

BABERGH DISTRICT COUNCIL

COMMITTEE: Cabinet	REPORT NUMBER: BCa/22/18
FROM: Councillor David Busby, Cabinet Member for Finance	DATE OF MEETING: 5 September 2022
OFFICER: Melissa Evans, Director - Corporate Resources	KEY DECISION REF NO. CAB372

GENERAL FUND FINANCIAL MONITORING 2022/23 – QUARTER 1

1. PURPOSE OF REPORT

- 1.1 This report considers the revenue and capital financial performance for the period April to June and highlights any significant variances expected for the financial year 2022/23.
- 1.2 As at 30th June an overspend of £782k on net expenditure is forecast. The Council set up an Inflationary Pressure Reserve of £500k in 2021/22 to mitigate against the impact of inflation in 2022/23. This would be used to fund part of the forecast overspend and the budgeted contribution of £527k to the Strategic Priorities Reserve would be reduced to £245k, as shown in section 5.5.

2. OPTIONS CONSIDERED

- 2.1 At this stage in the year, the financial position is for noting only.

3. RECOMMENDATIONS

- 3.1 That, subject to any further budget variations that arise during the rest of the financial year, the net expenditure overspend position of £782k and forecast reserve movements, referred to in section 5.5 and Appendix A of the report, be noted;
- 3.2 The revised 2021/22 Capital Programme referred to in Appendix B and section 5.9 be noted.

REASON FOR DECISION

To ensure that Members are kept informed of the current budgetary position for both General Fund Revenue and Capital.

4. KEY INFORMATION

Background

- 4.1 In February 2022 Babergh District Council approved the General Fund Budget 2022/23 and Four-Year Outlook. The budget setting approach for 2022/23 recognised that the Council has tended to underspend the budget that has been set in recent years, generally due to additional income being received.

- 4.2 Managers have traditionally used a worst case scenario when putting their budget proposals together. Amalgamating these assumptions across the whole organisation has, in recent years, resulted in underspends. The unintended consequence is that resources are committed during the budget process that could be used for other priorities or alternatively savings have to be made that are not actually needed.
- 4.3 For 2022/23 stretching, but realistic, assumptions were used when putting budget proposals together across both expenditure and income. There is a risk that this approach and events that happen during the year could result in an overspend position, but this will be monitored through the regular quarterly reporting to Cabinet and action taken if necessary.

Inflationary pressures

- 4.4 The UK rate of inflation increased to 9% in April 2022 due to higher food, energy and petrol prices with the Bank of England warning that it is on course to reach 11%. An initial assessment of the potential impact of inflation has been undertaken and the following have been identified as areas where inflation could have a significant impact during 2022/23:

Employees

- 4.5 Employee costs are approximately 40% of the Councils revenue expenditure budget and an increase of 2.2% is included in the budget. The national pay award offer for 2022/23 was tabled on 25 July 2022 and is £1,925 from 1 April 2022. This equates to an increase of approximately 8% and an additional cost of £580k.

Electricity

- 4.6 The Council procures electricity via Vertas. The price for summer 2022 has been agreed and is 207% higher than summer 2021. The price for winter 2022/23 is projected to be 280% higher than the previous year. This would give a budget pressure of £265k. Of this, £208k is for leisure centres and is due to be repaid by the operators. However, there is a significant risk that the operators will not be able to cover the full cost and request additional support.

Gas

- 4.7 Prices have increased significantly, however the price that the Council pays is fixed until September 2023 through its contract via Vertas.

Fuel

- 4.8 Petrol and diesel prices increased by over 40% in the year to 13th June 2022. A 40% increase in fuel prices gives a budget pressure of around £20k. HVO prices have not been affected to the same extent and a 10% increase in cost is expected.

Contracts

- 4.9 Many of the Council's contracts are fixed and will not be impacted by inflation in 2022/23. There may be an impact from the Shared Revenues Partnership (SRP) from the pay award. A pay increase of 3.1% is included in the SRP budget but it is currently expected that a pay award up to 5% could be absorbed within the budget. Based on the tabled award any increase in costs will be clarified in Q2.

- 4.10 Budget Carry Forwards from 2021/22, approved at July Cabinet of £420k have been included in the overall forecast and will be incorporated into the Service Area budgets in Q2.

Interest

- 4.11 Rates for 1-year borrowing have increased from 0.10% in July 2021 to 2.1% in July 2022. It is currently expected that any increase in borrowing costs due to this change in rates will be offset by slippage in the capital programme in the previous year, but this will be closely monitored during the year. It is anticipated that there will be further increases in Bank of England Base Rates as The Bank moves to tackle inflation.

Other costs

- 4.12 Inflation is also expected to push up costs in other areas with the most significant being professional and consultancy fees, repairs, software licences and waste gate fees.

Income

- 4.13 Fees and charges are fixed for 2022/23 and will not rise for inflation. However, demand could be negatively impacted by the cost of living crisis for services such as garden waste, trade waste, planning fees and car park income. The situation will be kept under review and officers will make a case for any increase in fees to members for approval if required.
- 4.14 The current estimate of the impact of inflation on the General Fund is shown in the table below. These will be monitored as the year progresses.

Area	Forecast inflation rate %	2022/23 Budget £'000	Estimated impact £'000
Employee costs (2.2% included in budget)	8%	9,983	580
Electricity	244%	32	57
Petrol & Diesel	40%	49	19
HVO	10%	72	7
Repairs	9%	257	23
Equipment, tools & materials	10%	137	14
Professional & consultancy fees & contracted services	6.40%	1,000	65
Software licences	6.40%	176	11
Waste gate fees	12.80%	278	36
Estimated total impact			812
<u>Funding available</u>			
Waste Reserve: for Gate Fees & HVO			- 43
Inflationary Pressures Reserve			- 500
Potential balance to fund			269

*The £812k of additional pressures, are reflected in the variances to budget in the Table in section 5.5 and Appendix A.

5. 2022/23 OUTTURN POSITION

5.1 The report covers:

- The General Fund Revenue Budget
- The General Fund Capital Programme.

5.2 Budget monitoring is a key tool and indicator on the delivery of the Council's plans and priorities for the year. There will, of course, always be reasons why there are variances such as:

- Economic conditions and those services that are affected by demand
- Uncertainties relating to funding or other changes that were not known at the time the budget was approved.

5.3 Based upon financial performance and information from April to June (with emerging trends extrapolated to the end of the financial year) and discussions with budget managers and the Senior Leadership Team, key variations on expenditure and income compared to budget have been identified.

5.4 The key projected variances for 2022/23 at Quarter 1 are shown below:

	Full Year Budget £000's	Forecast £000's	Forecast v Budget £000's
Assets & Investments	450	496	46
Communities & Wellbeing	628	626	(2)
Corporate Resources	2,050	2,371	321
Customers, Digital Transformation & Improvement	1,910	1,951	41
Economic Development & Regeneration	277	271	(6)
Environment & Commercial Partnerships	3,943	3,887	(56)
Housing	559	559	0
Law & Governance	918	946	28
Planning & Building Control	1,218	1,336	118
Senior Leadership Team	692	836	144
Net expenditure on services	12,645	13,279	634
Recharge to HRA/Capital	(1,347)	(1,359)	(12)
Capital financing costs	(868)	(868)	0
Transfers to (from) reserves not included in above*	527	527	0
Inflationary Pressures on Salaries		580	580
Carry forwards from 2021/22	0	(420)	(420)
Total budget requirement	10,957	11,738	782
Council Tax	(6,185)	(6,185)	0
Collection fund (Surplus)	(116)	(116)	0
Business Rates less Tariff	(1,555)	(1,555)	0
Business Rates - Pooling Benefit	(333)	(333)	0
20/21 distribution of deficit	218	218	0
Rural Services Delivery Grant	(238)	(238)	0
S31 Grant	(1,486)	(1,486)	0
New Homes Bonus	(802)	(802)	0
Lower Tier Services Grant and Council Tax Support Grant	(96)	(96)	0
Services Grant	(147)	(147)	0
Business rates - Enterprise Zone	(216)	(216)	0
Total funding	(10,957)	(10,957)	0
Inflationary Pressures Reserve	0	(500)	(500)
Strategic Priorities Reserve	527	245	(282)
Total variance	527	527	(0)

Earmarked Reserves

- 5.5 Earmarked reserve balances were £13.743m as at 1 April 2022. The table below shows the projected balance at 31st March 2023.

Reserve	Balance 31/03/22 £'000	Forecast To/From	Balance 31/03/23 £'000
Business Rates & Council Tax	4,967	(2,837)	2,130
Business Rates Retention Pilot (BRRP)	812	(265)	547
Carry Forwards	420	(420)	-
Climate Change and Biodiversity	309	(21)	288
Community Housing Fund	140	(29)	111
Commuted Maintenance Payments	937		937
COVID 19	1,674	(374)	1,300
Elections Equipment	35		35
Elections Fund	70	20	90
Government Grants	164	(23)	142
Homelessness	277	(89)	188
Joint Local Plan	100	(100)	-
Neighbourhood Planning Grants	48	127	175
Planning (Legal)	668	(20)	648
Planning Enforcement	93	40	133
Rough Sleepers	88		88
Strategic Planning	93		93
Strategic Priorities	1,704	(676)	1,028
Temporary Accommodation	238	(43)	194
Waste	230	(35)	195
Well-being	176	(80)	97
Inflationary Pressures Reserve	500	(500)	-
Total	13,743	(5,324)	8,419

Capital

- 5.6 Use of capital and one-off funds is critical and needs to be linked into our future delivery plans.
- 5.7 With complex capital schemes it is difficult to accurately assess the level of payments that will be made during the financial year. The Council continues to embark on new projects relating to investments and commercial delivery where it is difficult to accurately predict how payments will fall. Members should therefore focus on whether overall outcomes are being achieved because of the capital investment rather than variances against the plan for a particular year.
- 5.8 Capital expenditure for the period April to June 2022 totals £515k, against a revised programme (including carry forwards) of £23.6m, as set out in Appendix B. The profile of the anticipated spend for 2022/23 is difficult to assess at this stage of the year and it is likely that there will be slippage in the delivery of some programmes.

5.9 Some items in the capital programme, such as the Strategic Investment Fund and, Regeneration Fund are unlikely to be fully spent in year, and some projects may be delayed due to the general supply and delivery issues, so the figures in Appendix B anticipate that a request will be made to carry forward any unspent balance at year-end.

6. LINKS TO THE CORPORATE PLAN

6.1 Ensuring that the Council makes best use of its resources is what underpins the ability to achieve the priorities set out in the Corporate Plan. Specific links are to financially sustainable Councils, managing our corporate and housing assets effectively, and property investment to generate income.

7. FINANCIAL IMPLICATIONS

7.1 These are detailed in the report.

8. LEGAL IMPLICATIONS

8.1 There are no specific legal implications.

9. RISK MANAGEMENT

9.1 This report is most closely linked with the Council's Significant Risk No. 4 – We may be unable to respond in a timely and effective way to financial demands and Significant Risk No. 13 – Additional cost pressures may result in a significant overspend that needs to be funded from reserves. Other key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
If the forecast savings and efficiencies are not delivered, then it will have a detrimental impact on the resources available to deliver services and the strategic priorities	3 - Probable	2 - Noticeable	Monitored throughout the year by Finance Teams, Corporate Managers, Assistant Directors and the Senior Leadership Team
If economic conditions and other external factors are worse than budgeted for it could have an adverse effect on the Councils 2022/23 and medium-term financial position (MTFS).	3 - Probable	2 - Noticeable	The impact of inflation is being closely monitored. An Inflationary Pressure reserve was set up at the end of 21/22 to mitigate against additional costs. Ongoing pressures will be considered when setting the 2023/24 budget and MTFS.

Risk Description	Likelihood	Impact	Mitigation Measures
If the cost of living crisis increases demand for the Council's services it could have an adverse effect on the Councils 2022/23 and medium-term financial position (MTFS).	3 - Probable	2 - Noticeable	Work being undertaken to determine risk of increasing demand across the Councils services and will be included in financial monitoring. Ongoing pressures will be considered when setting the 2023/24 budget and MTFS.

10. CONSULTATIONS

10.1 Consultations have taken place with Assistant Directors, Corporate Managers and other Budget Managers as appropriate.

11. EQUALITY ANALYSIS

11.1 An equality analysis has not been completed because there is no action to be taken on service delivery as a result of this report.

12. ENVIRONMENTAL IMPLICATIONS

12.1 There are a number of areas where COVID19 has had a positive effect on the Council's environmental impact as well as the financial position. They include for example, reduced travel, less printing and reduced utility costs.

12.2 Directors, Corporate Managers and other Budget Managers continue to consider the environmental impact of their budgets and take the opportunity to reduce their carbon footprint as opportunities arise.

12.3 In subsequent years to support the Council's commitment to be Carbon Neutral by 2030, several initiatives have and are being undertaken from a combination of the Council's own resources and those secured from external sources. Some of these are set out below.

12.4 A solar multi-function carport to generate electricity is being installed at Kingfisher Leisure Centre, Sudbury. The CO₂ savings are 4.4 times the volume of the Royal Albert Hall and it will generate enough power to supply 24 average homes in Sudbury.

12.5 The Council's leisure centres have been successfully transferred to certified low carbon tariffs for electricity use.

12.6 We have also installed a new pool water cleaning system at Kingfisher Leisure Centre which is expected to reduce annual CO₂ emissions by between 6.4 and 8.6 tonnes per annum and reduce combined gas and electricity consumption by 1.1% - 1.5%.

12.7 £398k of funding has been secured from the Government's Public Sector Decarbonisation Fund for carbon-saving measures at council leisure centres and Wenham Depot, including solar panels and air source heat pumps.

13. APPENDICES

Title	Location
Explanation of Major Variances	APPENDIX A
Capital Programme	APPENDIX B

14. BACKGROUND DOCUMENTS

21 February 2022 General Fund Budget 2022/23 and Four-Year Outlook – BC/21/31

APPENDIX A

Explanation of Major Variances

	Full Year Budget £000's	Forecast £000's	Forecast v Budget £000's	Explanation of Major Movements
Assets & Investments	450	496	46	• Increase in utility costs
Communities & Wellbeing	628	626	(2)	
Corporate Resources	2,050	2,371	321	<ul style="list-style-type: none"> • £16k adverse to budget largely for resource for new Finance Management System implementation • £15k adverse on Audit Fees not included in 21/22 Outturn • £289k to balance budgeted Salary Contingency savings recognised in service areas.
Customers, Digital Transformation & Improvement	1,910	1,951	41	<ul style="list-style-type: none"> • £16k adverse in Communications with vacancies in Q1 being offset by Corporate Manager role starting in Q2. • £29k adverse in Customer Services. Staff underspend will be offset by additional roles later in year. • £45k adverse in ICT due to agency staff & request to make fixed term role permanent. • (£49k) favourable in Business Improvement due to staff vacancies.
Economic Development & Regeneration	277	271	(6)	
Environment & Commercial Partnerships	3,943	3,887	(56)	<ul style="list-style-type: none"> • Public Protection (£56k) favourable to budget largely due to vacancies and Corporate Manager recruitment. Some roles also supported by Covid funding. • (£20k) Favourable in licencing income • £20k Adverserse in Public Realm due to utility costs and Ranger/locking up duties supplied by Sudbury Common Trust • Inflationary Pressures on recycling and waste disposal costs are mitigated by income on MRF disposal fees.
Housing	559	559	0	
Law & Governance	918	946	28	<ul style="list-style-type: none"> • £19k Focus group currently reviewing printing, post & contracting costs. • Employee costs will end the year £9k adverse to budget following role evaluations.
Planning & Building Control	1,218	1,336	118	<ul style="list-style-type: none"> • (£70k) increase of applications in building control submitted before changes implemented. • £256k adverse to budget in Development Management - predicted fall in application income in line with National Picture. Mitigated partly by staff vacancies. • (£75k) vacancies in Strategic Planning.
Senior Leadership Team	692	836	144	Vacancies in Q1 expected to be filled by Q3: 6 months vacancies (underspend £114k). Offset by executive search recruitment fees (£39k each Council) and cost for Interims including additional position for 12 months to support Building Services £219k adverse.
Net expenditure on services	12,645	13,279	634	
Recharge to HRA/Capital	(1,347)	(1,359)	(12)	
Capital financing costs	(868)	(868)	0	
Transfers to (from) reserves not included in above*	527	527	0	
Inflationary Pressures on Salaries		580	580	
Carry forwards from 2021/22	0	(420)	(420)	
Total budget requirement	10,957	11,738	782	

APPENDIX B

2022/23 Capital Programme

BABERGH DC CAPITAL PROGRAMME 2021/22	Original Budget	Carry Forwards / Budget Adjustments	Current Budget	Actual Spend to date	Full Year Forecast at Q1	Full Year Forecast LESS Budget (favourable)/ adverse Variance	Comments
GENERAL FUND	£'000	£'000	£'000	£'000	£'000	£'000	
General Fund Housing							
Mandatory Disabled Facilities Grant	760	937	1,697	197	1,697		
Renovation/Home Repair Grant (formerly Discretionary Housing Grants)	100	(10)	90	6	90		
Empty Homes Grant	100	241	341	-	341		
Grants for Affordable Housing	-	400	400	-	400		
Total General Fund Housing	960	1,568	2,528	203	2,528	-	
Environment and Projects							
Replacement Refuse Freighters - Joint Scheme	2,060	-	2,060	-	2,060	-	
Recycling Bins	75	-	75	66	75	-	
Total Environment and Projects	2,135	-	2,135	66	2,135	-	
Communities and Public Access							
Planned Maintenance / Enhancements - Car Parks	7	13	20	-	20	-	
Vehicle and Plant Renewals	100	144	244	74	244	-	
Pin Mill hard and toilet refurbishment	115	-	115	-	115	-	
Total Community Services	222	157	379	74	379	-	
Economic Development and Regeneration							
Belle Vue	-	1,927	1,927	1	1,927	-	Progress depends on planning applications listed for 10th August 22.
Total Economic Development and Regeneration	-	1,927	1,927	1	1,927	-	

APPENDIX B

2022/23 Capital Programme

BABERGH DC CAPITAL PROGRAMME 2021/22	Original Budget	Carry Forwards / Budget Adjustments	Current Budget	Actual Spend to date	Full Year Forecast at Q1	Full Year Forecast LESS Budget (favourable)/ adverse Variance	Comments
GENERAL FUND	£'000	£'000	£'000	£'000	£'000	£'000	
Sustainable Communities							
Play Equipment	50	199	249	-	249		
Community Development Grants	117	80	197	-	197		There is an increase in work being undertaken to more actively publicise and promote available Grants
Total Sustainable Communities	167	279	446	0	446	-	
Leisure Contracts							
Kingfisher Leisure Centre - Improvements	100	641	741	47	741		
Hadleigh Pool and Leisure - Improvements	50	661	711	-	711		
Battery Storage and Solar Car Ports	-	-	-	0	-		Timescales have slipped to possible completion in Sept 2022 due to component shortage. Outstanding invoices were accounted for in 2021/22.
Total Leisure Contracts	150	1,302	1,452	47	1,452	-	
Assets and Investments							
Planned Maintenance / Enhancements - Corporate Buildings	330	26	356	-	356		
CIL Funded Infrastructure Grants	-	-	-	80	-		To be financed from CIL
Strategic Investment Fund	-	2,906	2,906	-	2,906		
Regeneration Fund	64	6,475	6,539	44	6,539		Hamilton Road project - more viability work to be undertaken
Regeneration Fund - Former Council Offices	-	2,841	2,841	-	2,841		
Hadleigh 1071 Workspace	1,075	(46)	1,029	-	1,029		Business case on progress will be reported to cabinet in the Autumn
Babergh Growth	500	-	500	-	500		
Total assets and Investments	1,969	12,202	14,171	124	14,171	-	
Total Customers, Digital Transformation and Improvement	475	115	590	-	590	-	
Total General Fund Capital Spend	6,078	17,550	23,628	515	23,628	-	