

CABINET
29 November 2022

FINANCIAL UPDATE FOR THE THREE MONTHS TO 30 SEPTEMBER 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 September 2022 and the projected outturn position;**
- b) **Note the use of Waivers for the Procurement of goods and services as included in Section 0;**
- c) **Note the latest update on the development of the South West Mutual included in Section 11.0.**

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 under pinning 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**);
 - Summary Treasury Management position (**Section 8**);
 - Collection Fund Update (**Section 9**);
 - The Procurement Waivers utilised during the quarter (**Section 10**).
 - Update on the South West Mutual Bank (**Section 11**).
- 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 0 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.
- 1.6 An update of the latest progress of the South West Mutual Bank is included within Section 11.0.

2.0 Executive Summary of 2022/23

- 2.1 The report indicates a projected General Fund outturn variance of £504k over spend and a HRA outturn variance of £122k under spend. In respect of the Capital Programme, there is a variance of £3,677k against the 2022/23 Deliverable Budget, this is explained through a forecast £122k underspend, £1,311k overspend and slippage of £4,866k across various projects. These forecasts will continue to be refined during the year.

- 2.2 Since Quarter 1, the Local Government Pay Award has been offered and accepted. The offer of £1,925 per FTE (broadly 6.5% on average) is significantly in excess of the 2% budget assumption, and the 3% assumption included within Quarter 1. This has added c£500k to our staffing costs within the General Fund and c£150k in the HRA.
- 2.3 Fuel to operate the vehicle fleet to deliver key services such as waste collection remained relatively stable during the quarter and therefore the forecast has been adjusted to assumed £1.75 per litre for the remainder of the year; a reduction of £50k from the Quarter 1 position.
- 2.4 Substantial utilities cost increases were included in Quarter 1 based on projections from our provider. We expected to know the fixed price for the period 1 October 2022 to 30 September 2023 by this point, the changes nationally to the Government's support package have complicated matters and we now expect to have prices confirmed by the end of this month. Therefore the projected increase of £188k for the remainder of this financial year with a full year forecast of £375k remains.
- 2.5 The Council continues to struggle with recruitment and retention. Key services, particularly Waste and Planning have higher usage of agency staff than planned although this is partially offset by underspends on the staffing establishment, leading to a net additional cost of £275k. Some of these additional agency costs will be further mitigated through the use of Earmarked Reserves.
- 2.6 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 remains above forecast. Other services such as Planning and Waste continue to see higher than forecast income levels, although the housing market and the increased prices per tonne for recycled materials are showing signs of retraction. This also affects Building Control.
- 2.7 Considering the additional cost of the pay award, agency staff and probably pressures on income during the second half of the year, the forecast overspend of £504k shows that good budget management continues within services in order to mitigate this funding pressure.
- 2.8 However, if this level of overspend is required to be covered from General Reserves, this will reduce the balance to £1.710m, below the agreed minimum £2m balance. Therefore action needs to be taken to address the matter.
- 2.8.1 As such, a "soft freeze" on recruitment and the use of agency staff has been implemented. This reviews all vacancies and decides whether the position is business critical, for example a life guard or waste loader and therefore is necessary to fill/cover, or whether the service will have to manage without for a period of time by cutting its cloth accordingly. Similarly, all expenditure will be reviewed to ensure it is essential.
- 2.8.2 A review of all Fees and Charges is also underway with a view to setting the fees in year covering the period through to March 2024. This will provide some additional income in-year that will further help reduce the shortfall.

3.0 The General Fund

- 3.1 The forecast General Fund over spend for the current year is £504k 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 has reduced to only £9k above budget (down from £60k in Quarter 1). The lower than forecast income in Leisure and Building Control 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 £489k (down from £535k in Quarter 1). This includes the full implication of the pay award, therefore although the bottom-line is lower, there has been an increase in the vacancies largely offsetting the additional costs. Examples of this include General Fund Housing, IT, and Legal which have all increased staffing underspends. However, the impact of the pay award has impacted significantly in Waste and Leisure. As previously reported, the anticipated funding to offset the additional costs incurred in delivering the Government's Energy Rebate Scheme have yet to be received. The HRA is also showing a number of vacancies, particularly in Tenancy Services.
- 3.4 The increase in Agency Spend of £60k since Quarter 1 is essentially due to covering Planning vacancies, where costs are significantly above normal salary levels. Waste and Public Health have reduced their forecast need, with salary savings in Waste practically offsetting the additional agency costs. Sickness levels and staff turnover is also higher than expected, with particular services such as 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 £122k under spend, £95k lower than the Quarter 1 position. 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 £143k inclusive of the agreed higher pay award. This is offset by the rising cost of materials and less work funded by Disabled Facilities Grant. Investment returns are also higher than budgeted, but are partially offset by higher bank charges.
- 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 Following the additional approval at Quarter 1 to accelerate the spend of the Salix funding, and subsequently the increased lending to 3Rivers and the purchase of two HMO’s, the current approved overall Capital Programme has increased to £70,896k (£51,002k General Fund and £19,894k HRA), including slippage rolled forward from previous year’s programmes. The revised 2022/23 Deliverable Programme has increased to £27,549k, with the remainder of the overall Capital Programme (£43,347k) planned to be spent in future years. The status of the Capital Programme is shown at **Appendix F**.

5.2 Actual, committed and planned expenditure across the remainder of the financial year is currently £23,872k (£3,000k less than forecast in Quarter 1) leaving a variance of £3,677k against the 2022/23 Deliverable Budget. Of which, £122k is an under spend, £1,311k is an over spend, and £4,866k will slip into future years. This can be explained by the following key variances:

General Fund

- £3,956k slippage against 3 Rivers Developments Ltd projects, specifically Knowle Lane, Post Hill and Future Projects.

HRA

- £467k additional spend on the Modular Housing development at Shapland Place associated with additional planning requirements, £277k of which has slipped into 2023/24;
- £300k slippage to the redevelopment of Garage Blocks;
- £661k additional spend on Post Hill linked to S106 requirements.

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)	504	(1,710)
Earmarked Reserves	(20,655)	3,529	(17,126)
Housing Revenue Account (See Section 4)	(2,000)	0	(2,000)
CAPITAL	£000’s	£000’s	£000’s
Capital Receipts Reserve	(6,529)	356	(6,173)

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 £1,710 due to the forecast £504k over spend. This falls below the agreed minimum of £2,000k and as outlined in paragraph 2.8 action is being taken to minimise the impact. However, should this forecast be the final outturn position, a review of Earmarked Reserves will be undertaken to

realign funds. The reduction on the forecast Capital Receipts Reserve reflects a lower assumption on the number of Right-to-Buys.

- 6.3 The projected contribution to the NNDR smoothing reserve has reduced by £152k due to some outstanding appeals being settled and therefore the appeals provision and bad debt provision can be reduced. There is also an adjustment to the assumed drawdown to support IT projects that were initially included in the Capital Programme but have now been deemed to be revenue. A further net £26k of new S106 Funding received is proposed to transfer to reserves to offset future associated expenditure.

7.0 3 Rivers Developments Ltd – Update

- 7.1 In Quarter 2 of 2022/23 the Council lent £2,142k of further borrowing to 3 Rivers to fund project payments and capital commitments. No loans were due to be repaid during the quarter but £176k of interest payments has been received relating to interest charged for Quarter 1. A further £200k of interest has been charged during Quarter 2 of this financial year, and a projection of £395k is included covering the second half of the year.

8.0 Collection Fund

8.1 Council Tax

- 8.1.1 The predicted collection rate at the end of Quarter 2 was 96.6%, up from 95.3% in Quarter 1. £36,976k has actually been collected and indications are that this trend is moving in the right direction. As highlighted in the Quarter 1 report, now the Energy Rebate Scheme has ended, resources have been redeployed back to their substantive roles which is having a positive impact on collection.

8.2 Business Rates

- 8.2.1 The forecast deficit on the collection of Business Rates fell from £510k at Quarter 1 to £129k, an improvement of £381k. This is due to a number of outstanding appeals have been concluded enabling a reduction in our appeals provision, a reduction in the bad debt and an improvement in the Net Rates Payable. The Council's share of the projected £129k deficit is £52k (40%).

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 3.00%, therefore interest receivable is above budget across both temporary investments and loans to third parties by a further £90k compared to Quarter 1. Based on the Deliverable Capital Programme, no additional external borrowing is expected during the year which also provides a favourable variance against budget.

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	Les Mills – “virtual” offering in the spinning studio at Exe Valley Leisure Centre	£800	I
2	Homes for Ukraine – SLA with Churches Housing Action Team (CHAT) to provide Specialist Support for Ukrainian Guests and their hosts	£31,562	I and II
3	HAZ - Consultant Project Management support	£16,000	I
4	Communal area cleaning (Housing)	£25,000	I and IV
5	Lifeline Out of Hour’s call monitoring with Somerset West and Taunton Council	£40,000	I, II and III
6	Heat Pumps for Decarbonisation of Leisure Centres funded by Salix PSDS Phase 3	£252,341	I, II and III
7	Internet based mutual housing exchange service	£1,300	I and II
8	Homes for Ukraine refugee scheme – extension of services provided by CHAT	£70,100	I and II
9	Structural integrity testing of street-lighting columns	£30,000	I and II

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 South West Mutual

11.1 The latest update report went to 12 July Cabinet. It indicated slow progress with continue economic and investment challenges continuing. However, progress had been made with the proposed legal structure of the Mutual and the Board had agreed a phased approach to launching the bank, starting with a wholesale

funding lending facility for food and farming businesses applying agroecology principles and practices, with the aim to introduce the full range of services.

- 11.2 Since that update, £115k further investment has been secured and various conversations with potential investors for the initial £20 million lending facility continue. A financial model to demonstrate viability is being developed and a research partnership with the Food, Farming and Countryside Commission has formed. The Mutual are also developing an impact measurement and reporting framework to track the social and environmental improvements financed by the loans.
- 11.3 The Mutual are seeking necessary legal and regulatory advice and beginning the detailed work of building operational readiness to begin lending next year.

12.0 Summary

- 12.1 Members are asked to note the Revenue and Capital forecasts for the financial year and the use of procurement waivers during the quarter.
- 12.2 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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