Manchester City Council
Report for Resolution

Report to: Executive – 5 June 2024

Subject: Revenue Outturn Report 2023/24

Report of: City Treasurer

Purpose of the Report

The report sets out the final outturn position for the Council's revenue budget in 2023/24. It also highlights the movements from the previous forecast for the year, which was reported to the Executive in February 2024.

Recommendations

The Executive is requested to:

1. Note the 2023/24 outturn position reporting a £5.3m overspend for the year.
2. Approve the proposed budget virements (para. 3.1).
3. Approve the proposed use of revenue grant funding (para. 3.2).
4. Approve the use of reserve funding (para 3.3 to 3.5).
5. Note the adjustment to provisions (para 3.6 to 3.11)

Wards Affected: All

Environmental Impact Assessment - the impact of the issues addressed in this report on achieving the zero-carbon target for the city
The budget reflects the fact that the Council has declared a climate emergency by making carbon reduction a key consideration in the Council's planning and budget proposals.

Our Manchester Strategy Outcomes	**Summary of the contribution to the strategy**
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities.	The effective use of resources underpins the Council's activities in support of its strategic priorities.
A highly skilled city: world class and home grown talent sustaining the city's economic success.	

A progressive and equitable city: making a positive contribution by unlocking the potential of our communities.	
A liveable and low carbon city: a destination of choice to live, visit and work.	
A connected city: world class infrastructure and connectivity to drive growth.	

Implications for:

Equal Opportunities Policy – there are no specific Equal Opportunities implications contained within this report.

Risk Management – as detailed in the report.

Legal Considerations – there are no specific legal considerations contained within the report.

Financial Consequences – Revenue

This report sets out the year end position for the council's revenue budget which is a net overspend of £5.3m. The report and accompanying appendix set out the reasons for this overspend and the key variations. The overspend will be funded from the General Fund revenue reserve.

Financial Consequences – Capital

There are no capital consequences arising specifically from this report.

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

Revenue Budget Report – Executive Meeting February 2023
Revenue Monitoring to the end of September (P6) - Executive Meeting 15 November 2023
Revenue Monitoring to the end of December (P9) - Executive Meeting 14 February 2024

1. Introduction

1.1 This report provides an overview of the Council's revenue budget final outturn position for 2023/24 which is reporting an overspend of £5.3m. It summarises the main variances, and changes since the last report and seeks approvals for new funding that was received toward the end of the financial year. It also sets out the proposed movements to and from reserves as a result of the final outturn position.

2. Financial position 2023/24

2.1 The outturn position for 2023/24 is an overspend of £5.3m. This is in the context of significant financial stresses being faced across the Local Government sector. The Council's position reflects the national pressures in the health and social care sector and trends being experienced across most Social Care providing local authorities.

2.2 The Children's Services directorate overspent by £10.3m, which was mainly due external residential placement costs; Home to School Transport demand; workforce and price pressures; and overspends in Localities and Fostering workforce budgets. The overspend is £2.5m higher than previously forecast. The biggest pressure relates to an increase in external residential placements and the increasing complexity of need of the current cohort. Average unit costs of external placements have increased by 56% in the current financial year. Investment in provision for those children with higher levels of needs is underway as set out in the Children's Services Budget Report. Once this work is complete this should reduce some of the pressures on the external residential care budgets along with application of new Home to School Transport routing software.

2.3 The Adult Social Care overspend is £6.1m, driven by long term care placements and cost pressures which are outpacing demand management interventions. This is an increase of £2.5m from the last reported position reflecting the increased demand and complexity of support required for new clients into the service.

2.4 The Neighbourhoods directorate have overspent by £1.6m, in line with previous forecasts. This relates to shortfalls of income in markets and car parking as income levels have failed to recover since the pandemic and alternative locations for the Christmas markets have not replaced the losses incurred at Albert Square. The structural budget pressures were addressed as part of the budget process and are not expected to reoccur.

2.5 A Growth and Development underspend of £1.8m is mostly due to planning fee income as a result of ongoing buoyant development across the City. The Core has underspent by £1.5m, mainly due to staffing underspends, extra income and reduced costs in Coroners and Registrars. Public Health reports a balanced position.

2.6 The total directorate overspend of £14.7m is partly offset by improvements to corporate budgets totalling £9.4m. This reflects additional income including receipt of an extraordinary airport dividend of (£3.5m), return of a nationally held surplus on the Business Rates Levy account of (£1.5m), the release of income suspense balances not allocated to services (£1.2m) and a Section 31 grant from Government reimbursing rate reductions in business rates for green plant and machinery (£1m). In addition, there is a utilities underspend due to the new lower priced contract for electricity effective from 11 October 2023 (£1.2m) and an underspend on in year price and pay inflation corporate budget (£1m).

2.7 The budget process for 2023/24 identified £25.2m of savings. Of these £18.1m (72%) are achieved or mitigated and £7.1m (28%) unachieved, mainly due to the increased costs and demand pressures of £3.0m on Children Service placements and £4.1m in Adults from demand management. As part of the 2024/25 budget-setting process officers have identified alternative savings where original plans may not be achieved, and an additional £10m was allocated to support Adults and Children's.

2.8 Full details about the key budget variances by Directorate are provided at Appendix 1. The position takes into account recommended budget increases for additional funding set out in section three for the consideration and approval of Executive.

Impact of the overspend on the 2024/25 budget

2.9 The 2024/25 budget process took into account the emerging pressures, particularly around Adults and Children's Services, however, the continued increase in demand for both services means that the services will need to work hard to contain pressures in 2024/25, with risks around overspends already emerging within these services. Robust monitoring processes are in place and future reports will be brought to the Executive on the position throughout the year.

Dedicated Schools Grant (DSG) Outturn

2.10 The Dedicated School Grant (DSG) in-year position overspent by £6.4m and after taking account of the deficit carried forward from 2022/23 of £1.4m the cumulative deficit at the end of the year is £7.8m. The national deficit was £2.4bn in March 2023 and according to a survey by the Society of County Treasurers could be as high as £3.6bn by the end of March 2025, with over two thirds of council areas now in deficit. All but one of the ten GM authorities are reporting deficits on their DSG budgets.

2.11 The key driver of the pressures is related to the grant that supports children with special educational needs, the high needs block (HNB). The service is reviewing the existing recovery plan to manage down the pressure, focusing on managing demand and identifying efficiencies. Without fundamental national reform of the system, it is hard to envisage how these deficits will be reduced and contained.

2.12 Currently there is a statutory override to the accounting treatment of the DSG deficits and they are ringfenced from the Council's general fund which funds our core services. The override is set to remain until March 2025, any removal of the override would force a significant number of Councils to issue Section 114 notices.

Housing Revenue Account (HRA) Outturn

2.13 The ringfenced HRA revenue budget assumed a drawdown of £22.8m from reserves to contribute to the costs of the capital programme. Due to a combination of increased income and reduced expenditure on the capital programme, a reduced drawdown of £11.4m was required. However, this masks a number of in year and on-going pressures, particularly around repairs and maintenance as the service addresses fire safety concerns and responds to ensure there are no issues with damp and mould. The overall total HRA reserves are c£93.0m, of which £36.5m is ringfenced and £56.5m is the general reserve, with these expected to reduce significantly over the next few years as the Council invests in new housing and condition improvements.

3. Approval requests

Virements

3.1 Executive is asked to approve a budget virement of £0.6m from centrally held contingency to Election Services to fund pressures from the electoral reforms required under the new Elections Act.

Additional Revenue Grants

3.2 Since the last monitoring report to the Executive there have been additional grant notifications which are now reflected in the revised budget as follows:

- Children's Services: £28k grant for the Early Years Experts and Mentor Programme from the Early Years Professional Development Programme (EYPDP). This funding will be used to support delivery of the programme.
- Corporate Services: £141k New Burdens Grant from Dept of Levelling Up, Housing and Communities for electoral integrity programme to support additional legal requirements of facilitating elections as set out in the Elections Act 2022.
- Growth and Development: £84k from Greater Manchester Combined Authority (GMCA) to fund specialist commercial and legal advice for project delivery in Holt Town, along with a further £150k from Homes England and

£132k from GMCA's Growth Locations Funding for neighbourhood development and regeneration.

- Corporate Services: £0.514m in 2024/25 and £0.514m in 2025/26 from Department for Energy Security and Net Zero for the Net Zero Accelerator Programme. It will be used to build on the feasibility study work carried out in 2023 to facilitate the council-wide ambition to understand how to develop pipeline projects and associated finances for net-zero transition.
- Corporate Services: £6.5m Household Support Fund (HSF) in 2024/25. Announced in the 2024 Spring Budget statement, the HSF grant will continue for a further 6 months (April to September) providing an additional £500m nationally, with a council share of £6.5m. First introduced in 2021, this extension of funding will allow the Council to continue to support vulnerable residents.

Additional Use of Reserves

3.3 The following requests relate to drawdowns from reserves, above that approved in budget:

- Neighbourhoods: £124k from the New Smithfield Market Reserve to contribute to asbestos remediation works at the market site as part of the commercial redevelopment plan.
- Adult Social Care Reserves - £1.035m including bringing forward £0.500m planned for drawdown in 2024/25 and the release of £0.535m held for potential fire safety works in supported accommodation, which if required will be funded through existing capital budgets, both mitigating the 2023/24 outturn position.
- In addition, further mitigation of £0.718m released from the Integration Reserve with the agreement of the MLCO to support the Adult's position.

General Fund Reserve

3.4 The General Fund Reserve is the only un-ring-fenced reserve and is held to meet costs arising from any unplanned event. It also acts as a financial buffer to help mitigate against financial risks and can be used to a limited degree to "smooth" expenditure across years. The General Fund must be held at an adequate level to protect the Council from the financial risks inherent within the budget. Any under or overspends at the end of the financial year are transferred to or drawn down from the General Fund reserve. The 2023/24 opening balance is £25.8m. This will reduce to £19.9m after funding the in overspend of £5.3m, along with a planned drawdown of £0.7m to fund carry forwards agreed last year.

3.5 In line with the budget approved in February 2024 the General Fund reserve will be increased by £3.5m in 2024/25, bringing the balance to £23.4m. The Council's reserves strategy recommends that the General Fund is maintained in the region of c£20 to c£25m. This is the level deemed adequate to mitigate for unforeseen budget risks.

Balance Sheet Review

3.6 It is good practice to monitor the balance sheet position, in particular around the level of reserves, balances held in suspense accounts and the provisions that have been made for future likely liabilities. Reserves are regularly reviewed as part of the budget process and during the year. Good housekeeping around the council's income systems allowed the release of around £1.2m of income from suspense to support the overall corporate position.

3.7 Provisions are made by the Council under the accounting standard IAS37 which requires:

- A present obligation due to a past event;
- An outflow of economic benefit or cost is probable; and
- The obligation can be reliably estimated.

3.8 Provisions include those for non-collection of income that is due to the Council for the services it provides or for local taxation, the review has resulted in an assessment of a total over provision of £2.4m, which can be released to support the bottom-line position.

3.9 The 2023/24 provisions for council tax and business rates arrears were reviewed in line with analysis of historical information to estimate the probability of collection more reliably over time. As a result, the provisions were reset resulting in an additional year end surplus of £5.1m for the Council, mainly from business rates, where collection has improved to surpass pre covid levels. This additional surplus, which under Collection Fund accounting regulation will be recognised in the 2025/26 budget.

3.10 In Adults Services, there has been a deterioration in the level of bad debts as clients are struggling to pay their costs of care, mainly as a result of the cost-of-living crisis. This element of the provision therefore needs to be increased by £5.1m.

3.11 Overall, therefore it has been possible to release £2.4m to support the Adults bottom line, with a switch between the collection fund provision and the Adults bad debt provision to correctly align the provisions in line with where the likely liabilities will fall. Due to timing differences in the accounting, the increased provision will be funded from the Business Rates reserve, which will replenished in 2025/26.

4. Conclusion

4.1 The outturn position is an overspend of £5.3m which reflects the significant pressures in Long Term Adult Social Care and increased external residential costs for Looked After Children, partly offset by underspends in other directorates and additional income. Overspent Directorates are working on recovery plans to mitigate any ongoing impact on 2024/25.

4.2 The overspend is a direct call on the General Fund reserve which must be reimbursed in future years.