

MID SUFFOLK DISTRICT COUNCIL

| | |
|---|---|
| COMMITTEE: Cabinet | REPORT NUMBER: MCa/22/15 |
| FROM: Councillor John Whitehead, Cabinet Member for Finance | DATE OF MEETING: 5 September 2022 |
| OFFICER: Melissa Evans, Director - Corporate Resources | KEY DECISION REF NO. CAB364 |

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 £785k 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 £3.351m to the Growth & Efficiency Fund would be reduced to £3.065m, 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 Mid Suffolk 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. The Council has sufficient reserves to be able to manage that scenario should it come to fruition.

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

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 £638k.

Electricity

- 4.5 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 £438k. Of this, £368k is for leisure centres and is due to be repaid by the operator. However, there is a significant risk that the operator will not be able to cover the full cost and request additional support.

Gas

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

Fuel

- 4.7 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 £14k. HVO prices have not been affected to the same extent and a 10% increase in cost is expected.

Contracts

- 4.8 Many of the Council's contracts are fixed and will not be impacted by inflation in staff costs increase above 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.

- 4.9 Budget Carry Forwards from 2021/22, approved at July Cabinet of £399k have been included in the overall forecast and will be incorporated into the Service Area budgets in Q2.

Interest

- 4.10 Rates for 1-year borrowing have increased from 0.10% in July 2021 to 2.10% 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

- 4.11 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

- 4.12 Fees and charges are currently 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.
- 4.13 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% | 11,224 | 638 |
| Electricity | 244% | 24 | 70 |
| Petrol & Diesel | 40% | 35 | 14 |
| HVO | 10% | 58 | 6 |
| Repairs | 9% | 189 | 17 |
| Equipment, tools & materials | 10% | 120 | 12 |
| Professional & consultancy fees & contracted services | 6.40% | 984 | 63 |
| Software licences | 6.40% | 172 | 11 |
| Waste gate fees | 12.80% | 289 | 37 |
| Estimated total impact | | | 868 |
| Funding available | | | |
| Waste Reserve: for Gate Fees & HVO | | | - 42 |
| Inflationary Pressures Reserve | | | - 500 |
| Potential balance to fund | | | 326 |

*The £868k 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 | 576 | 644 | 68 |
| Communities & Wellbeing | 708 | 708 | (0) |
| Corporate Resources | 2,172 | 2,607 | 436 |
| Customers, Digital Transformation & Improvement | 1,978 | 2,023 | 45 |
| Economic Development & Regeneration | 253 | 250 | (2) |
| Environment & Commercial Partnerships | 3,587 | 3,620 | 33 |
| Housing | 520 | 520 | 0 |
| Law & Governance | 927 | 955 | 28 |
| Planning & Building Control | 1,323 | 1,118 | (205) |
| Senior Leadership Team | 700 | 843 | 144 |
| Net expenditure on services | 12,743 | 13,290 | 546 |
| Recharge to HRA/Capital | (1,511) | (1,511) | 0 |
| Capital financing costs | (2,462) | (2,462) | 0 |
| Transfers to (from) reserves not included in above* | | | 0 |
| Inflationary Pressures on Salaries | | 638 | 638 |
| Carry forwards from 2021/22 | | (399) | (399) |
| Total budget requirement | 8,769 | 9,555 | 785 |
| Council Tax | (6,667) | (6,667) | 0 |
| Collection fund (Surplus) | (293) | (293) | 0 |
| Business Rates less Tariff | (2,901) | (2,901) | 0 |
| Business Rates - Pooling Benefit | (486) | (486) | 0 |
| 20/21 distribution of deficit | (438) | (438) | 0 |
| Rural Services Delivery Grant | (454) | (454) | 0 |
| S31 Grant | (1,409) | (1,409) | 0 |
| New Homes Bonus | (1,779) | (1,779) | 0 |
| Lower Tier Services Grant and Council Tax Support Grant | (102) | (102) | 0 |
| Services Grant | (157) | (157) | 0 |
| Business rates - Enterprise Zone | 0 | 0 | 0 |
| Total funding | (14,685) | (14,685) | 0 |
| Commercial Development Risk Reserve | 1,865 | 1,865 | 0 |
| Growth & Efficiency Fund (Strategic Priorities Loan) | 700 | 700 | 0 |
| Growth & Efficiency Fund | 3,351 | 3,065 | (286) |
| Inflationary Pressures Reserve | | (500) | (500) |
| Total variance | (0) | 0 | (0) |

Earmarked Reserves

Earmarked reserve balances were £24.262 m as at 1 April 2022. The table below shows the projected balance at 31st March 2023.

| | Balance 31/03/22 £'000 | Forecast To/From | Balance 31/03/23 £'000 |
|--|------------------------------|---------------------|------------------------------|
| Business Rates & Council Tax | 5,286 | (3) | 5,284 |
| Business Rates Retention Pilot (BRRP) | 283 | (221) | 62 |
| Carry Forwards | 399 | (399) | - |
| Climate Change and Biodiversity | 927 | (21) | 906 |
| Commercial Development Risk Management | 4,131 | 1,865 | 5,996 |
| Community Housing Fund | 185 | (29) | 156 |
| Commuted Maintenance Payments | 579 | (28) | 550 |
| COVID 19 | 1,357 | (371) | 986 |
| Elections Equipment | 35 | | 35 |
| Elections Fund | 119 | 20 | 139 |
| Government Grants | 347 | (23) | 324 |
| Growth and Efficiency Fund | 3,025 | 1,374 | 4,399 |
| Homelessness | 495 | (75) | 420 |
| Joint Local Plan | 100 | (100) | - |
| Neighbourhood Planning Grants | 109 | 47 | 156 |
| Planning (Legal) | 1,182 | (70) | 1,112 |
| Planning Enforcement | 45 | | 45 |
| Repair & Renewals | 293 | | 293 |
| Rough Sleepers | 35 | | 35 |
| Strategic Planning | 81 | | 81 |
| Temporary Accommodation | 284 | 48 | 332 |
| Waste | 269 | | 269 |
| Welfare Benefits Reform | 7 | | 7 |
| Well-being/CCG | 191 | (99) | 91 |
| Well-being | 1,000 | (1,000) | - |
| Inflationary Pressures Reserve | 500 | (500) | - |
| Economy | 1,000 | (1,000) | - |
| Housing | 1,000 | (1,000) | - |
| Communities | 1,000 | (1,000) | - |
| Total | 24,262 | (2,584) | 21,677 |

Capital

- 5.5 Use of capital and one-off funds is critical and needs to be linked into our future delivery plans.
- 5.6 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. Councillors 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.
- 5.7 Capital expenditure for the period April to June 2022 totals £2.4m, against a revised programme (including carry forwards) of £29.6m, 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 for the reasons described below.

- 5.8 Some items in the capital programme, such as the Strategic Investment 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. 13 – We may be unable to respond in a timely and effective way to financial demands and Corporate Risk No. 5E05 – if the Finance Strategy is not in place with a balanced position over the medium term the Councils will not be able to deliver the core objectives and service delivery may be at risk of not being delivered. 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 | 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. |

| Risk Description | Likelihood | Impact | Mitigation Measures |
|---|-------------------|----------------|---|
| and medium-term financial position (MTFS). | | | Ongoing pressures will be considered when setting the 2023/24 budget and MTFS. |
| 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 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 that as a result of COVID19 have 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 Into 2022/23 in support of 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 Stowmarket Leisure Centre. The CO₂ savings are nearly 9 times the volume of the Royal Albert Hall and it will generate enough power to supply 52 average homes in Stowmarket.

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

- 12.6 £1m of funding has been secured from the Government's Public Sector Decarbonisation Fund for carbon-saving measures at council leisure centres including solar panels and air source heat pumps.
- 12.7 The new Needham Market Lake visitors centre & café has been designed to complement the surrounding natural environment with several environmental features including bird boxes, solar panels, sustainable drainage, an air source heat pump, and the use of sustainable building materials.

13. APPENDICES

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

14. BACKGROUND DOCUMENTS

24 February 2022 General Fund Budget 2022/23 and Four-Year Outlook – MC/21/26

APPENDIX A

Explanation of Major Variances

| | Full Year Budget £000's | Forecast £000's | Forecast v Budget £000's | Explanation of Major Variances |
|---|----------------------------|--------------------|-----------------------------|--|
| Assets & Investments | 576 | 644 | 68 | • 244% increase in utility costs |
| Communities & Wellbeing | 708 | 708 | (0) | |
| Corporate Resources | 2,172 | 2,607 | 436 | <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 • £403k to balance budgeted Salary Contingency savings recognised in service areas. |
| Customers, Digital Transformation & Improvement | 1,978 | 2,023 | 45 | <ul style="list-style-type: none"> • £16k adverse in Communications with vacancies in Q1 being offset by Corporate Manager role starting in Q2. • £33k 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 | 253 | 250 | (2) | |
| Environment & Commercial Partnerships | 3,587 | 3,620 | 33 | <ul style="list-style-type: none"> • Additional Contribution to Leisure Contract Management fee of £50k • Public Protection (£49k) favourable due to vacancies and Corporate Manager recruitment • £30k adverse on Public Realm with increased utility costs and inflationary increases in maintenance costs. • Inflationary Pressures on recycling and waste disposal costs are mitigated by income on MRF disposal fees. |
| Housing | 520 | 520 | 0 | |
| Law & Governance | 927 | 955 | 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 | 1,323 | 1,118 | (205) | <ul style="list-style-type: none"> • (£15k) Favourable on application income on Building Control • (£121k) Favourable staff vacancies in Development Management. Application Income being supported by Gateway 14 application. • (£73k) Staff vacancies favourable to budget in Strategic Planning. |
| Senior Leadership Team | 700 | 843 | 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 | 12,743 | 13,290 | 546 | |
| Recharge to HRA/Capital | (1,511) | (1,511) | 0 | |
| Capital financing costs | (2,462) | (2,462) | 0 | |
| Transfers to (from) reserves not included in above* | | | 0 | |
| Inflationary Pressures on Salaries | | 638 | 638 | |
| Carry forwards from 2021/22 | | (399) | (399) | |
| Total budget requirement | 8,769 | 9,555 | 785 | |

APPENDIX B

2022/23 Capital Programme

| MID SUFFOLK CAPITAL PROGRAMME 2021/22 | Original Budget | Carry Forwards / Budget Adjustments | Current Budget | Actual Spend | Full Year Forecast at Q1 | Full Year Forecast LESS Budget (favourable)/ adverse | Comments |
|--|-----------------|-------------------------------------|----------------|--------------|--------------------------|--|---|
| GENERAL FUND | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | |
| General Fund Housing | | | | | | | |
| Mandatory Disabled Facilities Grant | 698 | 458 | 1,156 | 64 | 1,156 | - | |
| Renovation/Home Repair Grant (formerly Discretionary Housing Grants) | 100 | 48 | 148 | 20 | 148 | - | |
| Empty Homes Grant | 100 | 269 | 369 | - | 369 | - | |
| Grants for Affordable Housing | - | 340 | 340 | - | 340 | - | |
| Total General Fund Housing | 898 | 1,115 | 2,013 | 83 | 2,013 | - | |
| Environment and Projects | | | | | | | |
| Replacement Refuse Freighters - Joint Scheme | 2,200 | - | 2,200 | - | 2,200 | - | |
| Recycling Bins | 100 | - | 100 | 103 | 103 | 3 | |
| Total Environmental Services | 2,300 | - | 2,300 | 103 | 2,303 | 3 | |
| Communities and Public Access | | | | | | | |
| Streetcare - Vehicles and Plant Renewals | 90 | 63 | 153 | - | 153 | - | |
| Needham Lake Footpath | 60 | - | 60 | - | 60 | | |
| Planned Maintenance / Enhancements - Car Parks | 95 | 288 | 383 | 10 | 383 | - | |
| Total Community Services | 245 | 351 | 596 | 10 | 596 | - | |
| Sustainable Communities | | | | | | | |
| Play Equipment | 50 | 150 | 200 | - | 200 | - | |
| S106 Open Spaces Grants | - | - | - | 4 | - | 4 | All to be financed from S106 monies |
| Community Development Grants | 189 | 181 | 370 | 44 | 370 | - | There is an increase in work being undertaken to more actively publicise and promote available Grants |
| Total Sustainable Communities | 239 | 331 | 570 | 48 | 570 | 4 | |

APPENDIX B

2022/23 Capital Programme

| MID SUFFOLK CAPITAL PROGRAMME 2021/22 | Original Budget | Carry Forwards / Budget Adjustments | Current Budget | Actual Spend | Full Year Forecast at Q1 | Full Year Forecast LESS Budget (favourable)/ adverse | Comments |
|--|-----------------|-------------------------------------|----------------|--------------|--------------------------|--|--|
| GENERAL FUND | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | |
| Leisure Contracts | | | | | | | |
| Stowmarket Leisure Cent - Improvements | - | 1,422 | 1,422 | - | 1,422 | - | |
| Stradbroke Pool - Improvements | - | 571 | 571 | - | 571 | - | |
| Solar Car Ports | - | - | - | (0) | - | - | Timescales have slipped to possible completion in Sept 2022 due to component shortage. Outstanding invoices were accrued in 2021/22. |
| Total Leisure Contracts | - | 1,993 | 1,993 | (0) | 1,993 | - | |
| Assets and Investments | | | | | | | |
| Other Corporate Buildings | 330 | 105 | 435 | - | 435 | - | |
| CIL Funded Infrastructure Grants | - | - | - | 81 | - | 81 | Being financed from CIL |
| Strategic Investment Fund | - | 2,929 | 2,929 | - | 2,929 | - | |
| Regeneration Fund | - | - | - | 16 | - | 16 | Adverse variance relates to Woolpit Health Centre which is to be financed from CIL. |
| Regeneration Fund - Former Council Offices | - | 688 | 688 | 55 | 688 | - | |
| Gateway 14 | - | 12,750 | 12,750 | 2,000 | 12,750 | - | |
| Mid Suffolk Growth | 4,250 | - | 4,250 | - | 4,250 | - | Drawdown against loan facility - to be offset by capital receipts from future sales |
| Wingfield Barns | 20 | 20 | 40 | - | 40 | - | |
| Needham Lake Visitors Centre | - | 141 | 141 | 3 | 141 | - | Centre opened in May 2022. |
| Business Hub, Cross Street, Eye | 285 | - | 285 | - | 285 | - | |
| Total Assets and Investments | 4,885 | 16,633 | 21,518 | 2,154 | 21,518 | 96 | |
| Total Customers, Digital Transformation and Improvement | 475 | 109 | 584 | - | 584 | - | |
| Total General Fund Capital Spend | 9,042 | 20,532 | 29,574 | 2,398 | 29,576 | 109 | |