SELBY DISTRICT COUNCIL

APPENDIX 1 – Executive Report, 8 December 2022

Report Reference Number: E/22/27

To:	**Executive**
Date:	**8 December 2022**
Status:	**Key Decision**
Ward(s) Affected:	**All**
Author:	**Peter Williams, Head of Finance**
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 30th September 2022

Summary:

At the end of Q2, current estimated full year revenue outturn estimates indicate surpluses of (£371k) for the General Fund (GF) and (£68k) for the Housing Revenue Account (HRA). This includes this years proposed pay award. 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 Q3 2022, although savings will not be realised until future years and resource requirements for local government reorganisation may impact on delivery timescales.

The capital programme is on budget at the end of quarter 2. At this moment, both the GF and HRA forecast their programmes to be spent by year end with the exception of two projects in the GF which see £0.5m of costs pushed back to 2023/24 and the budget for boiler replacements in the HRA which is expected to overspend by £0.14m. There is however considerable risk of increased costs in the HRA property refurbishment budget as a result of inflation and higher than expected levels of voids which require refurbishment. The impacts on this budget are currently being assessed by officers. Headlines can be found in the report below with a more detailed analysis in Appendix C.

Programme for Growth projects spend was £1,053k in quarter 1 including £520k on staffing costs, £174k 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:

That the Executive

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

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

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 30 September 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 (£371k). 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 Q2 2022/23 Outturn	Latest Approved Budget £000's	Forecast £000's	Forecast Variance £000's
Service Income	-32,073	-30,567	1,506
Service Expenditure	48,267	45,882	-2,385
Accounting adjustments / non-service budgets	-16,194	-15,686	508
Total Surplus / Deficit Before Pay Award	**0**	**-371**	**-371**

2.3 The main forecasted variances against the General Fund are:

- A net saving of (£283k) on the waste and recycling service. The key components of this are:

- Commodity payments savings (£473k) driven by a continued increase in the rate per tonne received for paper and card.

- Partly offset by £189k 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 second half 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 (£61k) of forecasted income for the year.

- Improved investment interest returns driven by base rate rises have resulted in an additional (£748k) 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 £508k of this will be transferred to the Contingency reserve. This leaves an overall favourable variance of (£240k).

- There is a net overspend of £83k at present on salaries but it is anticipated that the vacancy levels are likely to increase over the next 6 months and may offset this by the year end. The impact of the higher pay award in year is £337k whilst current estimated vacancy levels are (£254k) 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 £84k 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.

- New burdens support for (£77k) 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 £62k has been forecast (some savings are anticipated against the old Contact Centre site).

- 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 (£68k) surplus. This will result in an increase in the transfer to the major repairs reserve from £4,310k to £4,378k.

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

Housing Revenue Account – Q2 2022/23	Budget £000's	Outturn £000's	Variance £000's
Net Revenue Budget	8,339	8,122	(217)
Dwelling Rents	(12,649)	(12,500)	149
Net (Surplus) / Deficit transferred to Major Repairs Reserve	**(4,310)**	**(4,378)**	**(68)**

2.6 The main forecasted variances against the HRA deficit are:

- (£289k) 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 5 properties have been sold with 1 addition. This has an impact on rents generated.

- Housing rent collection forecasts to date shows a £149k 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.

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 in Q3 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 Q2 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	264	271	-7	3,694	3,194	-500
HRA	3,909	3,910	-1	13,578	13,717	139
Total	**4,173**	**4,181**	**-8**	**17,272**	**16,911**	**-361**

2.9 The overall capital programme shows an underspend at the end of quarter 2 of just (£8k) with both GF and HRA on budget.

2.10 General Fund and Housing Revenue Account programmes are expected to be fully spent by the end of the year with the exception two projects in the general fund. The car park improvement works at Portholme Crescent was delayed due to it being used as a walk-in covid testing centre. Whilst this has now been removed, the works on the car park are not expected to take place until 2023/24 resulting in a £350k in year underspend. Procurement is underway on the skate park refurbishment, but bidders have stated that the work cannot be undertaken until the next financial year, so it is expected that this project (£150k) will be undertaken in 2023/24.

2.11 The capital programmes are impacted by increasing costs. Where possible projects will be re-engineered to deliver within budget, but it is anticipated that in the general fund less play areas will be able to be delivered within the existing budget than planned, due to rising costs leaving an estimated shortfall of £34k.

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

2.12.1 Boiler replacement programme

An additional £139k (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.

2.12.2 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. Based on an average of £38k per property, as at November 2022, an estimated additional £643k (against the budget of £4.4m) will be needed to complete the 42 voids currently issued to the contractors for assessment. In addition, a further estimated £1.14m will be needed to resolve the 30 voids that have not yet been issued.

Across the previous three financial years, refurbishment voids have accounted for approximately 34% of all voids received; however, of the properties within the portfolio which are currently void, this figure has risen to 82%.

Alongside void property works there is also a risk of additional reactive urgent works on homes over the winter which could cause a further shortfall in budget provision.

To date these costs have been mitigated by suspending planned improvements but the pace of voids continues far beyond numbers previously experienced.

Officers are assessing the potential for reducing the scope of works on void properties to ensure we meet our legal requirements. Once we have a clearer view of the forecast costs on this basis, we will then be able to bring forward potential funding and/or phasing solutions. An update will be presented to the Executive meeting.

At this stage we await an updated stock condition survey in order to assess the medium to longer term implications for the HRA and will work with colleagues across North Yorkshire as we develop a single HRA for North Yorkshire Council. It should also be noted that growing inflation in the construction and related industries is likely to put further pressure on these budgets.

There may be opportunity to rephase some of the future improvement works to accommodate in part or full, these additional costs, and/or consideration to the current ‘Decent Homes Plus Standard” may be required.

Programme for Growth (P4G)

Programme For Growth Q2 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	**5,260**	**1,053**	**5,214**	**-46**	**19,073**	**19,073**	**0**
Funded by:							
Reserve	-4,649	-767	-4,552	-97	18,195	18,195	0
Grant Funding	-611	-286	-612	1	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 £19,072k of which £5,260k was expected to be spent in 2022/23. This has been reforecast slightly lower at Q2 to £5,214k.

2.14 The pay award offer will increase P4G salaries, but this is expected to be funded from existing vacancies in the programme.

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

- Growing Enterprise – money put aside to support businesses impacted by the TCF project is now likely to be spread across two years, as is spend to support businesses post covid. This has resulted in (£120k) being phased to 2023/24.

- 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.

- A number of projects in Sherburn being delivered by local partners are expected to be delivered in 2022/23 which had previously been anticipated to be spent in 2023/24. £312k of this funding has been phased back in 2022/23 to assist with this deliver. In addition, the project at New Lane is expected to commence this year, so £50k of the £200k budget has been rephased from 2023/24 to 2022/23.

2.16 In year spend in quarter 2 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.

- £62.1k 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.

- £520k 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

The financial issues are set out in the report. The impacts of the potential overspend in relation to the HRA capital programme are currently under investigation. Should these costs not be manageable within the approved budget then an additional drawdown from HRA reserves and/or rephasing of the programme will be needed. The necessary approvals will be sought should this be required.

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. Projects are keeping this under review and looking to mitigate increases within existing budgets to help mitigate price 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 2, £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 1 is forecasting a (£371k) surplus for the year.

5.2 Interest receivable is forecast to exceed the £350k cap in the general fund, resulting in an expected £508k transfer to contingency reserve as per the medium-term financial strategy.

5.3 The housing revenue account is forecasting a (£68k) surplus at the end of quarter 2 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. Officers are assessing the impacts and potential solutions to this issue.

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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