Report to Executive

Meeting Date – 19 March 2024
Key Decision – No
Public/Private – Public

Portfolio – Cllr Barbara Cannon, Executive Member - Financial Planning & Assets
Directorate – Resources
Lead Officer – Catherine Bell, Chief Finance Officer

Finance Report – Quarter 3 (April to December) 2023

Summary:

This report informs members of the Council's financial performance against budget for the period April to December 2023 along with the forecast position to 31 March 2024.

Recommendations:

- Members are asked to note the contents of this report
- To approve the adjustments to the capital programme totalling £41,810,279 as detailed in section 3 of the report

Reason for Recommendation:

The reason for this recommendation is to ensure that members are fully briefed on the Council's financial performance against budget for the period April to December 2023 along with the forecast position to 31 March 2024.

Tracking

Executive:	March 2024
Scrutiny:	N/A
Council:	N/A

1. Background and Introduction

1.1 The Council's Financial Regulations require the Section 151 Officer to report to Executive on a quarterly basis, the latest financial position against budget.

1.2 This report outlines for the Council's revenue budget:

- actual (net) expenditure during the period April to December 2023
- the projected net expenditure (full year forecast/forecast outturn) against budget for the year to 31 March 2024
- reasons for significant variances between the full year forecast and the approved estimates (budget) for 2023-24.

1.3 The report also provides an update on quarterly reporting arrangements relating the Council's Capital programme and treasury management activities.

2. Key Messages

2.1 The headline messages at the end of the second quarter of 2023-24 are:

Revenue Budget

(i) The quarter 3 projected outturn will require an un-budgeted contribution from general fund balances of £5.809m, consisting of:

- forecast £5.171m adverse variance - after application of exceptional financial support (EFS) / use of Capitalisation Direction
  - an improvement of (£3.703m) when compared to Q2
- an adverse variance of £0.638m in respect of income from business rates and non-specific grants
  - an adverse change of £1.027m when compared to the Q2

(ii) Overall, this represents a favourable change of (£2.676m) when compared to Q2 (which forecast a contribution of £8.485m from General Fund)

(iii) This improved position, when compared to Q1 and Q2, reflects the on-going work undertaken to identify and deliver budget mitigations across the Council

Capital Budget

(iv) Expenditure from the capital budget is forecast to be underspent by £176.973m,

(v) £173.879m of this underspend relates to budgets which are subject to re-profiling adjustments (budgets that will be carried forward), the majority of which (£146,637) is included as part of the 2024/25 budget report, leaving an additional £27.242m that will need carried forward to future years at the end of March 2024.

(vi) This has resulted in an overall favourable variance (net of re-profiling/carry forward requests) of £3.095m.

Treasury Management

(vii) Treasury management activities during the period were carried out in accordance with the Council's treasury management and investment strategies and within the limits established by the approved Treasury and Prudential Indicators for 2023-24.

3. Revenue Outturn Position

Summary of Projected Revenue Outturn Position

3.1 Table 1 shows the Council's overall projected 2023-24 revenue outturn position at the end of quarter three (Q3):

- current net budget expenditure on services of £299.769m
- a forecast net expenditure of £304.940m (£317.790m less £12.850m EFS)
- resulting in an adverse variance of £5.171m - after application of EFS
  - an improvement of (£3.703m) when compared to Q2
- an adverse variance of £0.638m - in respect of income from business rates and non-specific grants
  - an adverse change of £1.027m when compared to the Q2
- overall, this will require an un-budgeted contribution from general fund balances of £5.809m, consisting of:
  - a favourable change of (£2.676m) when compared to Q2 (which forecast a contribution of £8.485m from General Fund)
- There is £7.000m CCH additional income contributed to general fund, inline with the 2024/25 budget setting process and budget report

Table 1 - Summary of Projected Outturn against Annual Budget

	Approved Budget	Current budget	Projected Outturn	Projected Variance
	£m	£m	£m	£m
Net Expenditure on Services	**303.279**	**299.769**	**304.940**	**5.171**
Parish Precepts	0.000	**4.954**	4.954	0.000
Net Expenditure on Services & Parish Precepts	**303.279**	**304.723**	**309.894**	**5.171**
Less: Planned Use of Earmarked Reserves / GF	(11.723)	**(11.723)**	(11.723)	0.000
Less: Additional Use of Earmarked Reserves	-	**(3.490)**	(3.490)	0.000
Contribution (to) General Fund (CCH)	0.000	**7.000**	7.000	0.000
Net Budget Requirement / Projected Outturn	**291.556**	**296.510**	**301.681**	**5.171**
Funding:				
Taxation & Government Grants	(291.556)	**(291.556)**	(290.918)	0.638
Council tax from parish precept	0.000	**(4.954)**	(4.954)	0.000
Contribution from General Fund	0.000	**0.000**	(5.809)	(5.809)
Total Funding	**(291.556)**	**(296.510)**	**(301.681)**	**(5.171)**

3.2 The table shows the approved Net Expenditure on Services budget of £303.279m is now £299.769m. All adjustments, including those between directorates, are summarised in Appendix A

Analysis of Net Expenditure on Services against Budget

3.3 A summary of the projected adverse variance of £5.171m, by Directorate, is shown in the following table below. This comprises :

- £18.021m initial projected outturn variance, including expenditure funded from earmarked reserves, planned contributions to balances along with forecast transformation plan expenditure
- £12.850m application of exceptional financial support
- This has resulted in a adverse variance of £5.171m

3.4 This represents and improvement of £3.703m, when compared to the adverse variance of £8.874m reported at Q2

Table 2 - Summary of Variances by Directorate

Directorate – Q3	Current Budget	Full Year Forecast	Forecast Variance	EFS	Net Variance
	£m	£m	£m	£m	£m
Assistant Chief Executive	3.123	2.807	**(0.316)**	0.000	**(0.316)**
Business Transformation & Change	15.274	24.532	**9.258**	(5.221)	**4.037**
Resources	58.250	47.435	**(10.815)**	(0.200)	**(11.015)**
Place, Sustainable Growth & Transport	72.104	72.560	**0.456**	0.000	**0.456**
Public Health & Communities	7.720	7.712	**(0.008)**	0.000	**(0.008)**
Adult Social Care & Housing	77.693	77.604	**(0.089)**	0.000	**(0.089)**
Children & Family Wellbeing	65.372	84.907	**19.535**	(7.429)	**12.106**
Chief Executive	0.233	0.233	**0.000**	0.000	**0.000**
Total before un-allocated EFS	**299.769**	**317.790**	**18.021**	**(12.850)**	**5.171**

Change in variance since Q2

3.5 The overall favourable change of £3.703m since Q2, comprises:

Table 3 – Change in variance since Q2

	Variance at Quarter 2			Change since Q2 (Variance at Quarter 2 compared to Table 2 above)
	Forecast Variance exc' EFS)	EFS	Net Variance	Forecast Variance (exc' EFS)
	£m	£m	£m	£m
Assistant Chief Executive	**(0.294)**	0.000	**(0.294)**	**(0.022)**
Business Transformation & Change	**9.388**	(4.310)	**5.078**	**(0.130)**
Resources	**(7.648)**	0.000	**(7.648)**	**(3.167)**
Place, Sustainable Growth & Transport	**0.144**	0.000	**0.144**	**0.312**
Public Health & Communities	**0.000**	0.000	**0.000**	**(0.008)**
Adult Social Care & Housing	**1.871**	0.000	**1.871**	**(1.960)**
Children & Family Wellbeing	**18.263**	0.000	**18.263**	**1.272**
Chief Executive	**0.000**	0.000	**0.000**	**0.000**
Total before un-allocated EFS	**21.724**	**(4.310)**	**17.414**	**(3.703)**
Service expenditure covered by EFS	**0.000**	(8.540)	**(8.540)**	**0.000**
Net Expend. on Services	**21.724**	**(12.850)**	**8.874**	**(3.703)**

3.6 The EFS support has now been allocated across directorates, rather than being included as a general item, but the overall amount of EFS has not change since Q2

3.7 Excluding changes due to allocation of EFS between directorates, the favourable change of £3.703m since Q2 relates to:

- (£3.167m) favourable change in Resources Directorate, mainly due to a favourable change on treasury management (reduced borrowing costs and additional income from investments)
- (£1.960m) favourable change Adult Social Care & Housing Directorate, the majority of this change is a result of on-going budget mitigation work
- £1.272m adverse change Children & Family Wellbeing Directorate, the majority of this change is a result of continued staff pressure across Send, Education and Inclusion and shortfall in delivery of mitigations which were forecast to be fully achieved at Q2.
- £0.152 smaller overall adverse changes across other directorates

2023/24 Service expenditure covered by EFS (capitalisation)

3.8 As noted above, EFS support is included within the budget monitoring position covering both transitionary and transformation expenditure

3.9 The Cumberland budget included £10.000m recurring budget for LGR Transition Pressures:

- £1.000m pressure from non-staffing budgets relating to the legacy operating models.
- £6.000m Recruitment and Staffing – pressure to support the requirement to continue to deliver statutory responsibilities in both Adults and Children's services, including the recruitment of required statutory officer roles being disaggregated from the county. Also, to ensure there is sufficient capacity within corporate support and enabling services to deliver safe and legal services.
- £3.000m ICT costs for licensing and staffing costs relating to maintaining sovereign ICT systems whilst developing new ones for the new council. This allocation ensures Cumberland has sufficient resources available to cover the Cumberland share of additional costs for licensing and staffing that were expected to be incurred as a result of disaggregating the ICT service. In line with the IAA and SLA, as part of the Hosted ICT service, W&F and Fire will meet their own share of these additional costs.

3.10 In order to finance this budget, a request was made to the Department of Levelling Up Housing and Communities (DLUHC) for exceptional financial support (EFS) to assist the council in managing the transition and transformation - DLUHC confirmed this support would be available for 2023/24, allowing the authority to use capital resources to fund this revenue investment.

3.11 In setting the MTFP, the Council recognised that these £10.000m pressures would be recurring and that these would need to be included in the budget for 2024/25 onwards, but that alternative financing, or savings, would need to be identified through the transformation programme to enable the Council to continue to finance these pressures on a recurring basis.

3.12 As reported at Q2, the Council has reviewed its priorities for 2023/24 based on the latest forecast financial position and in addition to the budget mitigations, it was anticipated that £10.000 of service expenditure included within the Q2 forecast would be covered by the LGR Transition Pressures budget and would therefore be financed by the EFS (capitalisation direction), comprising :

- £1.460m for ICT costs, and
- £8.540m for other service costs

3.13 This has undergone a detailed review since Q2 and the current breakdown of EFS included at Q3, including an update on the transitional ICT, transitionary other service costs (other SC) and forecast Transformation Plan expenditure is included in the table below:

Table 4 : EFS in 2023/24

	Transformation	Transition	Total EFS
Business Transformation & Change			
Transformation	2.850	-	**2.850**
ICT	-	1.268	**1.268**
PMO	-	0.749	**0.749**
HR/OD	-	0.354	**0.354**
Business Transformation & Change	**2.850**	**2.371**	**5.221**
Resources (Legal and Finance)	-	0.200	**0.200**
Adult pressure	-	0.000	**0.000**
Children pressure	-	7.429	**7.429**
Total EFS	**2.850**	**10.000**	**12.850**

3.14 The use and allocation of EFS will continue to be reviewed and the final position will be reported as part of the Outturn for 2023/24.

Directorate Variances

3.15 A breakdown and analysis of significant variances between the current budget and full year forecast analysed by Directorate is set out in the following paragraphs.

<u>Assistant Chief Executive Directorate</u>

3.16 The forecast net favourable variance against the Assistant Chief Executive Directorate budget is (£0.316). This is a favourable change of (£0.022m) when compared to the (£0.294m) favourable forecast variance reported at Q2.

3.17 As reported at Q2 the variance is largely due to an underspend on staffing as a result of vacancies, secondments and income from staff currently shared with W&F.

Business Transformation & Change Directorate

3.18 The adverse variance of £4.037m at Q3, comprises:

- £4.123m is the most significant variance and relates to corporate savings, with no change being reported since Q2. Whilst this savings target for 2023/24 has not been achieved, a savings programme has been developed during the year and has now been incorporated into the 2024/15 budget and MTFP.
- (£0.086m) net favourable variance in relation to service budgets, consisting of :
  - £2.285m adverse position in relation to service expenditure,
  - (£2.371m) application of EFS to cover transitionary pressures. As reported at Q2, the transitional pressures now off-set through the application of EFS, include:
    - Programme Management Office (PMO) costs that were not part of the sovereign organisations staffing budgets but which are essential to development and delivery of the Transformation plan,
    - additional ICT staffing, operational and legacy system expenditure, and
    - HR/OD expenditure in relation to Trade Union facility time and use of agency cover for the vacant Assistant Director post
- £2.850m Transformation Plan expenditure, reducing to no variance after the application of £2.850m EFS

Resources Directorate

3.19 The favourable variance of (£11.015m) comprises:

- (£12.468m) favourable variance across the resources service areas
- £1.453m adverse variance on corporate vacancy management savings, as the savings have not yet been allocated across directorate service budgets.

3.20 The favourable service area variance of (£12.468m) comprises:

- (£10.565m) favourable variance in relation to treasury management, comprising reduced borrowing costs and additional income from investments. This represented a favourable change of (£4.028m) when compared to Q2

- (£2.220) favourable position across property services, comprising a favourable position in relation to the corporate landlord and corporate accommodation operational and utility budgets, underspends in relation to vacant posts and savings identified at Q2 as a result of capital financing changes (using prudential borrowing to finance school enhancement expenditure, rather than using revenue budget contributions). The latter has been made possible through the re-prioritising of underspends identified across the capital programme that were reported at Q2.
- £0.317m remaining adverse variance is made up of small variances, including adverse variances in relation to the business support service, car parking income, ceremony income and HM Coroners and favourable variances including staff vacancies within democratic, elections service, internal audit and other areas.

3.21 The £1.453m saving relates to corporate vacancy management savings, included within the 2023/24 base budget. Currently the savings budget is reported as part of the Resources Directorate, but the underspends to off-set this saving are reported as part of individual directorate variances. It is expected that the saving will be allocated across directorate budgets before the end of the financial year, to ensure this is in place for 2024/25.

3.22 The Pay, Inflation and Contingency budget in included within the resources directorate and was approved at £25m, consisting of £7.5m pay, £16.5m inflation (including £0.5m inflation risk allowance) and £1.0m contingency. The pay and inflation budget is fully committed and has therefore been forecast to budget with no under or overspend being reported at Q3.

3.23 The main balance still to be allocated from the Pay, Inflation and Contingency budget at quarter 3 relates to the pay-award. Now the pay-award has been agreed, this is in the process of being allocated to service budgets and will be complete before the end of the financial year.

3.24 The £7.5m allowed for a 5%, pay award which is not sufficient to meet the full cost of the agreed pay award. The potential impact has been modelled and could result in a shortfall for circa £1.2m, which would require the use of all of the remaining inflation risk allowance and contingency budget not yet allocated. This is only an estimate at this stage and the final impact will be reported within the 2023/24 outturn, once all of the remaining service budget allocations are complete.

Place, Sustainable Growth & Transport

3.25 The adverse variance of £0.456m comprises:

- (£0.232m) favourable variance in relation to Climate and Waste, consisting of:
    - £0.988m adverse variance in relation to Waste Collection, comprising and overspend of £0.331m due to the use of Agency staff to meet service demand within the in-house service delivery teams and lower trade refuse fees & charges income of £0.551m. The remaining adverse net variance of £0.106m relates to smaller variances including additional income from the sale of recyclable material.
    - (£1.216m) favourable variance in relation to Waste Disposal, comprising reduced costs of (£0.643m) in relation to the waste disposal contract, as a result of lower landfill sites costs, gainshare costs and disposal costs than has been included in the budget estimates. A saving has been identified in relation to surplus budget of (£0.362m) when reviewing the sovereign income / expenditure budgets for recycling credits. The remaining favourable net variance of (£0.211m) relates to smaller variances, including staff vacancies and landfill management costs.
    - (£0.004m) remaining favourable variance is due to smaller variances within Climate, Decarbonisation and Flooding

- (£0.069m) favourable variance in relation to Highways and Transport, underpinned by:
    - £1.281m adverse net variance in relation to road lighting energy, verge maintenance, mobile plant costs, traffic signal maintenance and operational materials costs exceeding budget. This is under review to identify options for addressing this position ahead of the final outturn position, so is subject to change before the end of the financial year
    - (£1.441m) favourable net variance in relation to Transport services, due to due to fewer journeys being undertaken as part of the English National Concessionary Travel Scheme (ENCTS) than allowed for within the budget
    - £0.091m remaining adverse variance is due to a number of smaller variances

- £0.462m adverse variance in relation to Neighbourhoods, underpinned by:
    - £0.268m Countryside Access pressure, with work on-going to secure grant income to off-set these costs so the position is subject to change before the final outturn.
    - £0.194m remaining adverse variance is due to a number of smaller variances, including street cleansing, bereavement services, grounds maintenance, green spaces and leisure services.
- £0.277m adverse variance in relation to Thriving Places. This net position is underpinned by both a reduction in income across building control and development management which has been partially off-set by underspends in relation to vacant posts across both services.

Public Health & Communities

3.26 At Quarter 3 the forecast net favourable variance is (£0.008), with no significant variances to report.

Adult Social Care & Housing Directorate

3.27 The favourable variance of (£0.089m) being forecast at Q3 represents an improved position of (£1.960m) when compared to Q2 adverse variance of £1.891m.

3.28 This improved financial position is due to the on-going budget mitigation work that has taken place throughout Q3, both to address the previous projected adverse budget position reported at Q1 and Q2 and in preparation for the service review savings to be delivered in 2024/25.

3.29 Whilst the service is still subject to demand and pricing pressures, as reported at Q2, this has been mitigated by ensuring all available resources are maximised to ensure the cost of these pressures can be contained within the available budget and funding envelope.

Children and Family Wellbeing Directorate

3.30 Children & Family Wellbeing adverse variance of £12.106m, comprises:

- £19.535m adverse variance, before the application of EFS, and
- (£7.429m) application of EFS to cover transitionary pressures.

3.31 The adverse variance of £19.535m Is underpinned by:

- £0.139m adverse variance, including pressure of £0.066m associated with consultancy work from an experienced Ofsted inspector, with the remaining balance of £0.073m mainly due to subscription costs,
- £1.246m adverse variance for Send, Education and Inclusion. Underpinned by overspends for SEND relating to Area Inclusion due to the demand pressures on Direct Payments. The number of children in receipt of a Direct Payment at the beginning of January 2024 was 206. This represents an increase of 6.2% during Q3 and an overall increase of 12.6% since April 2023,
- £1.500m savings not being delivered in 2023-24. Whilst this savings target for 2023/24 has not been achieved, a savings programme has been developed during the year and has now been incorporated into the 2024/15 budget and MTFP,
- £3.682m adverse variance for Quality and Resource. Mainly due to overspend of £3.114m on Home to School and SEND transport, based on underlying commitments in this service. Work is underway to transformation processes and procedures within this area, which is expected to significantly improve the financial position leading into 2024/25,
- £12.968m adverse variance, due to pressure in relation to Children and Families, Mainly due to:
    - £10.787m adverse variance in relation to Cared for Children (CFC), and
    - £2.273m adverse variance in relation to Support and Protect Services,
    - (£0.092) net favourable variance due to a number of smaller variances across C&F management, early help, youth offending, prevention and other services.

Cared for Children (CFC) - £10.787m adverse variance

3.32 The Cared For Service has a budget of £34.232m and a forecast outturn pressure of £10.787m, underpinned by the following variances:

(i) Cared for Children (CFC) placement costs - £7.491m – overspend

(ii) Other Cared For Children costs - £3.296m overspend, comprising:

- staff costs- £0.673m – overspend
- Pathways Pressure - £1.209m – overspend
- SGO allowances - £0.650m – overspend
- Travel and transport £0.272m – overspend
- other service areas - £0.492m combined net adverse variance

(i) Cared For Children Placement Costs - £7.491m – overspend

3.33 The budget for 2023-24 included £5.000m to fund ongoing pressures within the service. It also included £1.916m of budget growth for price inflation. Despite this additional funding, at Q3 there is a forecast (full year) overspend on CFC costs of £7.491m, a decrease of (£0.367m) when compared to the adverse variance reported at Q2.

3.34 The reduction is due mostly to an expected increase in contributions of from North East and North Cumbria ICB towards a complex care package and backdated to November 2021.

3.35 The service continues to face demand pressure. At Q3 the number of CFC is 503, an increase of 17 from the 486 reported at the start of the year

3.36 The 503 CFC is a small reduction from the 506 reported at Q2.

3.37 As well as increasing demand, there are a number of key issues contributing to the CFC placement cost pressure:

- Two exceptional bespoke packages of care (one ended in October 2023): required for CFCs with very complex needs for whom no suitable external placement could be found or maintained. The forecast cost for these two packages alone is £0.813m (3% of the total CFC placement cost budget).
- An increase in the number of high-cost packages: excluding the two bespoke packages, at Q3 there were 10 packages with a cost to social care of £7,000 or more per week. The forecast cost for these 10 is £3.265m (12% of the total CFC placement cost budget).
- A high number of external residential packages: at Q3 there were 70 external residential packages with a forecast cost of £18.362m. The number of packages was 72 at Q2 and then reduced by two to 70 at Q3. Although the 70 represent just 14% of the 503 CFCs, the forecast cost equates to 68% of the £26.921m CFC placement cost budget.

3.38 Sufficiency of placements and the ability to place CFCs in the preferred setting has become very challenging. Unavailability of external foster placements in particular has seen CFCs placed in residential placements because there was no alternative.

(ii) Other Cared for Children Costs - £3.296m overspend

3.39 In addition to the CFC placement cost pressures, the forecast Cared for Children Service overspend of £10.787m also includes a projected full year overspend of £3.296m in respect of Other Children & Families costs – an increase of £0.461m when compared to the adverse variance reported at Q2. Key items underpinning this overspend include:

- £0.673m staff cost pressure at Q3, a decrease of (£0.109m) compared with Q2. Agency costs of £1.362m are offset by staffing underspends of (£0.689m) resulting in a net pressure of £0.673m. At Q3 Cared For Children had 16.6 FTE agency staff and 16.9 permanent staff vacancies.
- £1.209m Pathways payments pressure at Q3, an increase of £0.306m compared to Q2. The pressure includes £0.620m specifically in relation to 48 UASC care leavers who are unable to leave their CLA placements due to delays in processing their asylum claims. Once a UASC turns 18, the Home Office funding received by the Council falls from between £798 - £1,001 to £270 per week. This leaves a shortfall compared to the £1,153 average weekly cost of the CLA placements in which they remain.
- £0.650m Special Guardianship Order (SGO) payments pressure at Q3, an increase of £0.058m compared with Q2. In 2021/22 SGO payment pressures were funded by the realignment of funding from other Children and Families budgets. Despite this, the continued growth in SGOs qualifying for means tested financial support has resulted in a £0.650m pressure at Q3. At December 2023 the Service was funding SGO allowances for 261 children. However, SGO payments are still seen as a more cost-effective alternative to children and young people being looked after.
- £0.000m Adoption Inter Agency Fees £0.000m, unchanged compared with Q2.
- £0.078m CFC other agency services pressure, an increase of £0.024m compared with Q2. The pressure relates to other agency costs for external support provided to CFCs outside their main placement package. These include therapy and other professional support services.
- £0.272m Travel and transport pressures at Q3 an increase of £0.087m compared with Q2. The biggest areas of travel cost pressures are home to school transport £0.070m, contact visits £0.053m, staff care hire £0.049m, and EPWs travel £0.040m.
- £0.414m Other net pressures make up the remaining balance. This is an increase of £0.095m compared with Q2. This includes a pressure of £0.166m on adoption allowances.

Support & Protect Services - £2.273m adverse variance

3.40 The budget for Support and Protect Services totals £6.814m and has a forecast pressure of £2.273m at Q3, a reduction of (£0.079m) compared with Q2.

3.41 Agency costs of £3.955m are only partially offset by staffing underspends. The forecast agency spend includes £0.406m for a managed team of six EPWs in the Allerdale and Copeland district which has been put in place pending the ongoing recruitment of overseas social workers. At Q3 Support and Protect had 38.8 FTE agency staff with 39.3 FTE permanent staffing vacancies.

Taxation and Non-specific grant income

3.42 Details of the Council's taxation and non-specific grant income and expenditure for the year compared with budget, are shown in the following table. This includes income received from:

- Non-ringfenced government grants, such as Revenue Support Grant and New Homes Bonus
- Council tax and Non Domestic Rates (NNDR).

Table 5 - Taxation and Non-specific grant income

	Original Budget £m	Projected Outturn £m	Variance £m
Revenue support grant	11.380	11.380	0.000
Rural Services Delivery Grant	2.499	2.793	0.294
New Homes Bonus	0.957	0.957	0.000
Other Gov. grants (Lower Tier Services Grant)	0.000	0.000	0.000
Other Gov. grants (Services Grant)	2.324	2.419	0.095
Social Care Grant	25.101	25.101	0.000
CNFR - PFI grant	11.882	11.882	0.000
Focused Families	0.825	0.825	0.000
Other smaller Grants	0.620	0.620	0.000
NNDR funding	84.041	82.988	(1.027)
Council tax – excluding parish element	152.883	152.883	0.000
Collection fund surplus/(deficit) - Council Tax	(0.930)	(0.930)	0.000
Use of /(contribution to) General Fund Balances	0.000	0.000	0.000
	291.556	**290.918**	**0.638**

NNDR Funding (Business Rates)

3.43 The amount of NNDR income available to the Council's general fund and taken into account when setting the budget, is based on an estimate made in January preceding the start of the financial year and included in the government return NNDR 1 (i.e. January 2023 for the 2023-24 Financial Year). The estimate of business rate income, reported in the government return NNDR 1, also determines how much the Council must pay to central government and the Cumbria Police, Fire and Crime Commissioner during the course of the year.

3.44 Although the NNDR1 return fixes a significant portion of NNDR income available to the Council's General Fund for the financial year, it does not fix:

- the grant it receives from central government to compensate for certain business rate reliefs (section 31 grant)
- the balance of amount payable or receivable in respect of the preceding years disregarded income (renewable energy and designated areas disregarded income reconciliation adjustments).

The 2024/25 local government finance settlement

3.45 In addition to setting out the financing for 2024/25, the 2024/25 local government finance settlement and associated announcement included an update to the 2024/25 NNDR income:

(i) The top-up grant received by Cumberland is being reduced by £0.732m on a recurring basis. The allocations provided by the 2023/24 settlement, and included in the Cumberland budget, were based on governments initial calculations following the 2023 business rates revaluation. Government have now recalculated the amount of grant due to each local authority and provided amended allocations through the 2024/25 settlement, with the changes to be made retrospectively to include 2023/24.

(ii) Section 31 grant – compensation based on top-up, has reduced by £0.124m, due to the overall reduction in the level of top-up grant now allocated to Cumberland.

(iii) The final settlement also announced a one-off allocation to be made in 2023/24 from the business rates levy account. This will be a national allocation of £100m to be distributed based on government Strategic Funding Assessment (SFA). This funding is to be accounted for in 2023-24, not 2024-25.

Section 31 grant – other compensation

3.46 In addition to the changes notes above, there is also a projected reduction in s31 grant receivable, mainly due to a reduction in grant receivable in relation to the award of retail, hospitality and leisure relief in 2023-24 and prior years. This follows significant reductions in the rateable values (RVs) of retail properties (supermarkets) following successful appeals against the 2017 list. This reduction in RVs has also been a significant contributory factor to the estimated 2023-24 collection fund deficit (NNDR) included in the 2024-25 budget.

3.47 The composition of funding available from business rates in 2023-24, including related s31 grants is summarised in the table below:

Table 6 - Composition of NNDR (Business Rates) Funding

Funding element	Original Budget £m	Projected Outturn £m	Variance £m
Fixed Elements:			
Cumberland share of NNDR Income	51.956	51.956	0.000
Amounts retained in respect of Designated Areas	0.289	0.289	0.000
Amounts retained in respect of renewable energy schemes	1.238	1.238	0.000
Qualifying relief in Designated Areas	0.182	0.182	0.000
Net top-up (tariff) payable to Central Government	12.208	11.476	(0.732)
Share of estimated collection fund surplus/(deficit)	(6.807)	(6.807)	0.000
Total 'Fixed' element of NNDR income	**59.066**	**58.334**	**(0.732)**
Variable Elements:			
Recon adj. re PY disregarded income - Designated areas	(0.007)	(0.007)	0.000
Recon adj. re PY disregarded income - Renewable Energy	0.021	0.021	0.000
Section 31 grant – compensation based on top-up	2.079	1.955	(0.124)
Section 31 grant – other compensation	20.341	19.701	(0.640)
Total Variable element of NNDR income	**22.434**	**21.670**	**(0.764)**
Total Fixed & Variable Elements	**81.500**	**80.004**	**(1.496)**
Transfer from Earmarked Reserves	2.515	2.515	0.000
Share of Levy Account Funding – additional funding	0.000	0.469	0.469
NNDR income	**84.015**	**82.988**	**(1.027)**

4. Capital budget

4.1 The current capital budget is £331.153m, comprising:

- £174.107m approved budget for 2023-24 (approved February 2023)
- £73.674m budget carry forward from 2022-23
- £40m approved for exceptional financial support
- Budget adjustments of £1.562m as approved in the Quarter 2 report
- Further budget adjustments of £41.810m as detailed in the table below:

Table 7 Capital Budget Adjustments

Adjustments:	Director Approval £	Executive Approval £	Council Approval £
Repayment of Sustainable Warmth Grant		(1,807,732)	
Lawn Tennis Association Grant		80,402	
Carlisle Southern Link Road Grant		40,854,556	
Family Hubs Grant		167,000	
Additional Roads Funding Grant		1,949,000	
National Highways Contribution		100,000	
S106 contribution to William Howard School Improvements		467,053	
Virement from Major Projects Match Funding (recommended by SPP)		(361,578)	
Virement to Carlisle Station Gateway (recommended by SPP)		361,578	
	0	**41,810,279**	**0**

4.2 The projected Capital Outturn position for 2023-24 is summarised in the table below. This shows:

- a projected outturn position of £154.180m
- an underspend compared to budget of £176.973m
- expected budget carry forward requests (re-profiling adjustments) of £173.879m (£141.637m of which has been requested for carry forward as part of the 2024-25 budget setting process)
- an overall favourable variance (net of carry forward requests) of £3.095m.

Table 8 – Capital Programme – Projected Outturn by Portfolio

	Current Budget £'000	Projected Outturn £'000	Outturn Variance £'000	Projected Reprofiling/ Carry Fwd £'000	Variance £'000
Capital Expenditure					
Adult Wellbeing and Housing	16,967	11,922	(5,045)	3,954	(1,091)
Business Transformation and Change	1,382	721	(661)	661	0
Children and Family Wellbeing	17,436	12,943	(4,493)	4,180	(313)
Place, Sustainable Growth and Transport	242,098	111,639	(130,459)	128,996	(1,463)
Resources	13,270	4,105	(9,165)	8,938	(227)
Exceptional Financial Support	40,000	12,850	(27,150)	27,150	0
Total - Capital Expenditure	**331,153**	**154,180**	**(176,973)**	**173,879**	**(3,094)**
Capital Financing					
Capital Grants	232,493	121,451	(111,042)	110,826	(216)
Capital Receipts	1,541	97	(1,444)	1,392	(52)
Earmarked Reserves	1,872	476	(1,396)	1,423	27
General Fund Balances	1,479	394	(1,085)	983	(102)
Borrowing	93,768	31,762	(62,006)	59,255	(2,751)
Total - Capital Funding	**331,153**	**154,180**	**(176,973)**	**173,879**	**(3,094)**

4.3 A breakdown of the projected budget reprofiling and year end carry forwards is shown in the table below:

Table 9 project reprofiling

	Reprofiling as part of 2024/25 Budget Process £'000	Projected Carry Fwd at Year End £'000	Projected Budget Reprofiling/ Carry Fwd £'000
Capital Expenditure			
Adult Wellbeing and Housing	0	3,954	3,954
Business Transformation and Change	0	661	661
Children and Family Wellbeing	0	4,180	4,180
Place, Sustainable Growth and Transport	119,487	9,509	128,996
Resources	0	8,938	8,938
Exceptional Financial Support	27,150	0	27,150
Total - Capital Expenditure	**146,637**	**27,242**	**173,879**
Capital Financing			
Capital Grants	97,423	13,403	110,826
Capital Receipts	162	1,230	1,392
Earmarked Reserves	1,400	23	1,423
General Fund Balances	0	983	983
Borrowing	47,652	11,603	59,255
Total - Capital Funding	**146,637**	**27,242**	**173,879**

4.4 After the reprofiling exercise carried out for the 2024/25 budget process, it is projected that a further £27.242m will need carried forward to future years at the end of March 2024.

4.5 Details of the capital programme are set out in Appendix B.

4.6 The £3.094m underspend, mainly relates to schemes previously expected to be financed by Borrowing. The majority of this underspend is due to the reduction in expenditure forecast across a number of budget lines, where there is no existing commitments, but where a budget has been included because it had formed part of the sovereign Council's Capital Programme.

4.7 The impact of this position is that :

- the delay in the Councils need to borrow £59.255m, as a result of the projected budget carry forward, is instrumental in being able to achieve the favourable position reported against the treasury management (borrowing and investment) budget included in the revenue forecast
- the reduction in the Councils overall need to borrow of £2.751m, as a result of the underspend, has allowed the Council to review its overall capital financing and has allowed a number of mitigations included in the revenue budget forecast

5. Impact on General Fund and Earmarked Reserve Balances

5.1 Reserves provide the cushion to deal with uncertainty, risks and unforeseen events in the year, and the opportunity to respond to service changes outside existing plans. They provide flexibility and are key to a financially sustainable Council.

5.2 The Councils policy on reserves is that wherever possible reserves should not be used to fund recurring expenditure, but that where it is, this should be made explicit, and steps taken to address the situation in the following years.

5.3 The position needs to be reviewed constantly throughout the financial year and early corrective action may be required should any forecast indicate the reserves and balances will fall to, or below, the minimum levels deemed to be prudent by the Section 151 officer.

5.4 The impact of current budget forecasts on the Council's General Fund and Earmarked Reserve balances is summarised in the following table.

Table 10 - Forecast movement on General, Earmarked and DSG Reserve

	General Fund (GF) £m	Earmarked Reserves (EMR) £m	Schools Earmarked Reserves £m	DSG Adj. Unusable £m	Total £m
Opening Balances April 2023	**28.350**	**80.426**	**4.806**	**(12.290)**	**101.292**
Transfer between reserves	(1.381)	1.381	0.000	0.000	**0.000**
Amended Opening Balances April 2023	**26.969**	**81.807**	**4.806**	**(12.290)**	**101.292**
Transfers to/(from) Reserves:					
Use for capital programme	0.000	(0.471)	-	-	(0.471)
Planned use to support Revenue Budget	(11.723)	-	-	-	(11.723)
Unplanned contribution to GF (CCH)	7.000	-	-	-	7.000
Unplanned use to support Revenue Budget	(5.809)	-	-	-	(5.809)
To/(from) Earmarked Reserves	-	(3.490)	-	-	(3.490)
EMR to be released to GF - Grants	2.626	(2.626)	-	-	0.000
EMR to be released to GF - Other	13.188	(13.188)	-	-	0.000
GF to be transferred to EMR for NNDR	(5.000)	5.000	-	-	0.000
Transfer from Earmarked Reserve - 2022-23 s31 grant and Copeland retained business rates safety-net	-	(2.515)	-	-	(2.515)
Addition to DSG unusable reserve 2023-24	-	-	-	(3.043)	(3.043)
Movement in maintained school balances	-	-	(3.532)	-	(3.532)
Increase/(Decrease) in Balance	**0.282**	**(17.290)**	**(3.532)**	**(3.043)**	**(23.583)**
Forecast Balance at 31 March 2024	**27.251**	**64.517**	**1.274**	**(15.333)**	**77.709**

5.5 General Fund forecast balance of £27.251m, at 31 March 2024, consists of:

- £0.964m to support the 2024-25 Revenue Budget

5.6 There would be a remaining General Fund balance of £26.287m compared to £12.858m included in the 2024/25 budget report – an improved position of £13.429m, due to:

- (£0.357m) not currently forecast to support the 2023/24 capital programme,
- (£3.036m) not currently forecast to support the 2023/24 revenue budget (£8.845m at Q2 compared to £5.809m at Q3)
- (£10.036m) not used to support 2024/25 revenue budget (£0.964m compared to £11.000m in the high level budget report estimate). This is largely due to £10.000 being included in the 2024-25 Revenue Budget as potentially being required, pending outcome of the EFS application, which has now been confirmed

5.7 Earmarked Balance forecast balance of £64.517m, at 31 March 2024, consists of:

- £22.245m Carlisle North Development Road (CNDR) PFI reserves
- £18.328m Grants and contributions from third parties for specific scheme/projects
- £7.043m Self Insurance reserve
- £5.000m to be released to support 2024/25 budget (NNDR income)
- £2.101m related to hosted service and held on behalf of all authorities within the agreement(s)
- £9.800m other earmarked balances

Schools Earmarked Reserves

5.8 Schools Earmarked Reserves in the above table, relate to Maintained Schools Balances, which comprise unspent balances of budgets delegated to individual schools.

5.9 At 1 April 2023 the net surplus balances on maintained schools was (£4.806m).

5.10 Based on school submitted October budget plans for 2023/24 the net surplus balance for maintained schools is projected to be (£1.274m) as at 31 March 2024. The table below shows a breakdown of these figures separately by surpluses and deficits:

Table 11 - Projected Maintained Schools Balances 31 March 2024

	Opening Balance No.	Opening Balance £m	Forecast Balance at 31.3.24 No.	Forecast Balance at 31.3.24 £m	Change in value £m
Maintained Schools with Surpluses	108	(8.010)	107	(5.867)	2.413
Maintained Schools with Deficits	19	3.204	19	4.593	1.389
Total	**127**	**(4.806)**	**126**	**(1.274)**	**3.532**

5.11 One school has applied for academy status with a provisional conversion date of 1 November 2023. There was a net surplus for this school at the end of 31 March 2023, meaning if the conversion goes ahead this will have a negative impact on the maintained schools' net surplus balance in 2023-24.

5.12 Schools that have proposed deficit budget plans are required to submit a deficit recovery plan and regular budget monitoring reports to the finance team for review.

Dedicated School Grant (DSG) balances

Background and Treatment of DSG balances

5.13 The Council's expenditure on schools is funded primarily by grant monies provided by the Education Funding Agency, the Dedicated Schools Grant (DSG).

5.14 DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Finance Regulations 2020. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

5.15 Regulations effective from 1 April 2020 require that a Schools Budget deficit must be carried forward to be funded from future Dedicated Schools Grant (DSG) income, unless permission is sought from the Secretary of State for Education to fund the deficit from the General Fund. They also require that where a local authority has a deficit on its Schools Budget (i.e. any deficit between the DSG grant and sixth form grant received in year and the schools budget expenditure) relating to its accounts for the financial years 2020-21, 2021-22 and 2022-23, it must not charge that deficit to the general fund, but instead record that deficit in a separate (unusable) reserve account - The Dedicated Schools Grant Adjustment Account. The account also includes any cumulative deficit carried at the end of financial year 2019-20.

5.16 The new accounting practice has the effect of separating schools budget deficits from the local authorities' general fund for a period of three financial years. In 2023, the period covered by regulations was extended for a further three years through to 31 March 2026. If in any of the years 2021-22 to 2025-26 there is a surplus on the schools budget i.e. the DSG grant and sixth form grant received exceeds schools budget expenditure, this is not taken to the unusable reserve noted above but should be held from a budgetary perspective as a ring-fenced reserve.

DSG forecast 2023/24

5.17 The Dedicated Schools Grant (DSG) budget has a forecast in year overspend of £3.042m at Q3 (compared to £2.084m at Q2). This variance comprises:

- £3.480m overspend on the High Needs Block
- (£0.438m) underspend on Central DSG

5.18 The forecast cumulative deficit at 31 March 2024 is therefore £15.333m (compared to the opening deficit balance of £12.290m)

5.19 The statutory override means that the Council's general reserves are not impacted by the deficit on the DSG which has been extended to 31 March 2026.

5.20 The table below shows the position on both the Central DSG and High Needs Block (this excludes individual school balances):

Table 12 - DSG Central DSG and High Needs Block forecast outturn

	Central DSG £m	High Needs Block £m	Total £m
DSG Balance at 31 March 2023	**4.305**	**(16.595)**	**(12.290)**
Forecast (over)/under spends on DSG in 2023-24	0.438	(3.480)	(3.042)
Forecast DSG balance at 31 March 2024	**4.743**	**(20.075)**	**15.333**

Central DSG

5.21 Central DSG reserve is forecast to increase by (£0.438m). The key variances are:

- Contingency Fund (£0.324m), based all known calls on contingencies to date.
- Nursery Grants (£0.314m). Based on actual take-up of provision. The forecast is net of additional funding of relating to the final adjustment to the 2022/23 Early Years Block allocation to reflect the Spring 2023 actual take-up.
- The remaining balance relates to individually non-material variances totalling a net overspend of £0.200m.

High Needs Block

5.22 The budget deficit on the High Needs Block is forecast to increase by £3.480m

5.23 The pressure against the High Needs Block continues to be due to specific budget pressures relating to the growth in demand for Education Health Care Plans (EHCPs) for children and young people with SEN.

5.24 The number of children with EHCPs as at Q3 is 2,709. This figure provisional pending the completion of the disaggregation of cases between the two new authorities.

5.25 Cumberland's percentage of pupils with EHCPs is higher compared to the national and statistical neighbours rates, although the rate of increase for Cumbria overall is largely matched by the rate of increase both nationally and against our statistical neighbours

5.26 Cumbria took part in the Department for Education's Delivering Better Value for SEND programme and successfully applied and received approval for a £1m grant for each new authority to support their improvement plans the impact of which will be incorporated into Cumberland's DSG management plan in due course.

5.27 The key variances underlying the forecasted High Needs Block deficit (overspend) include:

- **Special Schools £0.563m**. The pressure, which represents an increase of £0.044m compared to Q2, mainly relates to new and amendments to EHCP top-ups since the start of the year of £0.369m additional costs associated with the expansion of new places of £0.121m, the remaining balance relates to pre-existing budget pressures of £0.073m.

- **Independent Specialist Placements (ISPs) & Other Placements £0.329m**. This represents an increase in forecast expenditure of £0.255m compared to Q2. The forecast is based on current and known new non-residential ISPs coming through the system. The forecast expenditure for ISPs is predicted to be £3.395m which represents an increase of £0.252m compared to Q2 and mainly relates to 5 new placements that started during Q3. The current overall number of ISPs is 65 and the average full year cost of a non-residential ISP is £55,509 as at Q3. Also included within this budget line is forecast EHCP top-ups for children placed in Westmorland & Furness schools of £0.563m, children placed in other local authorities of £0.223m and forecast costs associated with children being educated other than at a school (EOTAS) of £0.588m representing a net increase of £0.130m compared to Q2.

- **Residential ISPs (£0.330m).** This represents a decrease in forecast expenditure of £0.228m compared to Q2. The forecast is based on current and known new placements. The current overall number of residential placements as at Q3 is 20. Since Q2 there have been 2 ceased placements. The average full year cost of a residential placement is £83,336 as at Q3 which is an increase of 2.4% compared to 2022/23.

- **Post-16 ISPs (£0.121m).** The forecast, which represents an increase in forecast expenditure of £0.58m is based on current and known new placements. The current overall number of Post-16 ISPs at Q3 is 25. There have been 3 new placements since Q2. The average cost of a post-16 ISP is £37,595 as at Q3 increase of 8.3% compared to 2022/23.

- **Post-16 Further Education (FE) Colleges £0.238m.** This represents an increased forecast overspend compared to £0.308m in Q2. The forecast expenditure includes estimated top-up payments to FE Colleges of £0.587m, other FE education providers of £0.428m and top-ups in mainstream post-16 schools of £0.088m. The movement of £0.419m compared to Q2 mainly relates to FE and other education providers of £0.127m and reduction in DSG of £0.906m following updated grant allocations to reflect recoupment of HN place funding for the academic year 2023/24.

- **High Needs Invest to Save Initiatives £0.202m.** The forecast expenditure here relates to the Early Intervention Programme which was rolled out to Mayfield and James Rennie in academic year 2022/23. The forecast includes a re-charge for the leadership provided by Sandgate for the two Hub schools of £0.031m.

- **EHCP top-ups for pupils in mainstream schools and Early Years Providers £2.463m**. The forecast, which represents an increase of £0.236m compared to Q2, is based on current EHCP costs and predicted number of new and amended ECHPs in-year. Since the start of the year there have been amendments to existing EHCPs of £0.206m, payments to PVIs of £0.390m, and new and forecasted new EHCPs based on known children coming through the system totalling £1.593m.

- **Pupil Referral Units £0.170m.** This pressure mainly relates to an additional 25 places with effect from September 2023 for West Cumbria Learning Centre of £0.146m.

- The remaining balance relates to individually non-material variances totalling a net overspend of (£0.034m).

6. Treasury Management

Treasury Management Activity

6.1 A summary of treasury management activity during the nine months to 31 December 2023, including details of investment and borrowing transactions and information about the Council's investment and loans portfolios, is contained in Appendix C. During the period ending 31 December 2023:

- treasury management activities were carried out in accordance with the Council's treasury management and investment strategies
- no new external borrowing was undertaken.

Treasury and Prudential Indicators

6.2 The Local Government Act 2003 requires the Council to determine and keep under review, limits on how much money it can afford to borrow by way of loans and other forms of credit. The processes the Council must follow in setting these limits (the 'Authorised Limit for External Debt') is set out in the Prudential Code for Capital Finance in Local Authorities to which the Council is required to 'have regard to' under provisions contained in the 2003 Act. In addition to the Authorised Limit, CIPFA's Prudential and Treasury Management Codes and accompanying sector guidance, include a number of other key treasury management indicators designed to support and record local decision making in connection with capital and treasury activities.

6.3 The Council's Authorised Borrowing Limit (the statutory limit on borrowing under the Local Government Act 2003), Operational Boundary (the limit beyond which external debt is not expected to exceed) and other indicators and limits required by CIPFA's Prudential and Treasury Management Codes, were set out in the Council's Treasury Management Strategy Statement and Investment Strategy for 2023-24.

6.4 During the period April to December 2023, the Council has operated within the limits established by the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement 2023-24. Further details relating to the treasury and prudential indicators, including performance against all forward looking prudential indicators are set out in Appendix C.

7. Alternative options considered

7.1 Not applicable to this decision/report.

8. Conclusion and reasons for recommendations

8.1 The reason for this recommendation is to ensure that members are fully briefed on the Council's financial performance against budget for the period April to December 2023 along with the forecast position to 31 March 2024.

8.2 Members are asked to note the contents of this report.

8.3 To approve the capital programme amendments of £1,561,706 detailed in section 3

9. Implications

Contribution to the Cumberland Plan Priorities - Sound financial management is essential to successful delivery of the Council's financial plans, achievement of value for money, financial sustainability and the stewardship and safeguarding of public money.

Relevant Risks - Not applicable to this decision/report

Consultation / Engagement - Not applicable to this decision/report.

Legal - There are no legal or governance issues arising from this decision/report.

Finance - Financial issues and implications are included within the main body of this report.

Information Governance - There are no information governance issues arising from this decision/report.

Impact Assessments - Not applicable to this decision/report.

10. Contact details:

Contact Officer: Catherine Bell, Chief Finance Officer
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11. Appendices attached to this report

- Appendix A – Budget Amendments
- Appendix B - Capital Programme
- Appendix C – Treasury Summary

12. Background papers - None.