

CABINET
8 March 2022

FINANCIAL UPDATE FOR THE NINE MONTHS TO 31 DECEMBER 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):

1. The Cabinet note:

- a) **The financial monitoring information for the income and expenditure for the nine months to 31 December 2021 and the projected outturn position;**
- b) **The use of Waivers for the Procurement of goods and services as included in Section 8;**

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**);
 - The Procurement Waivers utilised during the quarter (**Section 8**).
- 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.

2.0 Executive Summary of 2021/22

- 2.1 The report indicates a projected General Fund outturn variance of £30k under spend and a HRA outturn variance of £73k under spend. In respect of the Capital Programme, there is a forecast under spend of £624k and slippage of £29,671k 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. Additional agency costs incurred within Planning were forecast and an Earmarked Reserve was created to offset these costs if necessary.
- 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 £30k after transfers to and from Earmarked Reserves as shown at **Appendix A**. This is an improvement of £264k since the month 6 report. **Appendix B** provides the significant service variances and those above £20k.
- 3.2 The current incomes from our major fee income streams are shown in **Appendix C**. It shows that Income is £286k below budget in the quarter and the full year forecast indicates an under achievement of £256k. This is largely due to Leisure income being £475k below forecast, along with Car Parking income £108k lower. Increased Planning, Building Control, Waste and Licensing income of £317k 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. However, during the reconciliation process, the Council has been able to enter an additional claim for a further £109k. This is currently being assessed by DLUHC, and so has not been included within the forecasts.
- 3.4 The current employee costs are shown at **Appendix D**. It shows a full year forecast under spend of £630k. The main variances are within Planning, Property, Public Health and Waste due to staff shortages. Generally, the remaining services are forecasting smaller underspends, with the exception of Corporate Management and Revenue and Benefits showing a small over spend. Within the Corporate Management year-to-date variance is the forecast £200k 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.
- 3.5 Agency Spend however is showing a forecast overspend of £646k, 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 not 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 £73k under spend is included within **Appendix E**. This is an improvement of £34k since the month 6 report. Key variances and those above £20k are highlighted at **Appendix F**.
- 4.2 The main income variance continues to be within Voids where there is a forecast negative variance of £129k. This remains consistent with the month 6 reported position. This is more than offset by a positive variance forecast in

Tenancy Services. 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 £43,941k. 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. Further work has been undertaken with Managers who have given their best estimate of what is 'deliverable' for 2021/22 based on known information at this point in the year. The committed and actual expenditure will be monitored against this revised 'deliverable' budget for the remainder of the year. This amounts to £13,646k, with the remainder of the overall Capital Programme expected to be spent in future years. This is a reduction of £12,517k since the month 6 report, mainly due to slippage against the Cullumpton HIF and 3 Rivers projects.

- 5.3 The Deliverable Budget against the General Fund has reduced by £11,406k to £9,258k; this mainly relates to 3 Rivers Future projects amounting to (£1,700k), the Post Hill Development (£4,075k), the Cullumpton Housing Infrastructure Project (HIF) (£3,739k) and Market Walk Unit 17 re-modelling Project (£495k). These projects are now expected to slip into 2022/23. The deliverable budget in respect of HRA schemes has also been reduced by £1,111k to £4,388k; the main reason for this is the Modular Housing Project at Shapland Place, Tiverton of (£1,065k) that is expected to slip into 2022/23.

- 5.4 Committed and Actual expenditure is currently £8,565k leaving a variance of £5,081k expected to be spent within the financial year. Additional work has been undertaken to establish forecast slippage into 2022/23; this currently amounts to £29,671k, with General Fund projects amounting to £22,711k and £6,960k 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, £3,739k related to the Cullumpton Housing Infrastructure Project (HIF), £1,000k in respect of land acquisition and £800k relating to the Hydromills Scheme. The £6,960k referring to the HRA is mainly made up of £3,217k in respect of the development at Post Hill, Tiverton, £1,500 for Round Hill, Tiverton and £1,065k in respect of the Modular Development at Shapland Place, Tiverton; please refer to **Appendix G** for further detail.

- 5.5 The forecast net underspend amounts to £624k. This comprises £474k for various General Fund projects and £150k in relation to HRA projects; again please refer to **Appendix G** for further detail.

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)	(30)	(2,216)
Earmarked Reserves	(20,247)	1,205	(19,042)
Housing Revenue Account (See Section 4)	(2,000)	0	(2,000)
CAPITAL	£000's	£000's	£000's
Capital Receipts Reserve	(5,498)	560	(4,938)
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 increase to £2,216k due to the forecast £30k underspend.
- 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	£000's
Unapplied Useable Capital Receipts At 1 April 2021	(5,498)
Net Forecast Receipts To Q3 (Inc. 26 "Right To Buy" Council House Sales)	(1,850)
Current Balance	(7,348)
Forecast Further Capital Receipts In Year	(112)
Forecast Capital Receipts Supporting 2021/22 Capital Programme	2,522

7.0 Treasury Management

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

Details	Annual Budget £000's	Forecast Outturn £000's	Forecast Variance £000's
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 the third quarter of this financial year:

REF	SUBJECT OF THE WAIVER	REASON CODE
1	Housing Options – Agency staffing due to staff shortages	I
2	Housing Infrastructure Fund – extension of project monitoring following the departure of the Head of Planning, Economy and Regeneration	I and II
3	MAT Electricals - Electrical Installation Condition Report carried out on our communal flats	I

4	Planning – Agency staffing to cover national shortage of qualified planning professionals	II
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9.0 Summary

- 9.1 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.
- 9.2 We continue to closely monitor the financial position and amend our expectations accordingly. The budget process for 2022/23 is now complete and Managers are working hard to develop proposals to mitigate the future year's forecast shortfalls.

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