

BABERGH DISTRICT COUNCIL

COMMITTEE: Cabinet	REPORT NUMBER: BCa/22/32
FROM: Councillor David Busby, Cabinet Member for Finance	DATE OF MEETING: 5 December 2022
OFFICER: Melissa Evans, Director, Corporate Resources	KEY DECISION REF NO. CAB375

GENERAL FUND FINANCIAL MONITORING 2022/23 – QUARTER 2

1. PURPOSE OF REPORT

- 1.1 This report considers the revenue and capital financial performance for the period April to September and highlights any significant variances expected for the financial year 2022/23.
- 1.2 As at 30th September an overspend of £693k 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 £334k, as shown in section 5.4.

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 £693k and forecast reserve movements, referred to in section 5.5 and Appendix A of the report, be noted;
- 3.2 The revised 2022/23 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, primarily 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 must 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 around 10% in September 2022 due to higher food, energy and petrol prices. An 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 of £1,925 from 1 April 2022 has been agreed for all staff. This equates to an increase of approximately 8% and an additional cost of £580k.

Electricity

The Council procures electricity via Vertas. The price for summer 2022 has been agreed and is 207% higher than summer 2021. The Government energy price cap has reduced the potential impact of winter price increases but costs are still forecast to be 169% higher in 2022/23 than in 2021/22.

Gas

- 4.6 Prices have increased significantly, however the price that the Council pays is fixed until September 2023 through its contract via 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 £20k. 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 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.

Interest

Rates for 1-year borrowing have increased from 0.10% in July 2021 to 2.1% in July 2022, with further moves to the end of September to around 4%. The Bank of England have signalled the likelihood of further interest rate rises in its need to control inflation and the latest predictions are that these could reach 4.75%.

All of the Council's existing borrowing is at a fixed rate and will not be impacted by changes in rates. The current forecast does not include any further borrowing during 2022/23 and borrowing needs are being managed through cash flow, using internal cash balances to reduce external borrowing. We are keeping cash flow under close review and will update members in Q3 if there is a variance that we cannot manage away.

Other costs

- 4.9 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

- 4.10 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.
- 4.11 The current estimate of the impact of inflation on the General Fund is reflected in the variances in each of the services budgets in section 5.4 and Appendix A. These will continue to be monitored as the year progresses.

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 September (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 2 are shown below:

Service	Full Year Budget £'000	Full Year Forecast £'000	Variance £'000
Assets & Investments	461	561	101
Communities & Wellbeing	626	624	(3)
Customers, Digital Transformation and Improvement	1,910	1,925	15
Economic Growth & Climate Change	283	275	(8)
Corporate Resources	1,589	2,333	744
Housing	559	555	(4)
HR & Organisational Development	461	507	46
Law & Governance	918	913	(4)
Operations & Regulatory Services	3,928	3,625	(303)
Planning & Building Control	1,218	1,238	20
Senior Leadership Team	692	760	68
Net Expenditure on Services	12,645	13,389	671
Recharge to HRA/Capital	(1,347)	(1,359)	(12)
Capital Financing Costs	(868)	(834)	34
Total Net Expenditure	10,430	11,162	693
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
Distribution of 2020/21 deficit	218	218	0
Rural Service Delivery Grant	(238)	(238)	0
S31 Grant	(1,487)	(1,487)	0
New Homes Bonus	(802)	(802)	0
Lower Tier Services & CT 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	334	(193)
Total Variance	0	0	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.

Reserves	Balance at 31st March 2022 £'000	Movement 22/23 £'000	Estimated balance 31 March 2023 £'000
Business Rates & Council Tax	4,967	(3,420)	1,547
Business Rates Retention Pilot (BRRP)	812	(266)	546
Carry Forwards	420	(420)	0
Climate Change and Biodiversity	309	(70)	239
Community Housing Fund	140	(22)	119
Commuted Maintenance Payments	937	0	937
COVID 19	1,674	(544)	1,130
Elections Equipment	35	0	35
Elections Fund	70	20	90
Government Grants	164	(6)	159
Homelessness	277	(101)	176
Joint Local Plan	100	(100)	0
Neighbourhood Planning Grants	48	224	272
Planning (Legal)	668	30	698
Planning Enforcement	93	40	133
Rough Sleepers	88	(31)	57
Strategic Planning	93	0	93
Strategic Priorities	1,704	(855)	849
Temporary Accommodation	238	(75)	163
Waste	230	(35)	195
Well-being	176	97	274
Inflationary Pressures Reserve	500	(500)	0
TOTAL	13,743	(6,032)	7,711

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 September 2022 totals £860k, 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 some unspent balances at year-end. These will be reviewed as part of the 2023/24 budget setting process, with a view to establishing whether all projects will be required.

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.
If the cost of living crisis increases demand for the Council's services it could have an adverse effect on	3 - Probable	2 - Noticeable	Work being undertaken to determine risk of increasing demand across the Councils services and will be included in financial monitoring.

Risk Description	Likelihood	Impact	Mitigation Measures
the Councils 2022/23 and medium-term financial position (MTFS).			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

5 September 2022 General Fund Financial Monitoring 2022/23 - Quarter 1 - BCa/22/18

APPENDIX A

Explanation of Major Variances

	Full Year Budget £'000	Full Year Forecast £'000	Variance £'000	Explanation for significant variances
Assets & Investments	461	561	101	Delay in moving to one floorplate in Endeavour House compared to budgeted timescale £48k Depot soakaway treatments £18k. Action is being taken to reduce future call outs. NNDR costs higher than budgeted £12k Electricity costs £15k
Communities & Wellbeing	626	624	(3)	Underspend for vacant posts offset partly by the pay award
Customers, Digital Transformation and Improvement	1,910	1,925	15	Underspends relating to vacancies across the service teams (predominantly in Policy, Performance and Insight) are offset to a large extent by additional costs relating to the agreement of the pay settlement and identification of additional ICT software costs that had not been originally budgeted for.
Economic Growth & Climate Change	283	275	(8)	Underspends for vacancies are offset partly by the pay award
Corporate Resources	1,589	2,333	744	Bank charges for Pay360 higher than budgeted £69k Insurance contract due for renewal in January 2023 - 10% increase in cost forecast £30k The budgeted Vacancy Management Factor of £500k is included within Corporate Resources. This offsets forecast vacancy underspends in all services.
Housing	559	555	(4)	
HR & Organisational Development	461	507	46	Increase in staff costs for pay award and project support.
Law & Governance	918	913	(4)	Central postage costs forecast to overspend by £36k. This increase is being investigated. This is offset by staff vacancies.
Operations & Regulatory Services	3,928	3,625	(303)	Changes have been made to the HRA recharge for public realm resulting in a £36k underspend for open spaces. Gate fees have been significantly lower than budget & recycling credits are favourable resulting in a forecast underspend of £102k. Other underspends are forecast due to staff vacancies.
Planning & Building Control	1,218	1,238	20	A reduction in planning income of £242k is forecast but this is offset by increased income for building control, reductions in professional fees and staff vacancies.
Senior Leadership Team	692	760	68	Due to use of interims whilst permanent posts recruited to - also includes recruitment costs.
Net expenditure on services	12,645	13,316	671	
Recharge to HRA/Capital	(1,347)	(1,359)	(12)	
Interest Payable	440	457	17	Increase in rates for borrowing. No further borrowing is forecast for 2022/23.
Minimum Revenue Provision	1,445	1,462	17	
			693	

APPENDIX B

2022/23 Capital Programme

BABERGH DC CAPITAL PROGRAMME 2022/23	Original Budget	Carry Forwards / Budget Adjustments	Current Budget	Actual Spend to date	Full Year Forecast at Q2	Expected Carry Forward	Full Year Forecast LESS Budget (favourable)/ adverse Variance	Comments
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
GENERAL FUND								
General Fund Housing								
Mandatory Disabled Facilities Grant	760	937	1,697	253	704	993	-	New social media campaign to increase DFG applications & MAGS
Renovation/Home Repair Grant (formerly Discretionary Housing Grants)	100	(10)	90	15	50	40	-	
Empty Homes Grant	100	241	341	-	100	241	-	New Empty Homes Officer progressing cases and applications expected for this grant.
Grants for Affordable Housing	-	400	400	-	200	200	-	Potential schemes being considered for support
Total General Fund Housing	960	1,568	2,528	268	1,054	1,474	-	
Environment and Projects								
Replacement Refuse Freighters - Joint Scheme	2,060	-	2,060	-	2,096	-	36	New refuse trucks have been ordered in 2022/23
Recycling Bins	75	-	75	73	140	-	65	Higher demand due to development. More bins purchased at an agreed cheaper rate to guarantee availability and to protect against price increases.
Total Environment and Projects	2,135	-	2,135	73	2,236	-	101	
Communities and Public Access								
Vehicle and Plant Renewals	100	144	244	105	244	-	-	
Planned Maintenance / Enhancements - Car Parks	7	13	20	-	20	-	-	
Pin Mill hard and toilet refurbishment	115	-	115	-	80	35	-	
Total Community Services	222	157	379	105	344	35	-	
Economic Development and Regeneration								
Belle Vue	-	1,901	1,901	-	-	1,901	-	Forward funding for park entrance scheme - planning consent now secured.
Total Economic Development and Regeneration	-	1,901	1,901	-	-	1,901	-	

APPENDIX B

2022/23 Capital Programme

BABERGH DC CAPITAL PROGRAMME 2022/23	Original Budget	Carry Forwards / Budget Adjustments	Current Budget	Actual Spend to date	Full Year Forecast at Q2	Expected Carry Forward	Full Year Forecast LESS Budget (favourable)/ adverse Variance	Comments
GENERAL FUND	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Sustainable Communities								
Play Equipment	50	199	249	-	10	239	-	Small spend on Belle Vue master planning. Play equipment project started, unlikely to complete this year
S106 Open Spaces Grants	-	-	-	1	1	-	1	To be financed from S106 monies
Community Development Grants	117	80	197	27	182	15	-	Expectation is that the budget will be fully allocated, if not spent, by the end of the financial year
Total Sustainable Communities	167	279	446	28	194	254	1	
Leisure Contracts								
Kingfisher Leisure Centre - Improvements	100	641	741	82	100	641	-	Major works are required in the pool hall. Works identified for the pool tank and surround and large panes of glass to be replaced.
Hadleigh Pool and Leisure - Improvements	50	403	453	-	100	-	(353)	New pool but budget required for installation of new filtration system
Hadleigh Pool and Leisure - New Pool and Refurbishment	-	258	258	-	9	-	(249)	Final Consultancy Fees still to be paid
Battery Storage and Solar Car Ports	-	-	-	1	-	-	-	Timescales have slipped into 2022/23 due to component shortage. Expect to complete by year end. Outstanding invoices were accrued in 2021/22.
Total Leisure Contracts	150	1,302	1,452	83	209	641	(602)	

APPENDIX B

2022/23 Capital Programme

BABERGH DC CAPITAL PROGRAMME 2022/23	Original Budget	Carry Forwards / Budget Adjustments	Current Budget	Actual Spend to date	Full Year Forecast at Q2	Expected Carry Forward	Full Year Forecast LESS Budget (favourable)/ adverse Variance	Comments
GENERAL FUND	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Assets and Investments								
Planned Maintenance / Enhancements - Corporate Buildings	330	26	356	7	356	-	-	Includes planned Endeavour House refurbishment to complete before year end. Also to fix Chilton depot soakaway
CIL Funded Infrastructure Grants	-	-	-	92	92	-	92	To be financed from CIL
Strategic Investment Fund	-	2,906	2,906	129	1,000	1,906	-	More purchases at Borehamgate. There may be opportunity to buy property for income generation.
Regeneration Fund	64	6,528	6,592	69	402	6,190	-	Forecast relates to units brought back into use to generate income and initial works towards Hamilton Road project. Purpose of fund to be reviewed
Regeneration Fund - Former Council Offices	-	2,841	2,841	-	2,841	-	-	
Hadleigh A1071 Workspace	1,075	(72)	1,003	-	100	903	-	
Babergh Growth	500	-	500	-	500	-	-	There may be need for bringing forward funding from 2023/24
Total assets and Investments	1,969	12,228	14,197	297	5,291	8,999	92	
Total Customers, Digital Transformation and Improvement	475	115	590	6	478	112	-	
Total General Fund Capital Spend	6,078	17,550	23,628	860	9,806	13,415	(407)	