

CABINET
30 November 2021

FINANCIAL UPDATE FOR THE SIX MONTHS TO 30 SEPTEMBER 2021

Cabinet Member Cllr Andrew Moore, Cabinet Member for Finance

Responsible Officer Andrew Jarrett – Deputy Chief Executive (S151)

Reason for Report: To present a financial update in respect of the income and expenditure so far in the year.

RECOMMENDATION(S):

The Cabinet note:

- 1. The financial monitoring information for the income and expenditure for the six months to 30 September 2021 and the projected outturn position;**
- 2. The use of Waivers for the Procurement of goods and services as included in Section 8;**
- 3. The feedback and outcomes from the Policy Development Groups in respect of the Medium Term Financial Plan (MTFP) options (Section 9).**

Relationship to the Corporate Plan: The financial resources of the Council impact directly on its ability to deliver the Corporate Plan; prioritising the use of available resources brought forward and any future spending will be closely linked to key Council pledges from the updated Corporate Plan.

Financial Implications: Good financial management and administration underpins the entire document. A surplus or deficit on the Revenue Budget will impact on the Council's General Fund balances. The Council's financial position is constantly reviewed to ensure its continued financial health.

Legal Implications: There are no direct implications from the content of this report.

Risk Assessment: Regular financial monitoring information mitigates the risk of unforeseen over or underspends at year end and allows the Council to direct its resources to key corporate priorities. Members will be aware that the Council continues to face a financially difficult and uncertain future. As such, the Strategic Risk Register (monitored by Audit Committee) includes a specific risk relating to this issue.

Equality Impact Assessment: There are no direct impacts from the content of this report.

Impact on Climate Change: There are no direct impacts from the content of this report.

1.0 Introduction

- 1.1** The Council agreed the 2021/22 Annual Budget at its meeting on 4 February. The aim is to keep a tight control on spending on services within a flexible budget management framework, allowing budget holders to manage savings

within controllable budgets to help mitigate budget pressures and thus contain or minimise a budget deficit for the Council as a whole.

- 1.2 The purpose of this report is to highlight to Cabinet our current financial status and the likely reserve balances at 31 March 2022. It encompasses both revenue, in respect of the General Fund, the Housing Revenue Account (HRA), and Capital Programme. The detail underpinning these projections is included within the body of report in the following sections / appendices:
- The projected General Fund outturn position for 2021/22 (Section 3 + Appendices A to D)
 - The projected HRA Outturn position for 2021/22 (Section 4 + Appendices E and F)
 - The projected Capital Outturn position for 2021/22 (Section 5 + Appendix G)
 - The projected Reserves Outturn position for 2021/22 (Section 6)
 - Summary Treasury Management position (Section 7).
- 1.3 Favourable variances generating either increased income or cost savings are expressed as credits (negative numbers), whilst unfavourable overspends or incomes below budget are debits (positive numbers). Any variance against the agreed budget will impact on the Council's reserves.
- 1.4 The Council's financial position will be constantly reviewed to ensure its continued financial health and delivery of excellent Value for Money.
- 1.5 This report also includes Section 8 which updates Members on the use of Procurement Waivers during 2021/22. A procurement waiver is where contract procedure regulations have not been applied due to exceptional circumstances, such as urgency of the goods/services being required, or the specialist nature of the goods/services where there is no effective competition to provide it.
- 1.6 Section 9 provides the feedback and outcomes of the MTFP discussions held at the various Policy Development Groups during November.

2.0 Executive Summary of 2021/22

- 2.1 The report indicates a projected General Fund outturn variance of £234k over spend and a HRA outturn variance of £39k under spend. In respect of the Capital Programme, there is a forecast underspend of £2,130k and slippage of £22,600k into future years. These forecasts will continue to be refined during the year.
- 2.2 Within staffing budgets the Council continues to struggle with recruitment and retention. Key services, particularly Waste, have higher usage of agency staff than planned although this is partially offset by underspends on the staffing establishment.
- 2.3 Income remains lower than normal as services continue to recover from the Covid-19 losses with some services recovering quicker than others. In particular, Leisure and Car Parks income remains well below normal levels. However, other services such as Planning continue to see strong demand.

Increased prices per tonne for recycled materials have also provided greater than forecast income.

3.0 The General Fund

- 3.1 The forecast General fund over spend for the current year is £234k after transfers to and from Earmarked Reserves as shown at **Appendix A**. **Appendix B** provides the most significant service variances above £20k.
- 3.2 The current incomes from our major fee income streams are shown in **Appendix C**. It shows that Income is £141k below budget in the quarter and the full year forecast indicates an under achievement of £210k. This is largely due to Leisure income being £441k below forecast, along with Car Parking income £83k lower. Increased Planning, Building Control and Licensing income of £248k above budget offsets this to a degree. Other Service income streams remain relatively close to expectations.
- 3.3 A consequence of the improved income is that the Council has not been able to claim as much through the Government's Income Compensation Scheme, therefore the Government support for Covid-19 is showing as £207k below the budgeted forecast.
- 3.4 The current employee costs are shown at **Appendix D**. It shows a full year forecast under spend of £488k. The main variances are within Planning, Property, Financial Services, Grounds Maintenance and Waste due to staff shortages. Generally, the remaining services remain on budget. Within the variance for the first half of the year is the variance arising from the upfront Pension Back-funding payment that will full offset by the year end and £200k has been included to allow for a possible pay award in the region of 1.75%. Once the pay award is agreed this variance will be apportioned across all services. Corporate Management, Public Health and Revenue and Benefits are the only services showing a small over spend.
- 3.5 Agency Spend however is showing a forecast overspend of £561k, almost exclusively across Planning and Waste, although the former is largely offset by the planned use of Earmarked Reserves. Given the agency costs exceed savings against the staffing establishment, the generic £150k vacancy saving included within Corporate Management is only being partially achieved.

4.0 Housing Revenue Account (HRA)

- 4.1 This is a ring-fenced account in respect of the Council's social housing function. The forecast position of £39k under spend is included within **Appendix E** with major variances above £20k highlighted at **Appendix F**.
- 4.2 The main variances are within Voids where there is a forecast negative variance of £129k which is almost totally offset by a positive variance forecast in Tenancy Services. Similarly, a reduction in planned maintenance offsets the reduction in Garage Rents. The same allowance for the possible 1.75% pay award is included.

- 4.3 It is anticipated that the forecast variance will increase the budgeted transfer to the Housing Maintenance Fund and so the HRA reserve balance will remain at £2m.

5.0 Capital Programme

- 5.1 The approved overall Capital Programme amounts to £43,919k. This includes the approved 2021/22 Budget of £17,705k and £26,214k slippage rolled forward from 2020/21, together with subsequent 2021/22 minor adjustments. The status of this year's capital programme is shown at **Appendix G**.
- 5.2 Capital projects, by their very nature, often overlap financial years. Managers have therefore given their best estimate of what is 'deliverable' for 2021/22 based on known information at this point in the year. This amounts to £26,163k, with the remainder of the overall Capital Programme expected to be spent in future years. Therefore, committed and actual expenditure will be monitored against this revised 'deliverable' budget for the remainder of the year.
- 5.3 The Deliverable Budget has been further refined since Q1 monitoring with a reduction in 'deliverable' forecast on the General Fund of (£2,158k); this relates to 3 Rivers Schemes including: Riverside, Tiverton (£866k) and Knowle Lane, Cullompton (£532k) and another General Fund Development scheme at Park Road (£760k). The deliverable budget in respect of HRA schemes has also been refined amounting to a reduction of £5,527k; the main HRA development projects contributing to this are Post Hill, Tiverton (£3,217k) that is expected to slip into 2022/23 and Round Hill, Tiverton (£1,500k) that has now been flagged in the MTFP in 2025/26.
- 5.4 Committed and Actual expenditure is currently £6,992k leaving a variance of £19,171k uncommitted. Additional work has been undertaken to establish forecast slippage into 2022/23; this currently amounts to £22,600k and can be broken down across General Fund projects amount to £18,223k and £4,377k in respect of the HRA. The main contributing projects in the General Fund are £10,364k in respect of 3 Rivers developments, £4,835k in respect of other development projects, £1,000k in respect of land acquisition and £800k relating to the Hydromills Scheme. The £4,377k referring to the HRA is mainly made up of £3,217k in respect of the development at Post Hill, Tiverton; please refer to **Appendix G** for further detail.
- 5.5 The forecast net underspend amounts to £2,130k. This comprises £530k for various General Fund projects and £1,600k in relation to HRA projects; again please refer to **Appendix G** for further detail.
- 5.6 An additional column has been added to **Appendix G** for Quarter 2, this takes account of the amount spend and committed on the system of £6,992k, revised forecast Slippage £22,600k and forecast net underspend of £2,130k and highlights further anticipated spend of £12,197k over the remaining 6 months of 2021/22. Please note the sum total of these figures amounts to £43,919k approved Capital Programme detailed in 5.1 above.

6.0 Reserves

- 6.1 The table below shows the opening position of key operational balances of the Council, the forecast in year movements and final predicted position at 31 March 2022:

USABLE RESERVES	31/03/2021	FORECAST IN YEAR MOVEMENT	31/03/2022
REVENUE	£000's	£000's	£000's
General Fund (See Section 3)	(2,186)	234	(1,952)
Earmarked Reserves	(20,247)	2,341	(17,906)
Housing Revenue Account (See Section 4)	(2,000)	0	(2,000)
CAPITAL	£000's	£000's	£000's
Capital Receipts Reserve	(5,498)	107	(5,391)
Revenue Contribution To Capital Earmarked Reserve	(255)	132	(123)

- 6.2 The General Fund is the major revenue reserve of the Council. It is increased or decreased by the surplus or deficit generated on the General Fund in the year. This reserve held a balance of £2,186k as at 31/03/21 and as shown above is currently forecast to decrease to £1,952k due to the forecast £234k overspend. Note that this forecast will move by year end and a review of reserves will be undertaken to mitigate if necessary any reduction below the £2,000k recommended minimum balance.
- 6.3 The most significant implication for Earmarked Reserves is the new proposed transfer of the new additional S31 Grant received as a result of the additional Retail and Nursery Business Rate reliefs. This will smooth the associated deficit this will cause on the Collection Fund that will unwind next financial year.
- 6.4 The other main variance from the budgeted use of Earmarked Reserves is the additional drawdowns of the reserves created at Outturn to support additional staffing and activities within Planning and Regeneration.
- 6.5 The forecast reserve balance for the Revenue Contribution to Capital Reserve and the Capital Receipts Reserve includes the associated funding of the 2021/22 Capital Programme, as these monies are committed. In reality, much of this will slip to 2022/23. It is also important to note that these balances need to be almost fully utilised in order to balance the Capital Medium Term Financial Strategy.
- 6.6 Unapplied useable capital receipts are used to part fund the Capital Programme, the forecast movement on this account for the year to date is given below:

ITEM	£K
Unapplied Useable Capital Receipts At 1 April 2021	(5,498)
Net Forecast Receipts To Q2 (Includes 19 "Right To Buy" Council House Sales)	(1,315)
Current Balance	(6,813)
Forecast Further Capital Receipts In Year	(1,100)
Forecast Capital Receipts Required To Support 2021/22 Capital Programme	2,522
Forecast Unapplied Capital Receipts At 31 March 2022	(5,391)

6.7 The opening unapplied Useable Capital Receipts balance includes £2.096m of ring-fenced 1:4:1 receipts and £3.402m of general Capital Receipts. The ring-fenced “1:4:1 receipts” need to be spent within 5 years of receipt; otherwise they need to be returned to MHCLG with interest. These can be used to fund up to 40% of new social housing developments or repurchased right to buy properties. The planned spend of these receipts is included within the proposed Housing Strategy and is summarised within the table below:

Year Of Receipt	2018/19	2019/20	2020/21	2021/22	2022/23	TOTAL
Year Of Accountability	2021/22	2022/23	2023/24	2024/25	2025/26	
1-4-1 Receipts	£1,040,249	£539,556	£484,410	£568,410	£836,41	£3,469,034
Utilisation Expenditure @ 40%	£2,600,622	£1,348,890	£1,211,025	£1,421,025	£2,091,024	£8,672,585
MDDC Residual Funding Requirement	£1,560,373	£809,334	£726,615	£852,615	£1,254,614	£5,203,551

6.8 The Capital Earmarked Reserve has been set aside from Revenue to fund Capital Projects; the movement on this reserve is projected below:

Item	£K
Capital Earmarked Reserve At 1 April 2021	(255)
Funding Required To Support 2021/22 Capital Programme	132
Forecast Uncommitted Balance	(123)

7.0 Treasury Management

7.1 The interest position so far this financial year can be summarised as follows:

Details	Annual Budget £K	Forecast Outturn £K	Forecast Variance £K
Investment Income Payable	140	91	(50)
Investment Income Received	(633)	(773)	(140)
Interest From HRA Funding	(46)	(46)	0
Total Interest Receivable	(539)	(728)	(190)

7.2 The interest payable saving arises from a reduced expected requirement to take out external borrowing (PWLB) due to slippage in the Capital Programme. The additional interest generated is from additional temporary investments but a decrease in 3 Rivers interest due to slippage in new loan requests.

7.3 Further information on the mid-year Treasury Management position can be found in the separate report on this agenda.

8.0 Procurement Waivers

8.1 In exceptional circumstances, there are sometimes justifiable reasons to act outside the contract procedure regulations. These include the following reasons:

- I. The work, goods or materials are urgently required, and loss would be entailed by delay arising from advertising;

- II. The work, goods or materials required are of such special nature that no advantage would accrue by inviting competitive tenders;
- III. There is no effective competition for the goods or materials required by reason of the fixing of prices under statutory authority or that such goods or materials are patented or proprietary articles or materials;
- IV. Transactions, which, because of special circumstances, may (either individually or as a class) be excepted from time to time by the Cabinet of the Council.

8.2 In such circumstances, prior written approval of the Deputy Chief Executive (S151) is required and Cabinet will be informed. Below is a list of the Procurement Waivers utilised during this financial year to date:

REF	SUBJECT OF THE WAIVER	REASON CODE
1	ICT Disaster Recovery (DR) Contract due to staff shortages	I
2	Housing Infrastructure Fund project monitoring following the departure of the Head of Planning, Economy and Regeneration	I and II
3	Avalon Planning & Heritage to cover national shortage of qualified planning professionals	I and II
4	Tiverton Town Centre CCTV system – to extend existing MSCP contract to cover additional equipment	II
5	Advertising Planning Applications – direct award for one year to ensure continuation of advertisements	I
6	Oyster Partnership (Enforcement Officer) – to utilise new supplier to secure suitable and experienced Enforcement Officers to backfill on a temporary basis	I and II
7	Granicus/Gov Delivery – extension of current contract to continue our email news subscription service	IV
8	Tree Consultant –A M Lane to cover vacancy after multiple attempts to recruit and mitigate Council’s liability	I and II
9	EVLC Replacement Pool Sentry Management System	III
10	Deane Helpline - extension of current contract to continue our Lifeline service	II

9.0 Policy Development Group MTFP feedback and outcomes

9.1 The updated Medium Term Financial Plan (MTFP) was considered by Cabinet at its last meeting. The same papers were presented to the various November Policy Development Group meetings for Members to consider and to seek their feedback on the proposed budget options included in the Revenue Budget, HRA and Capital Programme.

9.2 Members of the PDG’s were given a verbal update on the headline announcements within the recent Chancellor’s 2021 Autumn Budget and Spending Review. An overview of the latest MDDC MTFP position was also provided with a degree of focus of the relevant budget options and implications for each Committee. Members were given the opportunity to challenge the assumptions and options included to ensure they fully understood what was being proposed and were explicitly asked for any additional options that they felt should be included.

9.3 In summary, the PDG’s did not disagree with any of the proposed budget options as set out and thereby have given their tacit approval. Specifically, the Environment PDG was keen to understand and ensure sufficient funding is

assigned to meeting the Net Carbon Zero commitment. The Economy PDG was keen to maintain service delivery standards through income generation. The Homes PDG raised concerns about the appropriateness of any proposal to increase Rentals by an above inflation percentage, and raised concerns about the increased levels of proposed borrowing at a time when interest rates are likely to increase. The Community PDG agreed that they would review the budget options in detail at their meeting on 20 December 2021.

10.0 Summary

- 10.1 Members are asked to note the Revenue and Capital forecasts for the financial year, the use of procurement waivers during the year and the feedback from the MTFP discussions at the various Policy Development Group meetings.
- 10.2 We continue to closely monitor the financial position and amend our expectations accordingly. The budget process for 2022/23 is now underway and Managers are working hard to develop proposals to mitigate the forecast shortfall.

Contact for more information: Andrew Jarrett,
Deputy Chief Executive (S151)
01884 23(4242)
ajarrett@middevon.gov.uk

Paul Deal
Corporate Manager for Financial Services
pdeal@middevon.gov.uk

Circulation of the Report: Cllr Andrew Moore, Cabinet, Leadership Team