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To:	**Executive**
Date:	**2 February 2023**
Status:	**Key Decision**
Ward(s) Affected:	**All**
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Lead Executive Member:	**Councillor Cliff Lunn – Lead Member for Finance and Resources**
Lead Officer:	**Karen Iveson, Chief Finance Officer**

Title: Financial Results and Budget Exceptions Report to 31 December 2022

Summary:

At the end of Q3, current estimated full year revenue outturn estimates indicate surpluses of (£305k) for the General Fund (GF) and (£241k) for the Housing Revenue Account (HRA). 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 Q4 2022/23, although savings will not be realised until future years and resource requirements for local government reorganisation may impact on delivery timescales.

At quarter 3, the capital programme in the General Fund is showing an underspend of £0.59m which is related to the investment in the Industrial Units which is proposed to be pushed back to 2023/24. In the Housing Revenue Account, work is expected to be delayed on St Wilfrid's Court and the Housing Acquisition and Development programme, resulting in £0.7m being phased back into next year. This is partly offset by anticipated overspends on the budget for boiler replacements by £0.277m due to failures. In addition, £2m has been added to the property refurbishment budget, funded from S106 affordable housing receipts, which was approved at the Extraordinary Council meeting in January. Headlines on the capital programme can be found in the report below with a more detailed analysis in Appendix C.

Programme for Growth projects spend was £1,635k in quarter 3 including £766k on staffing costs. Project by project progress is shown in Appendix D.

Recommendation:

That the Executive

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;**
iii) **approve the use of the HRA Surplus towards the additional costs of Boiler Replacement.**

Reasons for recommendation

To ensure that budget exceptions are brought to the attention of the Executive in order to approve remedial action where necessary.

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 31 December 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 (£305k). Details of the variances against budget are set out at Appendix A.

2.2 The table below shows the summary forecast position at the end of Quarter 3.

General Fund Account Q3 2022/23 Outturn	Latest Approved Budget £000's	Forecast £000's	Forecast Variance £000's
Service Income	-31,992	-30,754	1,237
Service Expenditure	48,394	45,815	-2,579
Accounting adjustments / non-service budgets	-16,402	-15,366	1,037
Total Surplus / Deficit Before Pay Award	**0**	**-305**	**-305**

2.3 The main forecasted variances against the General Fund are:

- A net saving of (£287k) on the waste and recycling service. The key components of this are:

    - Commodity payments savings (£488k) driven by a continued increase in the rate per tonne received for paper and card.

    - Partly offset by £199k additional costs including an anticipated increase above budget on contract inflation at the contract anniversary in October (RPIX @ 12.4%) which will impact on the costs in the remainder of the year, higher costs for trade waste disposal (see increased income below) and an increase in gate fees.

- The commercial and other waste services have successfully maintained and grown the customer base resulting in an additional (£71k) of forecasted income for the year.

- Improved investment interest returns driven by base rate rises have resulted in an additional (£1,227k) 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 £987k of this will be transferred to the Contingency reserve. This leaves an overall favourable variance of (£240k).

- There is a net saving of (£97k) at present on salaries but it is anticipated that the vacancy levels are likely to increase over the next 3 months and expect this variance to increase. Current estimated GF vacancy levels are (£157k) higher than budget. Vacancy levels are unusually high due to a number of posts not being recruited due to LGR.

- 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 £85k 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 £26k of the industrial units due to condition issues.

- Recycling Credits are forecasting a £59k shortfall impacted on by the dry Summer reducing the amount of green waste collected.

- Planning Fees continue to struggle impacted by the current economic issues, a £180k shortfall is currently predicted.

- New burdens support for (£64k) for the delivery of the council tax support grant was not included in the budget.

- The cost of utilities remains a concern against rising prices, an increase has been forecast but we are still awaiting bills to provide an accurate estimate. Additional cost pressure of £80k has been forecast.

- There is a £2.271m contra between income and expenditure as a result of lower levels of benefit payments and therefore correspondingly lower grants.

Housing Revenue Account (HRA)

2.4 Latest forecasts show a (£241k) surplus. This will result in an increase in the transfer to the major repairs reserve from £4,310k to £4,551k.

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

Housing Revenue Account – Q3 2022/23	**Budget £000's**	**Outturn £000's**	**Variance £000's**
Net Revenue Budget	8,339	7,941	(398)
Dwelling Rents	(12,649)	(12,492)	157
Net (Surplus) / Deficit transferred to Major Repairs Reserve	**(4,310)**	**(4,551)**	**(241)**

2.6 The main forecasted variances against the HRA deficit are:

- (£474k) 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. To counter that, the HRA Business Plan assumed for every property sold there would be a replacement to maintain stock levels. To date 6 properties have been sold with 1 addition. This has an impact on rents generated.

- Housing rent collection forecasts to date shows a £157k 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 £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 and LGR.

- An increase of 50% above budget for utility costs is forecast which equates to £67k. There is still a shortage of bill data to confirm this estimated level of additional cost, so this will be kept under close review.

- Although this position may change it is anticipated HRA Contingency won't be required in the year generating a (£77k) saving.

Planned Savings

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

2.8 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 completed in this financial year, 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 Q3 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	1,463	1,467	-4	3,194	2,604	-590
HRA	7,361	7,334	27	14,723	14,302	-422
Total	**8,824**	**8,801**	**23**	**17,917**	**16,905**	**-1,012**

2.9 The overall capital programme shows an underspend at the end of quarter 3 of (£1,012k) across both GF and HRA budgets.

2.10 The General Fund expects all its programmes to be spent by the end of the year with the exception of the Industrial Unit Investment scheme, where detailed specifications for the Prospect Centre are being drawn up and Vivars work is on hold pending the strategic master planning exercise in relation to One Public Estate. In the Housing Revenue Account, rephasing to 2023/24 is proposed for two project areas, St Wilfrid's Court £64k and Housing Acquisition & Development £635k to carry forward for the purchase of S106 properties.

2.11 Emerging budget pressures in the HRA are impacting heavily on two capital budgets.

2.11.1 Boiler replacement programme

An additional £277k (against the budget of £759k) has been forecast to undertake priority work in 22/23 due to a higher-than-expected number of breakdown/ replacements. These largely relate to boilers from the same manufacturer that were originally installed between 2010-12. The business plan assumes boiler replacement on a 15-year cycle but increasing breakdowns and obsolescence of parts means that replacements are required earlier than planned. Going forward the phasing of future replacements will need to be considered as part of the next HRA business plan refresh.

2.11.2 Refurbishment programme

22/23 has seen a marked increase in both the number of voids and the level of work required to bring properties up to a decent lettable standard. It is estimated that an additional £2.047m would be needed in 22/23 to fund works to bring void properties back into use.

A full report setting out the issues and impacts was considered at an Extraordinary Council meeting on the 17 January 2023. Proposals to fund this from S106 affordable housing receipts were approved at that meeting and the full year budget and financing have been updated to reflect this decision.

Programme for Growth (P4G)

Programme For Growth Q3 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	**5,194**	**1,635**	**4,942**	**-252**	**19,073**	**19,073**	**0**
Funded by:							
Reserve	-4,582	-1,274	-4,354	-228	18,195	18,195	0
Grant Funding	-612	-361	-588	-24	878	878	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 £19,073k of which £5,194k was expected to be spent in 2022/23. This has been reforecast slightly lower at Q3 to £4,942k.

2.14 The pay award offer has increased P4G salaries, but this is expected to be funded from existing vacancies in the programme. A reprofiling exercise has taken place around anticipated staffing expenditure over the course of Q3 as a result of the reallocation of funding outlined in 2.12, and the pay award detailed above. The latest anticipated forecast for annual staffing expenditure for the programme is detailed in the appendix.

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

- Legal Support – Lower expenditure than anticipated has been incurred regarding the money put aside to support legal work and advice associated with the P4G programmes. As such £35k of expenditure previously forecast for the current year has been re-profiled over future years to meet potential need.

- Timing of delivery of low carbon budgets is now predominantly expected in 2023/24 with (£272k) of spend being rephased to the next financial year. Discussions are currently ongoing around the potential to commission some tree planting work over the course of Q4. The results of these discussions are still to be determined, therefore expenditure for this scheme is still forecast for 23/24, however should these discussions prove productive then there may be minor expenditure in Q4.

- Timing of delivery the Town's Planning (Regeneration) programme is now anticipated to be split over 22/23 and 23/24, with £43k of funding now allocated to this latter year. This funding is predominantly to be used to support the next phase of the Council's Places and Movement Study.

- Discussions are also ongoing with Historic England around the anticipated current and future year expenditure of both the Council's P4G, and Historic England's match grant funding for the New Lane project. These discussions are scheduled to take place in early January. The current forecast as at Q3 presents the expenditure profile anticipated by council officers, however the outcome of these discussions may see the current forecast of expenditure vary in the upcoming Q4 report.

2.16 In year spend in quarter 3 includes:

- £208.6k on Sherburn Legacy projects, with this funding provided to Sherburn in Elmet Town Council to support the refurbishment of Eversley Park entrance. A number of other applications for use of this funding have been received and are being considered, with the remainder of this budget expected to be utilised by the end of the year.

- £102.3k on the High Street shop front scheme.

- £68.7k on the Strategic Sites Masterplanning Scheme, to fund due diligence work on potential future use strategic sites within the region. The remainder of this budget expected to be utilised by the end of the year.

- £74.5k on the Visitor Economy budget on the refreshed Visitor Economy Strategy and Cultural Development framework. Work is ongoing around an Expression of Interest for Arts Council Place Partnership funding, with will attract further funding to support the existing Cultural Development framework. Discussions ongoing with the Arts Council and North Yorkshire Council about the approach to the Place Partnership project, with a decision expected in January.

- £766k of staff costs.

2.17 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.

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

Increased budget pressure from rising prices, in particular on the capital programme and programme for growth, could put more pressure on budgets in future years. There is a particularly high risk in the HRA capital programme with additional pressure from the number of refurbishment voids that require work to bring back to lettable condition.

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 3, £17.4k of this funding has been drawn down for additional legal support.

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 3 is forecasting a (£305k) surplus for the year.

5.2 Interest receivable is forecast to exceed the £350k cap in the general fund, resulting in an expected £987k transfer to contingency reserve as per the medium term financial strategy.

5.3 The housing revenue account is forecasting a (£241k) surplus at the end of quarter 3 which will increase the contribution to the Major Repairs Reserve.

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.

5.5 The impact of inflation is impacting on costs in all areas. There is a particular risk for the HRA capital programme which is facing increasing pressure as a result of rising costs and a much higher proportion of voids being refurbishment voids. The Extraordinary Council meeting in January approved an additional £2.047m funded from S106, which has been reflected in the latest budget and forecast.

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 C – General Fund and Housing Revenue Account Capital Programme

Appendix D – Programme for Growth

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