crime and Disorder	Please see comments above
Health Inequalities	
Area or Ward affected	

PART 3 – SUPPORTING INFORMATION

SECTION 1 – IN YEAR FINANCIAL PERFORMANCE AGAINST THE BUDGET AT THE END OF SEPTEMBER 2023

The Council's financial position against the approved budget has been prepared for the period ending 30 September 2023.

As highlighted earlier, as part of developing the 'base' budget for 2023/24 earlier in the year, a number of adjustments were made to reflect emerging and/or on-going issues, with therefore only a limited number of variances developing to date. Where variances have been highlighted, these broadly reflect known issues where further review / consideration may be necessary. The budget also now includes the adjustments agreed by Cabinet at their meeting on the 6 October 2023.

Further proposed budget adjustments are highlighted within **Appendix 1H** in response to emerging / developing issues at the end of Q2. The detailed position at the end of September 2023 is set out within **Appendix 1**, with some additional comments included below against the six key areas of the budget where necessary:

GENERAL FUND REVENUE

The position to the end of September 2023, as set out in more detail in the Executive Summary attached, shows that there is an overall net underspend of **£1.857m**.

Apart from the impact associated with the proposed adjustments set out within **Appendix 1H**, a number of the variances emerging / developing to date are due to the timing of expenditure and income, one example being the timing of when housing benefit payments are made and when the money is reimbursed by the Government via the associated subsidy system.

Notwithstanding the above, it is important to highlight the following:

Update on the items reported to Cabinet on 6 October 2023

Parking income – parking income continues to be ahead of the budget, with this figure rising to **£0.145m** at the end of September 2023. Similarly to the position reported to Cabinet earlier in the year, no adjustment to the budget is proposed at the present time, but the position will be kept under review across the second half of the year to confirm or otherwise that such a favourable position will remain until the end of the year.

The risk of a potential financial deficit associated with the North Essex Parking Partnership remains. The Council has engaged with the Lead Authority's S151 Officer to gain assurances around financial projections / business plans. There is currently no provision included within the budget to fund any deficit contribution that may be required. At the present time, a response from the Lead Authority's S151 Officer is awaited, but once received an update will be provided to members as early as possible.

Homelessness net costs– demand for homeless accommodation remains high. Although the service remains committed to exploring options to respond to this demand in the most advantageous way, the net budget was increased by **£0.250m** as part of the Q1 Financial Performance Report considered by Cabinet on 6 October 2023 as an initial sum to meet the expected on-going cost in the short term. The pressure on this budget is likely to continue

over the remainder of the year with net expenditure remaining ahead of the profiled budget to date. No additional adjustment has been included at the present time with the position remaining under review. However, it is currently estimated that additional funding of up to **£0.200m to £0.300m** may be required over the remainder of the year to meet the current projected net expenditure. A further update will be included in future financial performance / budget reports.

Vacancy savings - when viewed corporately, employee costs remain behind the budget. A favourable budget adjustment is usually undertaken at the end of each quarter to utilise the accrued savings. Similarly to the approach set out in the report to Cabinet on 6 October 2023, it is not proposed to make this adjustment at the present time given that the national pay negotiations for 2023/24 remain on-going. Based on the most up to date information, it is expected that the pay award will be higher than the amount originally forecast, which in turn will likely need to be supported by any accrued vacancies savings to date.

Treasury Investment Income – interest rates remain relatively high and investment income therefore continues to be significantly ahead of the budget. In addition to the favourable budget adjustment made as part of the Q1 report, a further favourable adjustment is set out within **Appendix 1H** to reflect the most up to date forecast. Based on current projections, this favourable situation will continue in the second half of the year that will allow further budget adjustments to be made, which in turn will support the Council's overall financial position in 2023/24. Further details are set out later on in this report as part of the half-year treasury review.

Leisure Centre Fees and Charges and Recoverable VAT – following the timely update provided to Members as part of the Financial Performance Report presented to Cabinet on 6 October 2023, an associated adjustment is now included within **Appendix 1H**. The adjustment proposed reflects the recent decision relating to the associated Leisure fees and charges, which came into effect from 1 November 2023. The full year impact will be reflected in the draft budget proposals for 2024/25 that will be presented to Cabinet in December.

A backdated VAT claim is also being finalised, which could see a significant one-off reimbursement of VAT previously paid to HMRC being receivable by the Council. An update on this claim will be provided within future Financial Performance Reports.

Garden Waste Fees and Charges Income – Unpaid invoices / Service still being provided. The Service remains committed to resolving the issue that was set out in the report to Cabinet on 6 October 2023, which is also being monitored by the Audit Committee. Work remains on-going within the Service to complete a number of actions to resolve the issues and prevent its reoccurrence. However, it is still expected that there will be a level of unrecoverable debt that will need to be written off, which would be a cost that would be charged to the service. Further updates will be provided in the second half of the year but associated additional costs could be as high as **£0.050m to £0.100m**.

Careline Net Costs - as previously discussed, one of the key parts of the budget that remains under on-going review is the financial performance of the Council's Careline Service, especially in light of the adverse outturn position for 2022/23. The Department remains committed to delivering the service within budget and a further detailed review of the associated business plan is currently underway with the aim of reporting the outcome to Cabinet shortly - it was originally planned for this report to be presented to Cabinet in November but as a number of strands of work remain on-going it is now scheduled to be

presented to Cabinet in December. Although subject to the outcome of this separate review, it is likely there will be significant additional net costs associated with continuing to deliver this service – these costs could be in excess of **£0.200m** per annum.

Reduced Planning Income – a budget adjustment of **£0.175m** was included within the Q1 report that was presented to Cabinet on 6 October 2023. This adjustment reflected the reduction in income being experienced for the first four months of this year. No further adjustment is required in Q2 as income is now matching the profiled position. This will be kept under review, but this can be seen as positive at the present time given the risk that the position could have potentially worsened during the second quarter.

Newly Emerging Items during Q2

Crematorium Income – at the end of September income is behind profile by **£0.086m**. This will be monitored over the second half of the year where it is possible that the income could recover back to the budgeted position by the end of the year as experienced historically.

Energy Costs – Perhaps a more worrying position is now emerging against utility budgets. The total annual budget across the various sites is **£0.877m**. The total spend to date is **£0.813m** – the full year budget has therefore been almost spent by the end of the first six months of the financial year. A dedicated contingency budget to meet rising energy costs was established as part of the original 2023/24 budget process – this totals **£0.779m**. Given the position described above, the contingency budget is effectively the total utilities budget for the second half of the year, which includes the winter period. Further analysis will be undertaken, including reviewing consumption across the various sites and updates will be provided over the second half of the year. The above is after taking account of the **£0.388m** grant to support energy and pool chemical costs at the Council's leisure centres that was made available by the Government via the Swimming Pool Support Fund.

As highlighted above, there are a number of issues emerging, some favourable whilst some are adverse. It is currently expected that the emerging adverse issues can be accommodated within the overall in-year financial position of the Council, especially as the income from treasury activity is expected to remain very positive over the second half of the year.

The overall position set out in **Appendix 1H** results in a further net contribution to the Forecast Risk Fund of **£0.671m**. When added to the similar adjustment at the end of Q1 (**£0.169m**), a total of **£0.840m** would have been made to the fund so far to date. This is therefore **£0.590m** more than the **£0.250m** commitment included within the original budget. This provides further flexibility in terms of supporting the emerging pressures above as this 'excess contribution' remains available to support the Council's overall in-year financial position in 2023/24 as well as the longer term forecast.

The impact of the issues set out above, along with potential other emerging issues during the year will be kept under review as part of future financial performance / budget reports, which will include identifying if there are any longer term impacts in 2024/25 and beyond that will need to be included in future iterations of the financial forecast.

As mentioned within earlier reports, the Chief Executive continues to chair the regular Budget, Performance and Delivery meeting of Senior Managers where any emerging issues

such as those highlighted above are discussed / identified / explored. This is also supported by the departmental planning process, which in turn supports the delivery of the on-going corporate investment / cost pressure plan approach.

COLLECTION PERFORMANCE

A detailed analysis of the current position is shown in **Appendix 1E**.

There undoubtedly remains an on-going impact from COVID 19 on collection performance along with the cost of living challenges currently faced by local residents. Any necessary recovery action will continue over the second half of the year, with the aim of maximising the level of collection performance wherever possible.

In respect of general debt, the performance this year is running slightly behind the position at the same time last year. Similarly to the position reported at the end of Q1, this is primarily due to a limited number of larger items which have now either been paid or are subject to review e.g. money owed by customers of the Council's green waste service that relates to the issue highlighted earlier.

HRA REVENUE

An overall position is set out in the Executive Summary with further details included in **Appendix 1C**. At the end of September 2023 the HRA is showing a net underspend of **£0.184m**, which reflects a number of variances across various HRA budgets, including income from rents, which is currently running **£0.110m** ahead of the profiled budget.

Similarly to the GF position highlighted above, energy costs have also increased within the HRA. This issue, along with any other emerging issues will be considered as part of developing the 30 year HRA Business Plan, which will be reported to Cabinet in December.

CAPITAL PROGRAMME – GENERAL FUND

The overall position is set out in **Appendix 1D**.

As at the end of September 2023, the programme remains broadly on target against the profiled position.

As highlighted in the previous Financial Performance Report, the Starlings Capital Scheme is now nearing completion and will be subject to a formal review, with the outcome planned to be reported within a separate report later in the year. Based on the most up to date position, it remains likely that additional costs may emerge as part of its completion. However, the review remains in progress so it has not been possible to confirm an updated position within this report as originally expected. The final position against this project will be reported to Members as soon as practicable.

CAPITAL PROGRAMME – HOUSING REVENUE ACCOUNT

The overall position is set out in **Appendix 1D**.

As at the end of September 2023, the programme is ahead of profile by **£0.584m**.

This budget relates primarily to the on-going major repairs and improvements to the Council's own dwellings. A number of individual schemes within the wider improvement / enhancement and adaptations scheme remain ahead of budget at the present time. However, this position remains under review within the Service with the aim of delivering the programme of activities within the overall annual budget for the year. As acknowledged within the Q1 report considered by Cabinet on 6 October 2023, the timing of certain activities may result in additional costs being incurred in 2023/24, which will be explored further and reported back to members as part of the next financial performance report.

This issue, along with any other emerging issues will also be considered as part of developing the 30 year HRA Business Plan, which will be reported to Cabinet in December.

TREASURY ACTIVITY

A detailed analysis of the current position is shown in **Appendix 1F**.

The Annual Capital and Treasury Strategy for 2023/24 (including the Prudential and Treasury Indicators) was approved by Full Council in March 2023, with all activity to date therefore undertaken in accordance with this strategy and associated treasury management practices. In accordance with Financial Procedure Rules, this strategy and associated activity have been subject to a half yearly review with the outcomes set out below, which also reflects additional commentary from the Council's treasury advisors.

The only updates to the strategy approved on 2 March 2023 relate to capital expenditure, as the figures now include the approved carry forwards from 2022/23 in the 2023/24 capital programme. No borrowing has been undertaken and the advice from the Council's treasury management advisers remains to borrow internally if required until such time as interest rates reduce.

The first half of 2023/24 has seen interest rates rise by a further 1%, taking the Bank Rate from 4.25% to 5.25%. GDP fell by 0.5% month on month in July which suggests that underlying growth has lost momentum. CPI inflation fell from 8.7% in April to 6.7% in August, its lowest rate since February 2022 but this is still relatively high. There is also no evidence yet of an easing in wage growth nationally. The Council's treasury management advisers consider that as the growing drag from higher interest rates intensifies over the next six months the economy will continue to lose momentum and soon fall into a mild recession. They expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024 as they seek to 'squeeze' inflation out of the economy. However, some economists have not ruled out the risk that there may be a further increase this year.

The continuing elevated interest rate environment has led to ongoing increases in interest earned on short-term investments placed by the Council. **Appendix F** shows that as at 30 September 2023 accrued interest earned to date in 2023/24 is **£2.017m** compared to a profiled budget of **£1.456m**. The associated favourable budget adjustment is set out in **Appendix 1H**. It is currently anticipated that the annual budget can be increased further over the second half of the year. Although further adjustments will be made as part of future financial performance reports, based on current investments, the annual budget is likely to be able to be increased by a further **£1.200m**.

The Council's Treasury Advisors have also commented on the risk associated with investing with local authorities that have issued a S114 report or may be going to do so. As previously

highlighted, this is not a credit risk, as all local authorities are assessed as having the same risk as the UK government and cannot go bankrupt and the mechanisms associated with such an event ensure that commitments are met and the money repaid when it is due to be repaid. DLUHC are also consulting on some suggested risk metrics for treasury management, and their proposals suggest they consider the risk associated with lending to a local authority is lower than lending to a bank or building society.

As highlighted in the Q1 Report, the money lent to Birmingham City Council was discussed and Cabinet requested an update as part of this report. A total of **£6.000m** has been lent to the City Council, with **£4.000m** due to be repaid in February 2024 and the remaining **£2.000m** being repaid in June 2024.

Birmingham City Council's Full Council met on 25 September 2023 to consider their response to their S151 Officer's S114 Report and agreed:

- To accept the S114 notice issued on 5th September 2023;
- To continue spending control measures until such date as the Council has passed an approved balanced budget for 2024/25;
- A financial recovery plan which included:
 - a. Measures to reduce spending and mitigate budget pressures for 2023/24, leading to a revised Emergency Budget for 2023/24;
 - b. Organisational Redesign work to reshape services around citizens and within available resources, to inform the 2024/25 Budget and deliver a balanced medium term financial plan;
 - c. A Capital Strategy and Assets Review to identify options to raise funds and minimise borrowing costs;
 - d. A review of council-controlled companies and traded services to identify options to raise funds, reduce costs and reduce risk;
 - e. An Income Review to maximise sustainable income from all sources, including Business Rates, Council Tax, Grants and other income;
 - f. Measures to achieve pay equity and stop the growth of their equal pay liability, including work to reduce the value of the potential liability and fund the actual liability;
 - g. Formal dialogue with DLUHC to explore options for Exceptional Financial Support, including potential capitalisation of revenue liabilities.

Within the report considered by Birmingham City Council, it was noted a significant level of undelivered savings, which although identified as part of developing their 2023/24 budget, they are now considered high risk and add to their 2023/24 budget gap.

In addition to the above, the Government have also appointed Commissioners to 'exercise certain functions of the Council as required'.

Although the above provides an update on the latest position, it is important to highlight that there is no change in the level of risk previously reported.

Carry Forwards from 2022/23

At its meeting on 6 October 2023, Cabinet considered a number of carry forwards as part of the Q1 Financial Performance Report. Additional information was requested for 4 of the 6 items to enable them to be considered further as part of this report.

The additional information is now set out in **Section 2 of Appendix 1H**. Although it is proposed to approve all 4 of the requested amounts, in respect of items 1 and 2, it is requested that an update on the associated work / activities is reported to Cabinet within the Q3 Financial Performance later in the year.

SECTION 2 – UPDATED LONG TERM FORECAST

The detailed budget for 2023/24 was considered and agreed by Full Council on 14 February 2023. The report considered by Full Council also included a summary of the forecast up until 2026/27.

Work on developing the forecast has remained on-going since Cabinet considered the last iteration of the forecast at its meeting on 6 October 2023. The table below sets out a summary of the changes since the report to Full Council on February 2023 (with the most up to date forecast set out in **Appendix 2A**):

Table 1

Year	Position Reported to Full Council - 14 February 2023		Position Reported to Cabinet - 6 October 2023		Latest / Revised Position Appendix 2A	
	Net Budget Position*	Forecast Risk Fund - Estimated Surplus Balance at the end of the year	Net Budget Position*	Forecast Risk Fund - Estimated Surplus Balance at the end of the year	Net Budget Position*	Forecast Risk Fund - Estimated Surplus Balance at the end of the year
2024/25	£3.823m deficit	£2.569m	£2.147m deficit	£4.245m	£2.422m deficit	£3.970m
2025/26	£0.132m deficit	£2.687m	£1.865m deficit	£2.631m	£2.146m deficit	£2.074m
2026/27	£0.225m deficit	£2.711m	£1.087m deficit	£1.793m	£1.291m deficit	£1.032m

**includes removal of the prior year use of reserves etc. to balance the budget.*

As reported to Cabinet on 6 October 2023, the later figures set out within the table are inclusive of the following on-going savings being achieved across the three remaining years of the forecast:

2024/25 – £0.500m

2025/26 – £1.000m

2026/27 – £1.500m

Total On-Going Savings Required - £3.000m

As highlighted in earlier reports, given the emerging financial issues, the long-term forecast is now being considered against a very different financial background to that originally expected during the earlier years of the forecast.

Given the on-going and challenging financial environment with significant inflationary pressures still remaining, a number of historic assumptions have been challenged as part of developing the forecast during 2023/24 - e.g. in previous years the Council has refrained from using one-off money to support the on-going budget, but given the scale of the financial challenge faced by the Council, this principle has become increasingly difficult to maintain in the immediate term.

However, the long-term approach to the forecast does enable the flexibility and time to consider the longer-term plan and the savings that will be required in a more informed way and in light of the emerging Corporate Plan.

The forecast continues to balance the optimism / pessimism bias that is inherent within any forecasting process and 'builds' on the approach against each line of the forecast that was set out in the report to Cabinet on 6 October 2023.

A summary of the latest position against each line of the forecast compared to the position reported to Cabinet on 6 October 2023 is as follows:

Table 2

Budget Line*	Change / Comment
Line 2a – Council Tax Increase of 3%	The Government have confirmed that for 2024/25, the core council tax referendum principles will continue to be the same as 2023/24 i.e. 3%. They have also indicated that the referendum limit for increases to council tax will remain at 3% per year. A 3% increase has therefore been included for 2024/25, but given it is the last year of the current parliamentary period, no such increases have been included for future years, as they remain subject to further Government announcements in due course.
Line 3 – Growth in Business Rates - Inflation	Although inflation will reduce in the longer term, it is remaining more persistent in the short term than originally anticipated. Although it has a negative impact on expenditure lines as set out below, it will also likely generate additional income in business rates, either directly collectable or via Government funding if they 'reimburse' Council's for any inflationary 'freezes' or limitations. Additional forecasted income has now been included in the forecast across 2024/25 to 2026/27.
Line 4 – Growth in Council Tax – general property / tax base growth	As mentioned earlier, in balancing optimism / pessimism within the forecast and taking historical information into account, it is expected that additional council tax income is likely to be higher than originally expected. The forecast has therefore been adjusted based on average increases experienced in prior years.

Line 5 - Growth in Business Rates – general property / tax base growth	Similarly to Line 4 above, this line of the forecast has also been reviewed, which results in marginal increases in income over earlier figures.
Lines 19 and 20 - Cost Increases	As highlighted above, inflation is remaining more persistent in the short term than originally anticipated. Although inflation will reduce in the longer term, the forecast now reflects higher inflationary rates in 2024/25 and 2025/26.

**Other lines of the forecast remain unchanged compared to the position reported to Cabinet on 6 October 2023.*

In summary, taking all of the above into account results in the revised deficits and balances on the Forecast Risk Fund as set out in **Table 1** above. The savings targets highlighted above remain unchanged at the present time.

It is also important to highlight that the level of savings required will also need to continue to act as the ‘safety valve’ with the overall position being subject to further updates as part of reporting the quarterly position / developing the budget going forward, as any increases in net costs will likely require a corresponding increase in the savings required.

It is important to continue to highlight that a limited number of one-off items in 2023/24 have been initially removed from the updated forecast at this stage. However, they remain subject to review as part of developing the forecast during the second half of the year and will be reinstated as part of the cost pressure review highlighted below if unavoidable and therefore likely to continue. Further updates will be provided in future financial performance / budget reports.

In terms of unavoidable cost pressures (**Line 21 of the Forecast**), the latest position continues to include an ‘allowance’ of **£0.500m** across each year of the forecast. However, there are increasing pressures on this annual figure.

Work remains ongoing with Departments and Portfolio Holders with the aim of remaining ‘sighted’ on potential future cost pressures for consideration as part of finalising the draft budget that will be presented to Cabinet in December 2023. As highlighted in the report to Cabinet on 6 October 2023, a summary of potential one-off and on-going items (such as those already identified in 2023/24) that will need to be considered, include the following:

- Potential net increases to cost of services – e.g. Careline and Homelessness
- Items funded in 2023/24 on a one-off basis which may continue in 2024/25 and beyond
- Increased contract costs e.g. Waste, Recycling and Street Cleaning when retendered and External Audit Fees
- Asset repairs and maintenance, IT equipment renewals
- Supporting the delivery of strategies, priorities and objectives
- Meeting coast protection responsibilities
- Areas of the budget currently experiencing reductions in income – how long will they continue for?
- Fixed term posts coming to an end e.g. Housing Early Intervention Officer and Family Support Officer

On-Going Savings Required

Developing 'a savings framework' alongside the emerging Corporate Plan remains a key activity over the coming months. The level of time and resources required to not only develop the above framework but to also deliver the required savings should not be underestimated. Set against the ongoing delivery of existing projects such as the Levelling Up Scheme and Freeports, there needs to be a clear focus on the timely development of the plan whilst managing competing resources over the coming months.

Since the Q1 report was reported to Cabinet on 6 October 2023, the Council's Section 151 Officer has met with Senior Managers across the various departments to explain the forecast and set out the savings requirements alongside developing a template to capture key information. Senior Managers are now working alongside Portfolio Holders to bring this information together so that it can be considered against the context of the emerging Corporate Plan. Information to be captured includes statutory / discretionary activities, high level financial information, potential efficiencies and potential savings options.

As set out in earlier reports, the Council's long-term plan and Forecast Risk Fund provide flexibility and support against which the above can be considered. Extending the current financial forecast period will also be considered as part of developing the forecast over the second half of the year, that may provide further financial flexibility and support along with further opportunities to respond to the structural annual budget deficit that is still estimated to remain at the end of 2026/27.

The Forecast Risk Fund relies on in-year outturn contributions of **£0.250m** per annum to support the overall balance in the reserve, which in turn underwrites the various risks to the forecast. As set out in Section 1 of this report, it is proposed to make a further contribution of **£0.671m** to the Forecast Risk Fund, which brings the total contribution to this reserve to date in 2023/24 to **£0.840m**. It is important to highlight that cost pressures such as those mentioned earlier may need to be included in the 2023/24 budget, which may therefore result in 'negative' adjustments being required against the Forecast Risk fund during the second half of the year. Based on the updated forecast set out in **Appendix 2A** the fund is still estimated to total **£6.142m** at the end of 2023/24, which therefore remains available to support the development of the forecast from 2024/25 and beyond.

As previously discussed, it is recognised that the use of reserves and one-off amounts to balance the budget is not sustainable in the long term. However, by balancing the use of existing reserves and potentially one-off funding in the short to medium term, it provides additional flexibility to develop the framework in which to identify the required savings from 2024/25.

Although the forecast does not reflect the Government's intended comprehensive spending review, they have stated that *'their ambitions for Levelling Up the country require us to assess our commitments to update local government funding. The government had previously committed to carry out a Review of Relative Needs and Resources and a reset of accumulated business rates growth. Whilst we can confirm that these will not be implemented in this Spending Review period, the government remains committed to improving the local government finance landscape in the next Parliament'*

The Government have also confirmed that the core settlement will continue in a similar manner for 2024/25, with the major grants continuing as set out for 2023/24. Although the

actual position for 2024/25 remains subject to the Annual Local Government Financial Settlement that the Government will announce in December, their commitment is viewed positively, which may result in additional funding being receivable in 2024/25. However, based on the Government's statement above, the longer term position is much more unclear and will be subject to a future Government in the next parliamentary period. Therefore any additional funding that may be receivable in 2024/25 should be seen as being on a one-off basis at the present time, with the forecast subject to revision based on future Government announcements.

Risk Assessment

Given the inherent risks to the forecast, a risk assessment of each line of the forecast is maintained. This has now been reviewed and is set out in **Appendix 2B**.

As indicated in recent S114 notices issued by some Local Authorities, a major issue faced by Councils is not having the necessary practical and pragmatic plans in place to identify the savings required to balance their budgets. As seen in the reports recently considered by Birmingham City Council, some of their identified options for savings were seen to be high risk and potentially unachievable. Such issues need to be factored into the development of the framework against which savings are delivered as highlighted above.

Sensitivity Testing

Work remains in progress to update the usual sensitivity testing approach, with the outcome planned to be presented in reports later in the year as part of the development of the budget for consideration by Full Council in February 2024.

Housing Revenue Account

As highlighted within the Q1 report presented to Cabinet on 6 October 2023, some of the challenges set out above that relate to the General Fund will have an equally challenging impact on the HRA - one such example being inflation. The HRA faces some significant financial pressures looking head such as the telescopic impact of the rent 'cap' in 2023/24 along with increased expectations emerging from the Social Housing Regulation Act and associated enhanced role of the Housing Regulator.

In light of the above, work remains in progress on revising the HRA 30 year Business Plan, which will inform the draft HRA budget proposals for 2024/25 that are planned to be presented to Cabinet in December 2023.

PREVIOUS RELEVANT DECISIONS

General Fund Budget and Council Tax 2023/24 – Item A.1 Full Council 14 February 2023

Housing Revenue Account Budget 2023/24 - Item A.2 Full Council 14 February 2023

Detailed Outturn Report 2022/23 – Agreed by the Portfolio Holder for Finance & Governance 10 July 2023

Outturn Report 2022/23 – Item A.8 Cabinet 21 July 2023

Financial Performance Report 2023/24 – General Update at the end of July 2023 – Item A.5 Cabinet 6 October 2023

BACKGROUND PAPERS AND PUBLISHED REFERENCE MATERIAL

None

APPENDICES**RELATING TO SECTION 1 OF THE REPORT**

Appendix 1 - Front Cover and Executive Summary
Appendix 1A – Summary by Portfolio / Committee
Appendix 1B – General Fund Budget Position by Department
Appendix 1C – Housing Revenue Account Budget Position
Appendix 1D – Capital Programme
Appendix 1E – Collection Performance – Council Tax, Business Rates, Housing Rent and General Debts
Appendix 1F – Treasury Activity
Appendix 1G – Income from S106 Agreements
Appendix 1H – Proposed Adjustments to the Budget 2023/24

RELATING TO SECTION 3 OF THE REPORT

Appendix 2A – Updated Long Term Financial Forecast
Appendix 2B – Long Term Financial Forecast – Risk Review

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