

CABINET
9 August 2022

FINANCIAL UPDATE FOR THE THREE MONTHS TO 30 JUNE 2022

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 are asked to:

- a) **Note the financial monitoring information for the income and expenditure for the three months to 30 June 2022 and the projected outturn position;**
- b) **Approve the Deliverable Capital Budget for 2022/23, including the request to bring forward £2,925k of expenditure relating to Salix funded decarbonisation schemes and £56k of S106 expenditure from later years, noting the remainder of the Overall Capital Programme is planned to be spent in 2023/24 to 2026/27;**
- c) **Note the use of Waivers for the Procurement of goods and services as included in Section 10;**

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 2022/23 Annual Budget at its meeting on 23 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 2023. 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 2022/23 (**Section 3 + Appendices A to D**);
 - The projected HRA Outturn position for 2022/23 (**Section 4 + Appendix E**);
 - The projected Capital Outturn position for 2022/23 (**Section 5 + Appendix F**);
 - The projected Reserves Outturn position for 2022/23 (**Section 6**);
 - 3 Rivers Development Ltd update (**Section 7 + Appendix G**);
 - Summary Treasury Management position (**Section 8**);
 - Collection Fund Update (**Section 9**);
 - The Procurement Waivers utilised during the quarter (**Section 10**).
- 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 10 which updates Members on the use of Procurement Waivers during the first quarter of 2022/23. 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 2022/23

- 2.1 The report indicates a projected General Fund outturn variance of £258k over spend and a HRA outturn variance of £217k under spend. In respect of the Capital Programme, there is a forecast Deliverable Budget for 2022/23 of £24,173k (£16,910k General Fund and £7,263k HRA) and expenditure of £41,482k (£30,531k General Fund and £10,951k HRA) planned in future years. These forecasts will continue to be refined during the year.
- 2.2 The current cost of living crisis affecting household budgets is also impacting on the Council's finances. The latest Inflation figures show prices are rising at their fastest rate for 40 years with the headline CPI rate at 9.4%. These increases

will also impact on the Medium Term Financial Plan and leave the Council with a larger funding shortfall to offset. At present, there is no indication from Government of any additional funding.

- 2.2.1 The Council is particularly affected by inflation in terms of the Local Government Pay Award as staffing forms the overwhelming proportion of our budget. The budget was set before this crisis escalated and an assumption of 2% was included. In this monitoring report, this has been revised to 3% at a cost of c£130k. The initial offer from employers is expected shortly, but the final agreement is likely to take time to reach.
- 2.2.2 Fuel prices also affect our finances as we need to operate the vehicle fleet to deliver key services such as waste collection. At the time of setting the budget, the Council was purchasing fuel at an average of £1.25 per litre. This has risen to £1.75 since and the forecast assumes it will reach £2.00 and cost an extra £250k.
- 2.2.3 Utilities costs are also projected to increase in October by £188k for the remainder of this financial year with a full year forecast of £375k covering October 2022 to October 2023. This is currently shown within Property Services but will be split across relevant properties in Quarter 2 once this increase is finalised closer to October as all fuels are purchased in advance.
- 2.3 Within staffing budgets the Council continues to struggle with recruitment and retention. Key services, particularly Waste, Planning and Public Health have higher usage of agency staff than planned although this is partially offset by underspends on the staffing establishment. Some of these additional agency costs will be further mitigated through the use of Earmarked Reserves.
- 2.4 Income remains lower than pre-Covid-19 levels in both Leisure and Car Parks. The latter is showing it may recover more than originally expected, whereas Leisure is showing slower recovery in membership numbers and bookings. However, wetside income is above forecast. Other services such as Planning and Waste continue to see strong demand reflecting the buoyant housing market and the increased prices per tonne for recycled materials.
- 2.5 Considering the additional inflation cost pressures noted above sum to £568k are outside of our control, the forecast overspend of £258k shows that good budget management continues within services. This position is subject to finalisation of the Pay Award.

3.0 The General Fund

- 3.1 The forecast General Fund over spend for the current year is £258k after transfers to and from Earmarked Reserves as shown at **Appendix A**. **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 the full year forecast Income is £60k above budget. The lower than forecast income in Leisure is offset by increases in Planning, Waste and Car Parks. Other Service income streams remain relatively close to expectations.

3.3 The current employee costs are shown at **Appendix D**. It shows a full year forecast under spend of £535k (£387k General Fund). Within this forecast is an allowance for a possible pay award of 3%; 1% above the budgeted assumption. The main underspends are within Planning, Property and Public Health who are struggling to recruit to vacant roles. Overspends are forecast for Human Resources due to a temporary reporting structure and Waste due to driver enhancements and the preparation for the roll out of Bin It 123 collection service. There is also an overspend in Revenue and Benefits due to the requirement to run the Government's Energy Rebate Scheme. This has also required the redirection of staff from Customer Services and reduced focus on debt collection. In total, it is estimated that managing this scheme will cost the Council c.£250k. To date only £46k has been received although there is an expectation of significant further funding to be received (not yet included in the forecast). Generally, the remaining services are forecasting smaller under or overspends that cancel each other. Agency Spend however is showing a forecast overspend of £702k, with almost £600k of this across Planning and Waste, although the former is largely offset by salary underspends and the planned use of Earmarked Reserves (£152k). Sickness is higher than expected across Street Scene requiring agency cover to continue the service.

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 £217k under spend along with an explanation of the key variances and those above £20k are highlighted within **Appendix E**.

4.2 The main variances are again due to vacancies and the difficulty in recruiting to those roles. In total, this sums to £148k including the additional 1% above budget pay award assumption, but is offset by additional fuel and vehicle costs pressures, along with other minor variances. Investment returns are also higher than budgeted.

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 current approved overall Capital Programme amounts to £65,066k (£45,172k General Fund and £19,894k HRA). This includes the approved 2022/23 Programme of £34,303k and £30,763k slippage rolled forward from previous year's programmes. The status of the Capital Programme is shown at **Appendix F**.

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 2022/23 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 2022/23.

- 5.3 Following the successful bid for Salix Funding, £2,835k was received for further decarbonisation works to our leisure centres. This additional money will be used to transfer power sources at Lords Meadow Leisure Centre, Crediton and Exe Valley Leisure in Tiverton, away from fossil fuels to renewable energy sources. Air source and ground source heating pump technologies will be used as well, and additional solar panels. Note that the budget also assumed these projects incur £190k of revenue funding to come from Earmarked Reserves. This totals £3,025k of funding which covers £2,925k of Capital Expenditure and £100k of Revenue funding for the installation of new LED lighting for the outdoor all-weather pitches. These projects are therefore proposed to be brought forward from future years in the Capital MTFP.
- 5.4 In addition, the S106 Project Board also approved as additional £56k be brought forward to complete Amory Park play area refurbishment.
- 5.5 Including the above projects, the overall Capital Programme increases by £2,981k to £68,047k and the 2022/23 Deliverable Budget amounts to £24,173k, with the remainder of the overall Capital Programme (£41,482k) planned to be spent in future years.
- 5.6 Actual, committed and planned expenditure across the remainder of the financial year is currently £26,871k leaving a variance of £2,698k overspend against the 2022/23 Deliverable Budget (£2,201k against General Fund Projects and £497k against HRA Projects). This can be explained by:

General Fund

- £10k additional spend on fitness studio equipment at Exe Valley leisure centre. This is funded by the sale of existing Equipment;
- £31k additional spend on the Network Core Switch;
- £299k additional spend required by 3 Rivers Developments Ltd on the Bampton Project (see confidential **Appendix G**);
- £1,861k additional spend required by 3 Rivers Developments Ltd on the Riverside Project (see confidential **Appendix G**);

HRA

- £30K additional spend on the Modular Housing development at St Andrews, Cullompton, associated with Planning Permission including mature planting and additional parking;
- £467k Additional spend on the Modular Housing development at Shapland Place, Tiverton, associated with Planning Permission - including additional EV charging points and communal glazing.

- 5.7 This is offset by the following underspends on projects totalling £2,392k against the overall Capital Programme (£712k against General Fund Projects and £1,680k against HRA Projects):
- £30k originally planned to purchase Boilers at Exe Valley. This £30k is proposed to be reallocated to support the Salix funding applied to installing Air Source and Ground Source Heat Pumps instead;
 - £51k net underspend on Salix Funding on Capital Projects. This will be used to supplement the £190k MDCC contribution to revenue element of the Salix 3 projects;
 - £554k of projects originally considered to be Capital but have now been classified as revenue in nature. The majority of the associated funding will

continue to support these projects, but £84k was planned to be covered by Capital Receipts which will now need to be funded from the General Fund.

- £77k underspend against Disabled Facilities Grant – this will be added to the EMR for future spending;
- £1,400k against Housing Scheme 19 which will be delivered as a traditional build 1:4:1 scheme as site not suitable for Pod construction – please see scheme CA160 this will now include this site in future years;
- £80k saving on works planned at Westexe communal area;
- £200k saving on works planned for redevelopment of Garage Blocks.

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 2023:

Usable Reserves	31/03/2022	Forecast In Year Movement	31/03/2023
REVENUE	£000's	£000's	£000's
General Fund (See Section 3)	(2,215)	258	(1,957)
Earmarked Reserves	(20,655)	3,727	(16,928)
Housing Revenue Account (See Section 4)	(2,000)	0	(2,000)
CAPITAL	£000's	£000's	£000's
Capital Receipts Reserve	(6,529)	(203)	(6,732)

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 £2,215k as at 31/03/22 and as shown above is currently forecast to decrease to £1,957k due to the forecast £258k over spend. This falls below the agreed minimum of £2,000k and therefore should this forecast be the final outturn position, a review of Earmarked Reserves will be undertaken to realign funds.

6.3 The most significant implication for Earmarked Reserves is the previously agreed transfer of £750k to support the purchase of new waste bins as part of the introduction of Bin It 123. £201k of the previous Salix funding bid is being drawn down to support decarbonisations works across all 3 leisure centres and £185k is proposed to be added to the Business Rates Smoothing reserve to offset the projected collection deficit that will unwind in 2023/24. The projects originally planned within the Capital Programme that are now deemed to be Revenue in nature largely continue to be funded as planned, but with an additional draw down of £84k to replace the assumption of capital receipts being applied. In addition, new S106 Funding received of £178k is proposed to transfer to reserves to offset future associated expenditure.

6.4 The forecast reserve balance for the Revenue Contribution to Capital Reserve and the Capital Receipts Reserve includes the associated funding of the 2022/23 Capital Programme, as these monies are committed. In reality, much of this will be utilised in future years. Unapplied useable capital receipts are used to part fund the Capital Programme. 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.

7.0 3 Rivers Developments Ltd – Update

- 7.1 In Quarter 1 of 2022/23 the Council lent £1,565k of further borrowing to 3 Rivers to fund project payments and capital commitments. No loans were due to be repaid during the quarter but £155k of interest payments has been received relating to interest charged for Quarter 4 of 2021/22. A further £178k of interest has been charged during Quarter 1 of this financial year.
- 7.2 Attached to this report is the updated confidential financial forecast position from the Company (**Appendix G**).
- 7.3 3 Rivers Developments Ltd are nearing completion of two developments; St George's Court and Bampton. The initial costings were appraised some time ago, before Covid-19 and the current cost of living crisis. Since that time there has been significant economic uncertainty leading to material and labour shortages that have escalated costs due to higher manufacturing costs and demand. This has caused several companies to terminate fixed price contract or go into administration. A detailed project overview and additional funding request will come to the September Cabinet meeting.

8.0 Collection Fund

8.1 Council Tax

- 8.1.1 The overall value of Council Tax due has increased from this time last year to £64,850k due to increases in the Taxbase and Band D charge by all Preceptors. However, the Collection Rate is forecast to be 95.3% (down from the budget assumption of 97.5%). This reduction is most likely due to the effects of Covid-19 and Cost of Living Crisis. The reallocation of staff to support the Energy Rebate scheme has also resulted in less debt collection activity so far this year. This will now be chased. The collection rate will be monitored during the year, but future MTFP forecasts might need to be adjusted.

8.2 Business Rates

- 8.2.1 The overall level of Business Rates collectable also grew year-on-year. However, there are many variable elements that give rise to that movement including growth/decline in number of businesses, reliefs awarded and provisions for appeals and bad debts. However, the forecast Collection Rate is also lower (97.7%) compared to the previous year (98.6%) and a Collection Fund deficit of £185k is forecast and is proposed to be added to EMR. As income collected is lower, the levy on growth is forecast to be £99k lower, which is shown within the positive variance against table below shown against the Retained Business Rates in **Appendix A**. The remainder being an additional £42k above Outturn for the pooling gain.

9.0 Treasury Management

9.1 The £840k budgeted Net Interest position for the Council incorporates interest payable on loans and finance leases and interest receivable on investments. Since the budget was set interest rates have risen to 1.25% which is faster than predicted. Therefore interest receivable is above budget across both temporary investments and loans to third parties. Based on the Deliverable Capital Programme, no additional external borrowing is expected during the year which also provides a favourable variance against budget. Combined, this shows a net improvement of £84k on budget for the General Fund.

10.0 Procurement Waivers

10.1 The Council undertakes a range of procurement approaches to ensure that it awards contracts to suppliers in line with procurement legislation. 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.

10.2 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	Expected Spend £	Reason Code
1	Data Protection – Call-off Consultancy	£7,200	I
2	Solid Fuel Servicing	£10,000	I, II and III
3	SLA for landscape advice from Devon County Council to support the Forward Planning team	£7,000	II
4	Leisure Hub software and hardware replacement	£17,630	II and III
5	Assumption Testing work for the A361 Tiverton Junction	£4,500	I
6	Specialist advice on planning applications in respect of environmental protection matters	£6,000	I and II
7	Housing Quality Network: membership subs and training costs	£30,000	I and II
8	Homes for Ukraine – SLA with Citizens Advice for provide Specialist Financial and Legal Advice for Ukrainian Guests and their hosts	£14,800	I and II
9	YMCA – Dulverton Group to provide floating support services to the residents of Ivor Macey House	£18,749	I and II
10	Shared Prosperity Fund – Stakeholder Workshop Facilitation	£6,550	I

10.3 The remainder of contracts awarded use best endeavours to ensure that the successful supplier complies with the ethical standards applied within our Procurement Partnership with Devon County Council, including having policies

on Equalities and Diversity, Data Protection, Modern Slavery and Human Trafficking and Fair Tax Mark.

11.0 Summary

- 11.1 Members are asked to note the Revenue and Capital forecasts for the financial year, the use of procurement waivers during the year and approve the revisions to the Deliverable Capital Budget.
- 11.2 We continue to closely monitor the financial position and amend our expectations accordingly. The budget process for 2023/24 is now underway and Managers are working hard to develop proposals to mitigate the future year's forecast shortfalls.

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