

Report for: Cabinet

Date of Meeting:	14 November 2023
Subject:	2023/24 QUARTER 2 MONITORING
Cabinet Member:	Cllr James Buczkowski, Cabinet Member for Finance
Responsible Officer:	Andrew Jarrett, Deputy Chief Executive (S151)
Exempt:	N/A
Wards Affected:	All
Enclosures:	Appendix A – General Fund Summary Appendix B – General Fund Service Variances Appendix C – Employee Cost Summary Analysis Appendix D – Income Summary Analysis Appendix E – HRA Summary and detail variances Appendix F – Capital Programme Summary Appendix G – 3Rivers update (PART 2) Appendix H – 3Rivers Management Accounts (PART 2)

Section 1 – Summary and Recommendation(s)

To present the forecast Outturn position for the General Fund, Housing Revenue Account and Capital Programme for the financial year 2023/24.

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 2023 and the projected outturn position;**
- b) **Note the use of Waivers for the Procurement of goods and services as included in Section 9;**
- c) **Note the estimated 2023/24 3Rivers write off of c£3.7m will be funded through a combination of Earmarked Reserves included New Homes Bonus and various sinking funds. The precise make up of this will be recommended within the Cabinet Outturn report.**

- d) **Agree the virement of the capital approval from the Hydromills project (currently deemed unviable) to be replaced by Investment in Solar Panels (once quantified) with the remainder being released.**

Section 2 – Report

1.0 Introduction

- 1.1 This report contains information relating to the Council's overall financial performance for the 2023/24 financial year. Monitoring the Budget is an important part of the Council's performance management framework. The aim is to keep a tight control on spending on services within a flexible budget management framework.
- 1.2 The purpose of this report is to highlight to Cabinet our current financial status and the likely reserve balances at 31 March 2024. 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 2023/24 (**Section 3 + Appendices A to D**);
 - The projected HRA Outturn position for 2023/24 (**Section 4 + Appendix E**);
 - The projected Capital Outturn position for 2023/24 (**Section 5 + Appendix F**);
 - Collection Fund Update (**Section 6**);
 - The projected Reserves Outturn position for 2023/24 (**Section 7**);
 - The Procurement Waivers utilised during the quarter (**Section 8**);
 - The latest position of 3Rivers (**Appendix G – Part 2**)
- 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. This monitoring focuses on significant budget variances (+/- £20k), including any remedial action where necessary leading to an estimated overall Outturn position.
- 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 9 which updates Members on the use of Procurement Waivers during the first quarter of 2023/24. 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 Members should note that officers have also identified areas where some unbudgeted expenditure can be mitigated through the use of earmarked

reserves. Therefore this is shown in Appendix A within the individual service areas enabling clarity on the overall forecast outturn variance that will affect General Reserves.

- 1.7 A summary of the Council's Treasury Management year end position is shown in Section 8. This now includes further detail as required by new regulations.

2.0 Executive Summary of 2023/24

- 2.1. The report indicates a projected General Fund outturn variance of £196k over spend (£527k in Qtr 1) and a HRA outturn variance of £485k under spend (£346k in Qtr 1). In respect of the Capital Programme, there is a variance of £52,917k against the 2023/24 Deliverable Budget, this is explained through a forecast £1,066k under spend, £1,720k over spend and slippage of £28,661k across various projects, with £24,910k is no longer required, the majority of which was funding for future development projects. These forecasts will continue to be refined during the year, which should result in more accurate year end forecasts.
- 2.2. The General Fund position must be considered against the position agreed by Full Council in March to draw £625k from General Reserves to balance the budget and the £400k vacancy saving target to be identified in-year. Therefore, to be forecasting to have reduced this £1,025k challenge down to £196k is a significant achievement. The workforce review group have, and continue to, consider each vacancy to ensure that we achieve and exceed the £400k vacancy target, and services have achieved significant budgetary savings in order to deliver a virtually balanced position. Work continues to ensure the position is maintained and pushed further towards fully offsetting the in-year savings targets set by Full Council.
- 2.3. Although overall targeted staffing savings are on track, the Council continues to struggle with recruitment and retention particularly within Waste requiring higher usage of agency staff than planned. Some service areas that were dependent upon agency support have reduced or removed this requirement through successfully filling roles. Therefore forecast outturn agency costs are less than half of what they were at this point last year.
- 2.4. In respect of income, there are significant reductions in Planning and Building Control income due to the increasingly depressed housing market leading to fewer planning applications and build sign offs. However, other income streams are tracking well above budget giving an overall credit to the bottom-line.
- 2.5. If the forecast level of over spend is required to be covered from General Reserves, this will reduce the balance to £1,828k rather than the planned £1,400k, thereby reducing the required draw by £428k. However, this revised balance is below the agreed minimum £2m balance and therefore action needs to be taken to address the matter, through the wider MTFP strategy.

- 2.6. All of the above positive budgetary achievements currently exclude any in-year write offs associated with the soft closure of 3Rivers which are currently expected to be in the region of £3.7m based on a range of prevailing assumptions and will need to be funded from a number of drawings from existing earmarked reserves – see Appendix H (Part 2). This will be formalised in the end of year outturn accounts.

3.0 The General Fund

- 3.1. The forecast General Fund over spend for the current year is £196k after transfers to and from Earmarked Reserves. A summary explanation of these key variances is shown in **Appendix A**, service by service. **Appendix B** also provides the detail of the key variances and those above £20k (+ or -) at individual service level to enable full transparency of the position. Similarly, for Appendix F (Capital Programme) the detail of the key variances and those above £50k (+ or -) at individual project level are included.
- 3.2. The table below shows the overall Budget, Forecast and Variance, summarised for 2023/24.

Table 1 – General Fund Summary

Financial Summary for 2023/24	2023/24 Budget £	2023/24 Forecast £	2023/24 Variance £
Total Net Cost of Services	15,664,819	15,770,069	105,250
Other Income and Expenditure	(3,201,584)	(3,022,194)	139,390
Total Net Budgeted Expenditure	12,463,235	12,747,875	284,640
Total Funding	(12,463,235)	(12,551,775)	(88,540)
Net Income and Expenditure	0	196,100	196,100

- 3.3. The current incomes from our major fee income streams are shown in **Appendix C**. It shows that the full year forecast Income variance is £290k above budget. The lower than forecast income in Planning and Building Control reflects the economic/market conditions, although has improved overall since Qtr 1. Within Waste, Garden and Trade waste is healthy and above forecasts, however recycle prices, which are excluded from Appendix C, have dropped and therefore this income stream is £151k lower than expected. Other Service income streams remain relatively close to expectations.
- 3.4. The current employee costs are shown at Appendix D. It shows a full year forecast under spend of £278k, after taking into account the £400k vacancy target included across Corporate Management and Leisure (with the actual savings shown against the respective service areas). Notable savings are being made in Property, Economic Development, Planning and IT due to vacancies not being filled. All vacancies are fully reviewed to consider if the position can

be removed permanently, or temporarily managed without. Within Public Health, the use of Homes for Ukraine funding is offsetting the administrative cost of operating the scheme on behalf of the government. The Waste service is showing a notable over spend on staff costs due to higher than expected absence, both through vacancies and sickness.

- 3.5. The forecast impact on the outstanding local government pay award has been amended from the assumed 5.5% budgeted uplift, to reflect the current (rejected) offer of the higher of £1,925k or 3.88%. This creates a relatively minor variance (+ or -) in each service area depending on the average pay in that area.
- 3.6. Agency Spend to date continues to be high following on from 2022/23. This is particularly applicable to Waste which has high levels of sickness in the year so far and is required to maintain the service. Overall, agency costs are largely offset by underspends on the staffing establishment, leading to a net additional cost of £25k. However, some vacancies have been filled, in planning and street scene for example, meaning that the forecast for the remainder of the year is lower than in Qtr 1. Some agency is funded by grant to undertake specific project work, such as economic development.
- 3.7. The Other Income and Expenditure variance shown in the table within para 3.2 above, includes the budgeted £625k draw from General Reserves, whereas the final outturn variance will be the actual transfer to or from General Reserves. It is fully offset by the increased return on investments due to continued increase in interest rates following setting the budget and a higher draw from Earmarked Reserves (largely S106). Therefore the £625k is not expected to be drawn at this time.
- 3.8. Following the rejection of business plans submitted by the Council's subsidiary company, 3 Rivers Developments Ltd, and the decision to only allow the company to complete their live developments, further impairments were processed at 2022/23. Depending on the route and closedown of the company, additional impairments and write offs will be required. Both live developments are entering their final stages with completion on St George's expected imminently and by the end of the year at Bampton. The latest position is shown in Appendices G and H – in Part 2.
- 3.9. 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 2024:

Table 2 – Summary of Key Reserves

Usable Reserves	31/03/2023	Forecast In Year Movement	31/03/2024
REVENUE	£000's	£000's	£000's
General Fund (See above)	(2,025)	196	(1,828)
Earmarked Reserves	(18,160)	1,944	(15,983)
HOUSING REVENUE ACCOUNT (See Section 4)	(2,000)	(485)	(2,485)

However, the actual reserves will be increased or decreased by the surplus or deficit generated on the General Fund in the year.

4.0 Housing Revenue Account (HRA)

- 4.1. This is a ring-fenced reserve in respect of the Council's housing landlord function. It is increased or decreased by the surplus or deficit generated on the HRA in the year. At Quarter 2 2023/24 the forecast year end budget position is a net surplus of £485k (£346k in Qtr 1). An explanation of the key variances and those above £20k + or -) are highlighted within **Appendix E**.
- 4.2. A snapshot of a number of the more significant variances identified giving rise to the forecast surplus:
 - £399k salary savings due to vacant posts and delays in filling vacancies, net of pay award;
 - £342k over spend on external contractors this largely as a consequence of staff shortages;
 - £250k under spend on DLO works;
 - £191k additional investment income on cash balances;
 - £259k underspend forecast on capital financing costs due to slippage to the 2023/24 projected capital spend;
- 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.
- 4.4. As Members are aware, a decision was taken not to move forward with the Post Hill development. Senior officers are currently investigating future options for the site and will provide an update on this once options are solidified. Embedded in this decision will be the consideration of sunk costs incurred within the initial development proposal.

5.0 Capital Programme

- 5.1. The Capital Quarter 2 summary is attached as Appendix F to this report. The total Capital Programme Approval is £139,277k, although much of this is planned to be spent in future years. Therefore a Deliverable Programme for 2023/24 of £66,296k has been set. These schemes will continue to be funded as before through a mix of unspent Capital Grants, Capital Earmarked Reserves or Prudential Borrowing.
- 5.2. At Quarter 2 the actual, committed and forecast spend for 2023/24 amount to £13,380k; leaving a variance of £52,917k against the 2023/24 Deliverable Budget. Of which, £1,066k is an under spend; £1,720k is an over spend, £28,661k will slip into future years and £24,910k is no longer required.
- 5.3. The main areas of slippage relate to HRA developments where the overall programme of works is regularly reviewed. As a result, some projects have slipped to later in the MTFP timetable, while others have been brought forward. The Cullompton Relief Road still awaits funding via a successful bid against the Government's Levelling-Up Scheme.
- 5.4. Significant capital approval is no longer required following the decision to soft close 3Rivers Developments Limited. Planned future developments will no longer proceed. Similarly, Cabinet decided to not progress with the Post Hill development. As such, the projected borrowing requirement over the lifetime of the MTFP will significantly reduce, lowering the financing costs assumed in the Revenue budget. This also removes the forecast income gains from the treasury lending and any development profit.
- 5.5. The £13,379k expenditure will be funded by the use of £1,288k of Capital Receipts (including 1-4-1 receipts), £3,357k grant funding, £4,828k Revenue Contributions such as S106 or utilisation of reserves and £3,905k through internal borrowing (including Lease finance). No further external borrowing has been required during the year.

6.0 Treasury Management

- 6.1. The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management 2021 introduced a new requirement for 2023/24 that members be updated on treasury management activities and indicators at least quarterly. Part of that reporting requirement is to provide a half-yearly update – this is included as a separate agenda item for this committee to consider.

7.0 Other – 3Rivers Developments Ltd

- 7.1. During the quarter ended 30 September 2023, a further £1,312k was loaned to 3 Rivers Developments Limited, a wholly owned subsidiary company of the Council. The total outstanding loan value at this date was £22,364k. Interest of £312k was charged by the Authority in respect of these loans for the period 1 July 2023 to 30 September 2023.
- 7.2. A summary by project is included within Appendix G – as Part 2 given the commercial nature of the business. The Management Accounts from the company of their developments are also included within Appendix H – again as Part 2.

8.0 The Collection Fund

- 8.1. Mid Devon is a Collection Authority for Council Tax and Non-Domestic Rates, and as such, is required to produce a Collection Fund Account for the Mid Devon area. The movement from the position reported at Qtr 1 is minimal.

9.0 Procurement Waivers

- 9.1. 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.
- 9.2. 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 first quarter of this financial year:

Table 3 – Summary of Procurement Waivers applied

Ref	Subject of the Waiver	Approximate Value £	Reason Code
1	Legal support for Planning Appeal public enquiry	£15k	I and II
2	Expert planning witness as part of the appeal process	£35k	I
3	Grant funding to property owner as part of the Cullompton High Street Heritage Action Zone Project	£94k - £118k	I and II
4	Three year SLA for ecological and Biodiversity Net Gain advice from Devon County Council to support the Planning Service	£60k (£20k pa)	II
5	Renewal of the Fire Alarm System at Culm Valley Leisure Centre following a retrospective fire strategy and fire risk assessment	£20k	I and II

10.0 Conclusion

- 10.1. Members are asked to note the Revenue and Capital Outturn figures for the financial year 2023/24 and the use of procurement waivers during the quarter.
- 10.2. We continue to closely monitor the financial position and amend our expectations accordingly. The budget process for 2024/25 is now underway and Managers are working hard to develop proposals to mitigate the future year's forecast shortfalls.

Financial Implications

Good financial management and administration underpin 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

None.

Risk Assessment

Regular financial monitoring information mitigates the risk of 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 (CR7).

Impact on Climate Change

The General Fund, Capital Programme and the Housing Revenue Account all contain significant investment in order to work towards the Council's Carbon Reduction Pledge.

Equalities Impact Assessment

No equality issues identified for this report

Relationship to Corporate Plan

The financial resources of the Council impact directly on its ability to deliver the Corporate Plan prioritising the use of available resources in 2023/24. The Monitoring Report indicates how the Council's resources have been used to support the delivery of budgetary decisions.

Section 3 – Statutory Officer sign-off/mandatory checks

Statutory Officer: Andrew Jarrett

Agreed by or on behalf of the Section 151

Date: 31/10/2023

Statutory Officer: Maria De Leburne

Agreed on behalf of the Monitoring Officer

Date: 31/10/2023

Chief Officer: Stephen Walford

Agreed by or on behalf of the Chief Executive/Corporate Director

Date: 31/10/2023

Performance and risk: Stephen Carr

Agreed on behalf of the Corporate Performance & Improvement Manager

Date: 31/10/2023

Cabinet member notified: Yes

Section 4 - Contact Details and Background Papers

Contact: Paul Deal, Corporate Manager for Finance, Property and Climate Change

Email: pdeal@middevon.gov.uk

Telephone: 01884 23(4254)

Background papers: 2023/24 Budget Report to Cabinet / Full Council
2023/24 Qtr1 Monitoring Report