

CABINET
7 February 2023

FINANCIAL UPDATE FOR THE THREE MONTHS TO 31 DECEMBER 2022

Cabinet Member Cllr Bob Deed, Leader and 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 nine months to 31 December 2022 and the projected outturn position;**
- b) **Note the use of Waivers for the Procurement of goods and services as included in Section 10.0;**

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 + Part 2 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 10.0 which updates Members on the use of Procurement Waivers during the third quarter of 2022/23. A procurement waiver is where contract procedure regulations have not be 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 £436k over spend and a HRA outturn variance of £48k under spend. In respect of the Capital Programme, there is a variance of £5,597k against the 2022/23 Deliverable Budget, this is explained through a forecast £1,418k underspend, £2,022k overspend and slippage of £6,201k across various projects. These forecasts will continue to be refined during the year.

2.2 Since Quarter 2, further refinement of the cost and income projections have made as we progress through the year, which should result in more accurate year end forecasts. Forecast expenditure has reduced, but so has income, although to a lesser extent leading to a slightly reduced overspend projection.

- 2.3 Previous forecasts included substantial utilities cost increases included based on projections from our provider. Our provider have now confirmed the fixed price for the period 1 October 2022 to 30 September 2023 and these are significantly higher again. Although protected by the Government's cap, the projected additional forecast charges have been increased from £188k to £370k. The 2023/24 Budget has been updated accordingly. Efficiency savings will be made wherever possible.
- 2.4 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 £281k. Some of these additional agency costs will be further mitigated through the use of Earmarked Reserves.
- 2.5 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, although anecdotally January numbers are looking positive and wetside income remains above forecast, but has reduced from earlier forecasts. 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 which is below budget.
- 2.6 Considering the additional cost of the pay award, increased requirements for agency staff, higher than budgeted energy costs, the reduced forecast overspend of £436k shows that good budget management continues within services in order to mitigate this funding pressure. This has been achieved through the "soft freeze" on recruitment and the use of agency staff has been implemented, along with a thorough review of essential expenditure commitments. The revisions to fees and charges should also contribute to reducing the forecast.
- 2.7 If the forecast level of overspend is required to be covered from General Reserves, this will reduce the balance to £1.779m, below the agreed minimum £2m balance. Therefore action needs to be taken to address the matter.
- 2.8 In addition, another planning appeal has been lost leaving the Council at risk of meeting the costs of the appeal. This is not known and is therefore not built into this forecast, but could be material and will impact further on reserve balances.

3.0 The General Fund

- 3.1 The forecast General Fund over spend for the current year is £436k 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 variance has increased to £56k below budget (up from £9k in Quarter 2). The lower than forecast income in Building Control, Land Searches and Leisure are offset by increases in Planning, Car Parks and Waste. 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 £508k (up from £324k in Quarter 2). This increase in the bottom-line is due to further increases in vacancies. The under spend in Public Health has increased, along with Legal and Democratic Services and Planning and Regeneration. This partially offset by the additional costs in Leisure and Waste. 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 Agency Spend has increased by £25k since Quarter 2 essentially due to covering vacancies and/or sickness in Public Health, Legal, and Waste. Planning agency costs have reduced slightly but remain significantly above normal salary cost levels. Sickness levels and staff turnover is also higher than expected leading to services experiencing significant pressure in delivering planned service levels.

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 £48k under spend, £74k lower than the Quarter 2 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 £206k inclusive of the agreed higher pay award across Building Services and Tenancy Services. Investment returns are also significantly higher than budgeted, but are partially offset by higher bank charges (net £229k). This is offset by the rising cost of materials and contractor costs (£255k), less work funded by Disabled Facilities Grant (£107k) and costs associated with empty properties.
- 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 Actual, committed and planned expenditure across the remainder of the financial year is currently forecast to be £21,952k leaving a variance of £5,597k against the 2022/23 Deliverable Budget. Of which, £1,418k is an under spend, £2,022k is an over spend, and £6,201k will slip into future years. The status of the Capital Programme is shown at **Appendix F**.
- 5.2 This can be explained by the following key variances (+/- £100k):

-£1,418 underspend:

- -£979k – 3R future Projects (following reallocation during previous additional borrowing request);
- -£100k – Disabled Facilities Grant.

+£2,022k Overspend:

- +£401k – 3R Knowle Lane;

- +£467k – HRA Modular Housing (Shapland Place – largely due to additional planning requirements);
- +£661k – HRA Additional S106 on Post Hill.

-£6,201 Slippage:

- -£150k Shops & Industrial Units – feasibility and procurement now due in 2023/24;
- -£3,608k Cullompton HIF – delayed awaiting outcome of Levelling-Up bid (now known to be unsuccessful again);
- -£184k IT (server farm upgrades, WiFi replacement, Firewall) depending on resources available;
- -£616k 3R Bampton forecast to be complete in 2023/24;
- -£500k 3R Post Hill approval delayed;
- -£175k HRA major repairs related to the modernisation contract;
- -£150k HRA Housing development (projects 1, 8, 11, 14, 18, 9, 10, 15)
- -£278k Modular Housing (Shapland Place)
- -£300k HRA Garage Redevelopment further scoping work required

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:

Table 1 – Summary of Key Reserves

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)	436	(1,778)
Earmarked Reserves	(20,655)	2,206	(18,449)
HOUSING REVENUE ACCOUNT (See Section 4)	(2,000)	0	(2,000)
CAPITAL Receipts Reserve	(6,529)	26	(6,503)

6.2 The movement in Earmarked Reserves is notably less than the Quarter 2 forecast. This is due to (movements +/- £100k):

+ £1,442 Transfer Into Reserves, being:

- -£120k no longer contributing to Rough Sleeping reserve;
- +£800k J28 Cullompton;
- +£200k Leisure maintenance;
- +£109k NNDR deficit;
- +£433k S106.

-£110k increase in drawdown from EMR, as follows:

- +£110k Public Sector Housing Grant;
- +£198k Prior Year Council Tax deficit;
- -£587k J28 Cullompton;
- +£131k New Homes Bonus.

6.3 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 £1,778 due to the forecast £436k over spend. This falls below the agreed minimum of £2,000k and as outlined in paragraph 2.7 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 and potentially a review of the recommended minimum level may be considered.

7.0 3 Rivers Developments Ltd – Update

7.1 In Quarter 3 of 2022/23 the Council lent £785k of further borrowing to 3 Rivers to fund project payments and capital commitments. No loans were due to be repaid during the quarter but a further £201k of interest payments has been earned relating to interest charged for Quarter 2. A further £228k of interest has been charged for Quarter 3 of this financial year, and a projection of £247k is included covering Quarter 4. This will bring the total receivable interest for the year to £852k. An updated financial forecast is included as a Part 2 Appendix which shows the latest trading position.

7.2 A summary of the transactions to date are shown in the table below:

	Up to 31/03/2022 £k	2022/23 Year to date £k
Interest	£1,377	£604
Recharges	£387	£1
Loans	£15,941	£4,492
Loans Repaid	(£2,406)	

7.3 The Part 2 confidential Appendix G provides the companies summary management accounts and the latest project evaluation.

8.0 Collection Fund

8.1 Council Tax

8.1.1 The predicted collection rate at the end of Quarter 3 remained at 96.6% with £64,195k actually collected. As highlighted in the Quarter 1 report, the original Energy Rebate Scheme had ended and resources redeployed back to their substantive roles which is having a positive impact on collection. A new Energy Scheme has been announced covering “off-grid” homes which has required additional resources to be sought/realigned again.

8.2 Business Rates

8.2.1 The forecast deficit on the collection of Business Rates rose from £129k at Quarter 2 to £448k, an increase of £381k leading to a lower levy payment. There are also largely offsetting movements in S31 Grant and improved Renewable Energy income. The Council’s share of the projected £448k deficit is £179k (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 3.50% and is predicted to increase further, potentially to 4.5% in July 2023. Therefore interest receivable is above budget across both temporary investments and loans to third parties by a further £90k compared to Quarter 2. 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	LDA Design – East Cullompton Masterplan – funded by Homes England	£20,000	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 and the use of procurement waivers during the quarter.

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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