

MID SUFFOLK DISTRICT COUNCIL

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| COMMITTEE: Cabinet | REPORT NUMBER: MCa/22/29 |
| FROM: Councillor John Whitehead, Cabinet Member for Finance | DATE OF MEETING: 5 December 2022 |
| OFFICER: Melissa Evans, Director, Corporate Resources | KEY DECISION REF NO. CAB365 |

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 June and highlights any significant variances expected for the financial year 2022/23.
- 1.2 As at 30th September the Council is reporting a forecast overspend of £839k on net expenditure. 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 £3.012m, as shown in section 5.5.

2. OPTIONS CONSIDERED

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

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| 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 £839k 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 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

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 £638k.

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

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

Fuel

- 4.6 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

- 4.7 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

- 4.8 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 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.
- 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 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 2 are shown below:

| Service | Full Year Budget £'000 | Full Year Forecast £'000 | Variance £'000 |
|---|-----------------------------------|-------------------------------------|---------------------------|
| Assets & Investments | 576 | 715 | 139 |
| Communities & Wellbeing | 707 | 693 | (14) |
| Customers, Digital Transformation and Improvement | 1,978 | 1,999 | 21 |
| Economic Growth & Climate Change | 270 | 259 | (11) |
| Corporate Resources | 1,710 | 2,500 | 790 |
| Housing | 520 | 518 | (2) |
| HR & Organisational Development | 461 | 467 | 6 |
| Law & Governance | 927 | 931 | 4 |
| Operations | 3,571 | 3,440 | (132) |
| Planning & Building Control | 1,323 | 1,203 | (120) |
| Senior Leadership Team | 700 | 784 | 84 |
| Net Expenditure on Services | 12,743 | 13,509 | 765 |
| Recharge to HRA/Capital | (1,511) | (1,511) | 0 |
| Capital Financing Costs | (2,462) | (2,388) | 74 |
| Total Budget Requirement | 8,770 | 9,610 | 839 |
| 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 |
| Distribution of 2020/21 deficit | (438) | (438) | 0 |
| Rural Service Delivery Grant | (454) | (454) | 0 |
| S31 Grant | (1,409) | (1,409) | 0 |
| New Homes Bonus | (1,779) | (1,779) | 0 |
| Lower Tier Services & CT Support Grant | (102) | (102) | 0 |
| Services Grant | (157) | (157) | 0 |
| Business Rates Enterprise Zone | 0 | 0 | 0 |
| Total Funding | (14,686) | (14,686) | 0 |
| Commercial Development Risk Reserve | 1,865 | 1,865 | 0 |
| Growth & Efficiency Fund (Strategi Priority Loan) | 700 | 700 | 0 |
| Growth and Efficiency Fund | 3,351 | 3,012 | (339) |
| Inflationary Pressures Reserve | 0 | (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 at 31st March 2022 £'000 | Movement 22/23 £'000 | Estimated balance 31 March 2023 £'000 |
|--|---|----------------------------|--|
| MID-SUFFOLK | | | |
| Business Rates & Council Tax | 5,286 | (1,120) | 4,166 |
| Business Rates Retention Pilot (BRRP) | 283 | (222) | 61 |
| Carry Forwards | 399 | (399) | 0 |
| Climate Change and Biodiversity | 927 | (72) | 855 |
| Commercial Development Risk Management | 4,131 | 1,687 | 5,818 |
| Community Housing Fund | 185 | (25) | 159 |
| Commuted Maintenance Payments | 579 | (32) | 546 |
| COVID 19 | 1,357 | (441) | 916 |
| COVID 19 Business Recovery | 0 | 0 | 0 |
| Elections Equipment | 35 | 0 | 35 |
| Elections Fund | 119 | 20 | 139 |
| Government Grants | 347 | (17) | 330 |
| Growth and Efficiency Fund | 7,025 | (3,013) | 4,012 |
| Homelessness | 495 | (125) | 370 |
| Joint Local Plan | 100 | (100) | 0 |
| Neighbourhood Planning Grants | 109 | 113 | 222 |
| Planning (Legal) | 1,182 | (70) | 1,112 |
| Planning Enforcement | 45 | 0 | 45 |
| Repair & Renewals | 293 | 0 | 293 |
| Rough Sleepers | 35 | (16) | 19 |
| Strategic Planning | 81 | 0 | 81 |
| Temporary Accommodation | 284 | 96 | 380 |
| Waste | 269 | 0 | 269 |
| Welfare Benefits Reform | 7 | 0 | 7 |
| Well-being | 191 | (108) | 83 |
| Inflationary Pressures Reserve | 500 | (500) | 0 |
| TOTAL | 24,262 | (4,343) | 19,918 |

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 September 2022 totals £6.2m, against a revised programme (including carry forwards) of £35.1m, 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.

5.8 Some items in the capital programme, such as the Strategic Investment Fund, are unlikely to be fully spent in the 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. |

| 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 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

5 September 2022 General Fund Financial Monitoring 2022/23 - Quarter 1 - MCa/22/15

Explanation of Major Variances

| | Budget £'000 | Forecast £'000 | Variance £'000 | Key variances |
|---|-----------------|-------------------|-------------------|---|
| Assets & Investments | 576 | 715 | 139 | 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. NDR costs higher than budgeted £12k ElectricityWingfield Barns repairs £41k |
| Communities & Wellbeing | 707 | 693 | (14) | Underspends for vacancies are offset partly by the pay award |
| Customers, Digital Transformation and Improvement | 1,978 | 1,999 | 21 | 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 | 270 | 259 | (11) | Underspends for vacancies are offset partly by the pay award |
| Corporate Resources | 1,710 | 2,500 | 790 | 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 | 520 | 518 | (2) | |
| HR & Organisational Development | 461 | 467 | 6 | Increase in staff costs for pay award and project support. |
| Law & Governance | 927 | 931 | 4 | Central postage costs forecast to overspend by £36k. This increase is being investigated. This is offset by staff vacancies. |
| Operations | 3,571 | 3,440 | (132) | Gate fees have been significantly lower than budget & recycling credits are favourable resulting in a forecast underspend of £86k. Other underspends are forecast due to staff vacancies. |
| Planning & Building Control | 1,323 | 1,203 | (120) | A reduction in planning income of £147k is forecast but this is offset by increased income for building control (£68k), reductions in professional fees (£100k) and staff vacancies. |
| Senior Leadership Team | 700 | 784 | 84 | Due to use of interims whilst permanent posts recruited to - also includes recruitment costs. |
| Net expenditure on services | 12,743 | 13,509 | 765 | |
| Interest Payable | 835 | 910 | 75 | Assuming no further borrowing in 2022/23 |
| Minimum Revenue Provision | 1,333 | 1,332 | (1) | |
| | | | 839 | |

APPENDIX B

2022/23 Capital Programme

| MID SUFFOLK CAPITAL PROGRAMME 2022/23 | Original Budget | Carry Forwards / Budget Adjustments | Current Budget | Actual Spend | Full Year Forecast at Q2 | Expected Carry Forward | Full Year Forecast LESS Budget (favourable)/ adverse | Comments |
|--|------------------------|--|-----------------------|---------------------|---------------------------------|-------------------------------|---|---|
| GENERAL FUND | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | |
| General Fund Housing | | | | | | | | |
| Mandatory Disabled Facilities Grant | 698 | 458 | 1,156 | 165 | 454 | 702 | - | New social media campaign to increase DFG applications & MAGS |
| Renovation/Home Repair Grant (formerly Discretionary Housing Grants) | 100 | 48 | 148 | 33 | 70 | 78 | - | |
| Empty Homes Grant | 100 | 269 | 369 | - | 100 | 269 | - | New Empty Homes Officer progressing cases and applications expected for this grant. |
| Grants for Affordable Housing | - | 340 | 340 | - | 170 | 170 | - | Potential schemes being considered for support |
| Total General Fund Housing | 898 | 1,115 | 2,013 | 198 | 794 | 1,219 | - | |
| Environment and Projects | | | | | | | | |
| Replacement Refuse Freighters - Joint Scheme | 2,200 | - | 2,200 | - | 2,129 | 71 | - | New refuse trucks have been ordered in 2022/23 |
| Recycling Bins | 100 | - | 100 | 109 | 175 | - | 75 | Higher demand due to development. More bins purchased at an agreed cheaper rate to guarantee availability and to protect against price increases. |
| Electric Buses | 560 | - | 560 | - | - | 560 | - | To take a paper to Cabinet in February to agree the project and the profile of expenditure |
| Total Environmental Services | 2,860 | - | 2,860 | 109 | 2,304 | 631 | 75 | |
| Communities and Public Access | | | | | | | | |
| Streetcare - Vehicles and Plant Renewals | 90 | 64 | 154 | 58 | 154 | - | - | |
| Needham Lake Footpath | 60 | - | 60 | - | 60 | - | - | |
| Planned Maintenance / Enhancements - Car Parks | 95 | 288 | 383 | 11 | 11 | 372 | - | Unlikely to be significant car park budget spend. Needs to carry over to 23/24 to support delivery of car parking strategy |
| Total Community Services | 245 | 352 | 597 | 69 | 225 | 372 | - | |

APPENDIX B

2022/23 Capital Programme

| MID SUFFOLK CAPITAL PROGRAMME 2022/23 | Original Budget | Carry Forwards / Budget Adjustments | Current Budget | Actual Spend | Full Year Forecast at Q2 | Expected Carry Forward | Full Year Forecast LESS Budget (favourable)/ adverse | Comments |
|--|----------------------------|--|---------------------------|---------------------|---|-----------------------------------|---|---|
| GENERAL FUND | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | |
| Sustainable Communities | | | | | | | | |
| Play Equipment | 50 | 150 | 200 | - | - | 200 | - | Play equipment project started, unlikely to spend this year, all required to carry over |
| Public Sector Decarbonisation | - | - | - | 1 | 1 | - | 1 | To be financed from Public Sector Decarbonisation grant |
| S106 Open Spaces Grants | - | - | - | 76 | 76 | - | 76 | All to be financed from S106 monies |
| Community Development Grants | 189 | 181 | 370 | 44 | 220 | 150 | - | Expectation is that the budget will be fully allocated, if not spent, by the end of the financial year |
| Total Sustainable Communities | 239 | 331 | 570 | 121 | 297 | 350 | 77 | |
| Leisure Contracts | | | | | | | | |
| Stowmarket Leisure Cent - Improvements | - | 1,422 | 1,422 | - | 300 | 1,122 | - | Major works required including re roofing and cladding to reduce carbon footprint. |
| Stradbroke Pool - Improvements | - | 571 | 571 | 22 | 240 | 331 | - | Electrical works and re roofing required. Plan to tender for re roofing in 2022/23. |
| Solar Car Ports | - | - | - | (0) | - | - | - | 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 | - | 1,993 | 1,993 | 22 | 540 | 1,453 | - | |

APPENDIX B

2022/23 Capital Programme

| MID SUFFOLK CAPITAL PROGRAMME 2022/23 | Original Budget | Carry Forwards / Budget Adjustments | Current Budget | Actual Spend | Full Year Forecast at Q2 | Expected Carry Forward | Full Year Forecast LESS Budget (favourable)/ adverse | Comments |
|--|-----------------|-------------------------------------|----------------|--------------|--------------------------|------------------------|--|---|
| GENERAL FUND | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | |
| Assets and Investments | | | | | | | | |
| Other Corporate Buildings | 330 | 105 | 435 | - | 300 | 135 | - | Includes Endeavour House refurbishment to complete by year end. Plus Joint Depot Hub project to carry forward |
| CIL Funded Infrastructure Grants | - | - | - | 442 | 442 | - | 442 | Being financed from CIL |
| Strategic Investment Fund | - | 2,929 | 2,929 | - | 1,000 | 1,929 | - | There may be opportunity to buy property for income generation. |
| Regeneration Fund | - | - | - | 17 | 193 | - | 193 | Adverse variance relates to Woolpit Health Centre £18k, not recovered from CIL and £175k for bringing into use Units at Gipping Way (approval required for Gipping Way to be financed from Strategic Investment Fund) |
| Regeneration Fund - Former Council Offices | - | 688 | 688 | 135 | 688 | - | - | |
| Gateway 14 | - | 17,750 | 17,750 | 5,000 | 17,750 | - | - | |
| Mid Suffolk Growth | 4,250 | - | 4,250 | - | 4,250 | - | - | |
| Wingfield Barns | 20 | 20 | 40 | - | 40 | - | - | |
| Needham Lake Visitors Centre | - | 141 | 141 | 65 | 98 | - | (43) | Centre opened in May 2022. Expected that the scheme will be finished by the end of December 2022 (snagging etc ongoing). |
| SHELF Project | - | - | - | - | 330 | - | 330 | |
| Business Hub, Cross Street, Eye | 285 | - | 285 | - | 100 | 185 | - | Construction constraints have impacted delivery. Will finish in 2023/24. |
| Total Assets and Investments | 4,885 | 21,633 | 26,518 | 5,659 | 25,191 | 2,249 | 922 | |
| Total Customers, Digital Transformation and Improvement | 475 | 109 | 584 | 6 | 478 | 106 | - | |
| Total General Fund Capital Spend | 9,602 | 25,533 | 35,135 | 6,184 | 29,829 | 6,380 | 1,074 | |