APPENDIX 1: Executive report from 1 September 2022

Report Reference Number: E/22/15

To:	Executive
Date:	1 September 2022
Status:	Key Decision
Ward(s) Affected:	All
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Lead Executive Member:	Councillor Cliff Lunn, Lead Executive Member for Finance and Resources
Lead Officer:	Karen Iveson, Chief Finance Officer

Title: Financial Results and Budget Exceptions Report to 30 June 2022

Summary:

At the end of Q1, current estimated full year revenue outturn estimates indicate surpluses of (£382k) for the General Fund (GF) and a £28k deficit for the Housing Revenue Account (HRA) before pay award. Should the pay award offer which is currently under consideration by the unions be accepted, it is anticipated that this will reduce the GF surplus to (£45k) and increase the HRA deficit to £184k. The key variances are highlighted in the report with further detail in Appendix A.

All new general fund savings have been delayed to 2024/25, post Local Government reorganisation (LGR). The £195k saving in the Housing Revenue Account for the housing system will be aligned to delivery of phase 2 of the project, which is anticipated to be in September 2022, although savings may not be realised until future years and resource requirements for local government reorganisation may impact on delivery timescales.

The capital programme is currently underspent by (£26k) at the end of quarter 1. At this moment, both the GF and HRA forecast their programmes to be spent by year end with the exception of the housing acquisition and development programme which has been spread over two years. Headlines can be found in the report below with a more detailed analysis in Appendix C.

Programme for Growth projects spend was £658k in quarter 1 including £224k on staffing costs, £165k on the Transforming Cities Fund project and £122k on the Tadcaster business flood grant scheme. Project by project progress is shown in Appendix D.

Recommendations: The Executive are asked to

i) endorse the actions of officers and note the contents of the report;

ii) **approve re-profiled capital programmes and Programme for Growth as set out at Appendices C and D; and**

iii) **approve a permanent virement of £2,000 p.a from the LEP and Partnership budget, to facilitate the additional maintenance costs resulting from the proposed improvement works to the Sherburn in Elmet, Low Street site as laid out in point 2.17 of the report.**

Reasons for recommendation

To ensure that budget exceptions are brought to the attention of the Executive in order to approve remedial action where necessary and to ensure that the project at Low Street, Tadcaster can progress.

1. Introduction and background

1.1 The revenue budgets and capital programmes were approved by Council on 24 February 2022, this report and associated appendices present the financial performance as at 30 June 2022 and a full year forecast against these budgets.

1.2 There are areas of the Council which have resourcing issues, and additional workload pressures resulting from Local Government Reorganisation. There is a risk in 2022/23 that this could impact on delivery in some areas.

2. Main Report

General Fund Revenue

2.1 Latest forecasts show an expected full year surplus of (£382k) excluding pay award and a surplus of (£45k) including proposed pay award. Details of the variances against budget are set out at Appendix A.

2.2 The table below shows the summary position at the end of June 2022.

General Fund Account Q1 2022/23 Outturn	Latest Approved Budget £000's	Forecast £000's	Forecast Variance £000's
Service Income	-32,001	-32,448	-447
Service Expenditure	51,187	50,973	-214
Accounting adjustments / non-service budgets	-19,186	-18,907	279
Total Surplus / Deficit Before Pay Award	**0**	**-382**	**-382**
Proposed pay award	0	337	337
Total Surplus / Deficit After Pay Award	**0**	**-45**	**-45**

2.3 The main forecasted variances against the General Fund are:

- A net saving of (£282k) on the waste and recycling service. The key components of this are:

    - Commodity payments savings (£417k) driven by a continuing increase in the rate per tonne received for paper and card.

    - Partly offset by a £135k additional costs including an anticipated increase above budget on contract inflation at the contract anniversary in October which will impact on the costs in the second half of the year, higher contract costs for the waste fleet maintenance and an increase in gate fees.

- The commercial and other waste services have successfully maintained and grown the customer base resulting in an additional (£34k) of forecasted income for the year.

- Improved investment interest returns driven by base rate rises have resulted in an additional (£519k) of forecasted income in year. The £350k cap on interest from cash investments that approved as part of the Medium Term Financial Strategy means that £279k of this will be transferred to the Contingency reserve. This leaves an overall favourable variance of (£240k).

- Salaries before pay award currently show a forecasted deficit position of £3k showing that vacancy factor targets for the year have been broadly met due to continued vacancies in services. The impact of the pay award is covered in point 2.4.

- There is a (£63k) saving expected on drainage board levies due to the difference in actual inflation on the fees compared to what was assumed in the budget which was based on early estimates.

- There continues to be a shortfall in income against the lifeline service £82k due to lack of growth with the effects of the pandemic making it challenging to grow, £50k for Assets Team commercial work due to vacancies in the team meaning work is prioritised towards maintaining our dwellings and occupancy £22k of the industrial units due to condition issues.

- The cost of utilities remains a concern against rising prices. Whilst in Q1 there is not sufficient data to gauge an accurate estimate, a 50% increase has been forecast, resulting in a net additional cost pressure of £52k (some savings are anticipated against the old Contact Centre site). This will be reviewed again at quarter 2.

2.4 The assumption on salaries in the main report is based on a budgeted 2% pay award but the current pay offer which is under consideration by Unions is substantially above this at a flat £1,925 per post. The impact of this on base budgets is estimated to be an increase in costs of £337k on the General Fund.

This is not yet included in the appendices until confirmed but has been appended to the table at 2.2, which shows that it will result in a reduced surplus forecast of (£45k) for 2022/23. The overall estimated average increase in salaries for all staff equates to 6.4%.

Housing Revenue Account (HRA)

2.5 Latest forecasts show a £28k deficit which is expected to rise to £184k following the conclusion of the pay award discussions. This will result in a reduction in the transfer to the major repairs reserve from £4,310k to £4,126k and will therefore impact on the improvement programme.

2.6 The table below shows the summary position at the end of June 2022. Full details of forecast variances against budget are set out at Appendix A.

Housing Revenue Account – Q1 2022/23	Budget £000's	Outturn £000's	Variance £000's
Net Revenue Budget	8,339	8,265	(74)
Dwelling Rents	(12,649)	(12,547)	102
Net (Surplus) / Deficit transferred to Major Repairs Reserve	**(4,310)**	**(4,282)**	**28**
Proposed pay award	0	156	156
Net (Surplus) / Deficit transferred to Major Repairs Reserve post pay award	**(4,310)**	**(4,126)**	**184**

2.7 The main forecasted variances against the HRA deficit are:

- (£200k) forecasted additional investment interest due to base rate increases.

- While phase 2 of the Housing Development programme has been suspended, there will not be the requirement to borrow additional funds generating a (£60k) saving.

- The £195k saving which would be generated from the implementation of the housing system will not be achieved in year due to timing of the implementation of phase 2 plus continuing requirement of resources as a result of covid-19.

- Rent collection forecasts to date shows a £102k shortfall. The main driver being that void rates are higher than budget which is driven by the assumptions in the business plan. This is mainly due to the condition they are left in when vacated and the resource available to bring back in to use. Contracts have been agreed to progress bringing properties back in to use which should hopefully see the void rates reduce. The cost-of-living increases are also starting to impact on collection rates but this will be reviewed again at quarter 2 when there is a little more data available.

- Currently there is insufficient data to be able to accurately predict the outturn for utility costs, but as they are expected to rise, an increase of 50% above budget, which equates to £67k, has been forecast. This will be reviewed again at quarter 2.

- The proposed pay award is expected to increase salaries including those recharged from the general fund by £156k. The proposal is currently being considered by Unions.

Planned savings

2.8 All new general fund savings have been delayed to 2024/25, post Local Government reorganisation (LGR).

2.9 The £195k saving in the Housing Revenue Account for the housing system will be aligned to delivery of phase 2 of the project, which is anticipated to be in September 2022, although savings may not be realised until future years and resource requirements for local government reorganisation may impact on delivery timescales.

Capital Programme

Capital Programme Q1 2022/23	Actual Year to Date £k	Budget Year to Date £k	Year To Date Variance £k	Full Year Budget £k	Full Year Forecast £k	Full Year Variance £k
GF	72	80	-8	3,694	3,694	0
HRA	2,159	2,177	-18	17,042	13,578	3,464
Total	**2,231**	**2,257**	**-26**	**20,736**	**17,272**	**3,464**

2.10 The capital programme shows an underspend at the end of quarter 1 of just (£26k) of which (£8k) is in the general fund and (£18k) in the HRA.

2.11 General Fund and Housing Revenue Account programmes are expected to be fully spent by the end of the year with the exception of the housing acquisition and development programme in the Housing Revenue Account. This had a £9.4m budget allocated and whilst acquisitions of properties is expected to continue, the building programme is currently on hold due to rising costs. This has resulted in £3.5m of the programme being pushed back to 2023/24.

Programme for Growth (P4G)

Programme For Growth Q1 2022/23	Full Year Budget £k	Actual Year to Date £k	Full Year Forecast £k	Full Year Variance £k	Budget Full Programme Spend £k	Forecast Full Programme Spend £k	Project Budget Remaining £k
Expenditure	**6,866**	**658**	**5,156**	**-1,703**	**18,968**	**19,968**	**0**
Funded by:							
Reserve	-6,343	-456	-4649	-1687	18,277	18,277	0
Grant Funding	-523	-202	-507	-17	691	691	0

2.12 A report was taken to Executive in July with proposals to re-allocate money within the P4G programme. This was approved and those amendments to the programme are reflected in this report and the project detail in Appendix D.

2.13 The total programme for growth for delivery from 2022/23 onwards is £18,968k of which £6,866k was expected to be spent in 2022/23. This has been reforecast at Q1 to a reduced value of £5,156k.

2.14 There are a number of projects where spend is expected to vary from the phasing of the budget including:

- Visitor Economy £183k due to the ongoing impacts of covid and extended development periods.

- Burn Airfield spend of £433k is expected to align to outcome of local plan prioritisation of new settlement options and is therefore pushed back to 2023/24, with the future of the project to be discussed at October Executive.

- Property acquisitions in the Transforming Cities Fund project are now expected to be funded by P4G monies in 2022/23, so £1.25m of that budget has been brought forward from 2023/24 to 2022/23.

- Town projects have been rephased as a result of a more accurate picture of spend profile is emerging as the Business Cases for these schemes are developed with £2.2m being moved from 2022/23 to future years.

2.15 In year spend in quarter 1 includes:

- £122.5k which has been transferred to Two Ridings Community Foundation to fund and administrate the Tadcaster Business Flood Grant Scheme. 22 businesses are currently being funded through the scheme.

- £53.4k on the High Street shop front scheme.

- £164.5k for the acquisition of the Selby Railway Club as part of the Transforming Cities Fund programme.

- £224k of staff costs.

2.16 Excellent progress has been made across a range of other project areas with project-by-project detail on delivery to be found in Appendix D.

2.17 Progress has been made on a number of the Programme for Growth Town Centre Revitalisation Schemes, with business cases for a number of projects currently undergoing preparation. In September 2021, Executive gave approval to progress these schemes, subject to no additional ongoing revenue being incurred as a result of the various projects under consideration. Subsequent to this approval, further investigatory work into the Business Case to deliver improvements to the Sherburn in Elmet, Low Street site, has indicated that the proposed scheme will result in a minor ongoing revenue cost to the Council of £2,000 p.a. (this would be a maximum annual cost with any unspent funds building up for larger repairs in future years). It is therefore proposed to fund this additional cost through the permanent virement of equivalent funding from the LEP & Partnership Budget. Subject to this approval, the business case will be progressed to detailed designs and submission of planning, with Leadership Team approval required to contract to construct the scheme.

3. Alternative Options Considered

3.1 Not applicable.

4. Implications

4.1 Legal Implications

4.1.1 There is a legal requirement to balance the budget.

4.2 Financial Implications

There are no financial implications beyond those highlighted in the report.

4.3 Policy and Risk Implications

Slippage in capital programmes and programme for growth could see increased budget pressure from rising prices of materials and suppliers in future years. Projects are keeping this under review and looking to mitigate increases within existing budgets through project re-engineering to help mitigate prices increases

4.4 Corporate Plan Implications

The financial position and performance against budget is fundamental to delivery of the Council Plan, achieving value for money and ensuring financial sustainability.

4.5 Resource Implications

Resource requirements for Local Government Reorganisation has put considerable pressure on the Council to deliver all of its priorities from the Council plan. An additional £900k including carry forward from 2021/22 is in the budget to manage additional costs as a result of Local Government Reorganisation. At the end of quarter 1, none of this funding has been drawn down.

4.6 Other Implications

None.

4.7 Equalities Impact Assessment

There are no equalities impacts as a direct result of this report.

5. Conclusion

5.1 The general fund at the end of quarter 1 is forecasting a (£382k) surplus for the year. If the proposed pay award goes ahead this is expected to reduce to (£45k).

5.2 Interest receivable is forecast to exceed the £350k cap in the general fund, resulting in an expected £279k transfer to contingency reserve as per the medium-term financial strategy.

5.3 The housing revenue account is forecasting a £28k deficit at the end of quarter 1 which will reduce the contribution to the Major Repairs Reserve. If the proposed pay award goes ahead this is expected to increase the deficit to £184k.

5.4 There has been increased pressure on resources and capacity to deliver the Council's priorities with local government reorganisation requiring considerable resource which is only set to increase.

6. Background Documents

None.

7. Appendices

Appendix A – General Fund and Housing Revenue Account Revenue budget exceptions
Appendix B – General Fund and Housing Revenue Account Savings
Appendix B – Planned Savings
Appendix C – General Fund and Housing Revenue Account Capital Programme
Appendix D – Programme for Growth

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