

For publication

Period 5 Budget Monitoring Report 2023/24

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| Meeting: | Cabinet |
| Date: | 14 November 2023 |
| Cabinet portfolio: | Deputy Leader |
| Directorate: | Finance |

1.0 Purpose of report

- 1.1 To provide Cabinet with an assessment of the Council’s forecast outturn position for the General Fund Revenue Account and Capital Programme based on activity to the end of period 5 (August 2023).
- 1.2 To meet the requirement in the Financial Procedure Rules to provide Council with regular updates on the Council’s financial position.
- 1.3 Effective budget monitoring and forecasting will be critical to understanding the budget pressures and ensuring that there are appropriate plans in place to manage and mitigate financial risks.

2.0 Recommendations

- 2.1 To note the forecast position of the General Fund Revenue Account at the close of period 5 for the financial year 2023/24 and the continuing uncertainty associated with the outturn forecast resulting from the significant inflationary and demand led cost pressures.
- 2.2 To support the strategy for achieving, as a minimum, a balanced budget outturn position for the financial year 2023/24.
- 2.3 To note the General Fund Capital Programme expenditure forecast for period 5 2023/24.

3.0 Reasons for recommendations

- 3.1 This periodic monitoring report summarises the current assessment of the Council’s forecast outturn and sets out the active management mitigations to be progressed to balance the 2023/24 budget. It also provides a robust basis for medium term financial planning.

- 3.2 This is the second formal monitoring report for the 2023/24 financial year and comes at a time when the Council is experiencing financial pressures due to the current economic situation, cost and pay inflation and the ongoing impact of the Covid-19 pandemic and the cost-of-living crisis.

4.0 Report Details

Background

- 4.1 Like all local authorities, Chesterfield Borough Council continues to face significant financial challenges, uncertainty and volatility. The sustained period of austerity since 2010, the ongoing risks and uncertainties over future funding arrangements, the budgetary impacts of the Covid-19 pandemic and a sustained period of exceptionally high inflation, have all impacted on the Council's financial position.
- 4.2 Consumer Price Index inflation (CPI) in the UK economy peaked at 11.1% in October 2022 and although this has reduced to 6.7% for the twelve months to September 2023, CPI is now forecast to stay higher for longer than the Chancellor originally set in his budget forecasts. This continues to drive upward pressure across a range of expenditure budgets.
- 4.3 In response to these challenges, the Council has already made significant savings over many years and taken steps to manage demand and deliver services in the most economic, efficient, and effective way.
- 4.4 The financial impact of Covid-19 and the cost-of-living crisis on Council services has been and continues to be significant, resulting in new cost pressures and reductions in income, particularly in areas such as car parking, markets and town centre retail units. Income remains significantly below pre-pandemic levels and may never fully recover.
- 4.5 The Local Government Employers pay offer, which was made in February 2023 and has now been accepted, set out an increase for 'Green Book' employees of £1,925. This equates to a circa 5.6% increase in the 2023/24 pay budget. The 2023/24 base budget included provision for 4% pay award this year. The additional 1.6% required will create a pressure of up to **£300k**.
- 4.6 It is also of significant concern that details of how the Government intends to fund local authorities, post the 2023/24 financial year, remain uncertain, which makes medium term financial planning highly unpredictable.
- 4.7 The Council approved the General Fund Revenue Budget for 2023/24 on 22 February 2023. The budget was constructed in accordance with the Council's budget principles and the 2023/24 budget was balanced with the use of **£1.000m** from the Budget Risk Reserve. This was to enable the Council to take a more strategic approach to reviewing priorities and managing the gaps over the medium term.

- 4.8 The use of reserves in this way is in line with the Government's expectations. The Department for Levelling Up, Housing and Communities (DLUHC) encouraged "local authorities to consider how they can use their reserves to maintain services in the face of immediate inflationary pressures." The Government also outlined that it would consult with "trusted partners" including the Local Government Association, on releasing data on reserves held by councils.
- 4.9 Whilst the Local Government Finance Act 1992 required the Council to set a legal budget and Council Tax precept for the coming financial year i.e., 2023/24, the Council was not in a position to set a balanced Medium Term Financial Plan (MTFP) over the 4-year period.
- 4.10 Whilst there is no legal requirement to set a balanced MTFP, this is considered good practice. However, the most recent Autumn Statement and anticipated government funding still leaves the overall resource equation uncertain with the reforms to local government funding delayed further until at least 2025/26.
- 4.11 Given the size and scale of the financial challenge, it was recognised that the 2024/25 budget setting process would require an early focus to allow maximum time for the development and delivery of future budget savings.
- 4.12 The Council's Budget Strategy was approved by Council on 19 July 2023. This report set out the current assumptions which underpin the General Fund revenue element of the MTFP, the priority work that needs to be undertaken over the coming months, and a strategic framework for delivering the savings that will be needed to achieve a balanced budget for 2024/25 and over the medium-term.

Efficient and Robust Budget Management and Control

- 4.13 Effective budget monitoring and forecasting will be critical to understanding emerging budget pressures and ensuring that appropriate plans are implemented to manage and mitigate in-year financial risks. In-year financial management processes have been enhanced and strengthened across the Council. The new processes have been rolled out to budget managers in June 2023 for period 2 (May 2023). The period 5 (August 2023) budget monitoring position and year-end forecasts is the second formal reporting based on the enhanced process.
- 4.14 Budget holders are responsible for ensuring that services are delivered within budget and for taking early management actions to resolve emerging financial issues. They are also responsible for ensuring external income is maximised for their service and seeking out new opportunities to generate income.
- 4.15 The MTFP assumes the delivery of **£1.035m** of new savings that were approved as part of the 2023/24 budget process. Savings have been captured and coded within Service Budgets. This will ensure accountability for the

delivery of the saving and enable budget managers to monitor more accurately to ensure delivery. Savings implementation plans have been completed where appropriate and validation of existing savings plans will form part of the monthly budget monitoring exercise.

- 4.16 The period 3 forecast was reported to Cabinet on 19 September 2023 and presented an adverse position of **£774k** on the Council's net revenue budget of **£12.5m**. This was based on activity to the end of June together with projected trends in income and expenditures. The report reconfirmed the Council's commitment to delivering services within the approved budget with the Corporate Leadership Team (CLT) working collectively with budget managers to agree clear, robust and immediate management action plans to address the adverse forecast.

General Fund Revenue Account 2023/24 – Estimated Outturn Position (based on period 5 – August 2023)

- 4.17 The estimated outturn position for the financial year 2023/24 is driven by unprecedented and unpredicted inflationary pressures upon pay and contracts together with the long-term impacts upon service demands and income from the Covid pandemic and the cost-of-living crisis.
- 4.18 At the end of period 5, there is a forecast adverse position of **£334k** on the Council's net revenue budget of **£12.5m**. This is an improvement of **£440k** from the previously reported period 3 position. The period 5 forecast is based on activity to the end of August together with projected trends in income and expenditure.
- 4.19 The following table includes a summary of the key variances. Further details are set out in the sections below.

| Service/ Area | Period 3 Variance £'000 | Period 5 Variance £'000 | Movement between period 3 and 5 £'000 |
|---|--|--|--|
| Chief Executives / Corporate | 0 | (50) | (50) |
| Development Control | (200) | 0 | 200 |
| Innovation Centres/ Industrial units/ Commercial properties | (121) | (216) | (95) |
| Town Centre Properties | 77 | 95 | 18 |
| Pavements – income reduction and non-recovery of service charge | 465 | 551 | 86 |
| Asset Management | (72) | (201) | (129) |
| Economic Growth | 149 | 229 | 80 |
| Finance | 0 | (2) | (2) |
| Customer Services/ Revenues | (35) | (31) | 4 |
| Human Resources/ Organisational Development/ Payroll | (39) | (23) | 16 |
| ICT | 306 | 306 | 0 |

| | | | |
|---|-------|-------------------------------------|-------|
| Digital, Customer and HR | 232 | 252 | 20 |
| Housing | 33 | (76) | (109) |
| Waste (domestic / recycling / commercial) | 550 | 527 | (23) |
| Car Parks net income reduction | 463 | 122 | (341) |
| Markets - Market Hall/ Open Markets/ Catering | 46 | 22 | (24) |
| Leisure Centres | (154) | (259) | (105) |
| Net other (Cultural and other) | 142 | 119 | (23) |
| Leisure, Culture and Community Wellbeing | 1,047 | 531 | (516) |
| | (137) | Now included within Service budgets | 137 |
| Salaries | | | |
| Inflation Contingency | (550) | (550) | 0 |
| Total variance | 774 | 334 | (440) |

- **Corporate/ CEX** – forecast saving in relation to the vacancy of a senior management post.
- **Economic Growth** – Overall Economic Growth is reporting a budget variance of **£229k**. There has been a reduction in forecast Planning income of **c£200k** - the previous forecast included additional planning income of **£200k** from schemes which were anticipated would be submitted in 2022/23 but were expected in 2023/24. The assumptions have now been reviewed based on the latest information on scheme progression and the forecast has been reduced to **£85k**. There has also been a reduction (**£35k**) in planning activity due to the general economic downturn. In addition, the **£50k** saving in relation to the increase in planning fees will now not be delivered in 2023/24 due to a delayed implementation date of 1 April 2024.

There is an increase forecast surplus from the Commercial Property portfolio, mainly due to success of Waterside units, where all units are now fully let, showing increase in income against budget. This has been partially offset by an under-performance at Venture House and reduction in income from Industrial Units due to the general rise in void rates across the portfolio.

Net rental income from the Pavements Shopping Centre is **£551k** lower than assumed together with increase costs from non-recovery of service charges and business rates. This is due to the renegotiation of leases to retain tenants and non-renewal of leases. Town Centre units are also seeing increased void rates which has impacted on rental income, service charges and business rates. A further assessment of void properties is being undertaken to understand the longer-term impact.

A number of vacant posts are being held within Property and Technical pending a restructure which have generated forecast savings of **£233k**.

- **Digital, Customer and Human Resources** – Overall the directorate is reporting a net budget pressure of **£252k**. The main variance relates to net

additional ICT costs of **£306k** due, in part, to increase contract and licence costs. In addition, the budget assumed the capitalisation of on premises computing infrastructure and licence costs which are now cloud hosted. In accordance with recent accounting changes, expenditure of this type must now be charged to revenue and not capital. The net overspend in this area assumes that some costs will be recharged to the Housing Revenue Account and others will meet the criteria for the use of capital receipts flexibility. Further urgent work is ongoing to provide a shared understanding of the Council's ICT requirements, further options to address the overspending and the impact on future years budgets. No new pressures were included within the 2023/24 budget for ICT.

Forecast underspending in Customer Services, Revenues, Human Resources and Organisational Development, relate mainly to a projected underspending in salary costs due to a number of vacancies in these areas.

- **General Fund Housing** – There is an overall favourable variance of **£76k** in General Fund Housing Services. There are pressures of **£33k** relating to additional spend for the eviction of travellers and enforcement activity in relation to private sector landlords, which have been more than offset by net savings on vacant posts.
- **Leisure, Culture and Community Wellbeing** – Overall this directorate is reporting a pressure of **£531k** which is an improvement of **£516k** from the previous forecast at period 3.

The main variances relate to increases in all waste contracts, particularly recycling where the contract is based on a cost-plus CPI indexation. The inflation contingency was set up to cover this cost. The forecast has reduced slightly from period 3 due to reduced operating costs.

There is a net reduction in car parking income of **£122k** (mostly surface parking) which is over and above the **£400k** pressure included in the 2023/24 budget. Income from all car parks is lower than expected due to the longer than expected recovery of the economy post pandemic and the ongoing economic impact on town centre footfall (the impact of cost inflation on shopping habits and higher fuel prices). However, the parking forecast has improved by **£341k**, from that reported at period 3, mainly due to the inclusion of the increased parking charge from 1 November 2023, as agreed at Cabinet in September 2023. The overall improved position has also been helped by the reduction in Business Rates charges for car parks due to the revaluation of Business Rates as at 1 April 2023.

There are favourable variances in relation to Leisure of **£259k**, which has increased by **£105k** from period 3. This is mainly in relation to the receipt of the **£152k** Leisure Centre Support grant to support energy costs.

- **Inflation Contingency** - In constructing the budget for 2023/24, priority was given to funding existing and emerging service pressures. The inclusion of an inflation contingency of **£550k** in 2023/24, rising to **£650k** from 2024/25,

provides some flexibility to cover additional pressures. There is an expectation that this will be used to offset the inflationary increase in the waste and recycling contracts. However, this will leave no flexibility to fund inflationary pressures in ICT and other areas. At present, the balance on the contingency has been used to offset the overall forecast adverse variance.

- **Salary forecasts.** Period 3 included a corporate assessment of savings from vacant posts. These have now been included within service forecasts.

It should be noted that the budget assumes a 4% pay award for 2023/24. This is insufficient to cover the actual pay award which is in excess of 5.6% - leading to an additional pay pressure of up to **£300k**. This additional cost is not included within the forecasts for period 5.

Actions to Balance 2023/24

- 4.20 The Council is committed to delivering services within the approved budget and the Corporate Leadership Team (CLT) have been working collectively with budget managers to agree clear, robust and immediate management action plans to address the adverse forecast.
- 4.21 Despite an improved position, the period 5 projected adverse position of **£334k** is still a concern. It should be noted that this position excludes the impact of the national pay award, which has recently been agreed.
- 4.22 Failure to balance the in-year budget would increase the pressure on our MTFP and significantly deplete reserves. There are financial challenges for the future at a scale not seen before and having to use reserves to fund a gap at the current estimated level would have a significant impact on the ability of the Council to balance future years.
- 4.23 CLT and budget managers will continue to work with Cabinet Members towards delivering balanced budget, as a minimum. Activities will include:
- Forensic focus on budgetary control - to continue to work with services to minimise spending and identify savings.
 - Deep dive / spotlight reviews on income from fees and charges, to review these on a regular basis to ensure that wherever possible the cost-of-service delivery is recovered and to take account of emerging factors including the prevailing economic conditions.
 - Maximising the use of grant funding and substituting revenue funding with that received from other sources where appropriate.
 - Robust and effective vacancy control measures.
 - Review of reserves and provisions balances and annual contributions.
- 4.24 In view of the financial pressure the Council is under, there will need to be a reduction in the Council's workforce. There are a number of vacant posts already in the system and a review of these is underway. These vacancies are being held for a number of reasons, for example, pending a restructure and difficulty in recruiting to certain posts, and some have been held vacant for a

period of time. This review will help us to understand if any of the vacant posts can be easily removed from the establishment. The removal of vacant posts alone will not provide the level of ongoing savings that are required.

- 4.25 On 18 July 2023, Joint Cabinet and Employment and General Committee approved a new voluntary redundancy and voluntary early retirement scheme, to be open between 27 July 2023 and 15 September 2023 which will support the Council in meeting its future savings targets from 2024 onwards. Depending on the take up of this scheme there may be some savings which will impact in 2023/24.
- 4.26 Period 6 forecast will be presented to CLT in November and depending on the outcome, may require further strengthening of spending controls and enhanced measures to address the forecast overspend including those actions which would require policy decisions or further approvals.

Financial Resilience and Reserves

- 4.27 Reserves are an important part of the Council's financial strategy and are held to create long-term financial stability. They enable the Council to manage change and are a key element of its financial standing and resilience. The Council's key sources of funding face an uncertain future and the Council therefore holds earmarked and unearmarked reserves and a working balance to mitigate future financial risks.
- 4.28 The General Fund Working Balance has been set at **£1.5m** and is informed by a detailed risk assessment undertaken as part of the annual budget setting process. The on-going financial risks set out in this report suggest it imprudent to consider reducing this amount.
- 4.29 In addition to the General Fund Working Balance the Council maintains several other reserves. Earmarked reserves, by their very nature, are set aside and committed for specific purposes, such as property repairs and vehicle & plant replacements.
- 4.30 The Council has also previously established a Budget Risk Reserve, as a supplement to the General Fund Working Balance, to provide a further contingency for unforeseen items. A full review of reserves is underway, and a refreshed Reserves Policy will be considered as part of the MTFP in February 2024, with a view to strengthening the Budget Risk Reserve. As part of the Budget Strategy report in July 2023, Council approved the repurposing of **£1m** from the Business Rates Reserve to replenish the Budget Risk Reserve in 2023/24.

General Fund Capital Programme 2023/24

- 4.31 This section of the report provides an update of the Council's 2023/24 General Fund Capital Programme performance.
- 4.32 Regular financial reporting of the Capital Programme is an essential component of good financial management. It enables effective decision

making in relation to the funding of the programme and treasury management arrangements.

- 4.33 In February 2023 Council approved a 2023/24 Capital Programme of **£21.343m**. However, this has now been updated to reflect slippage of **£6.064m** from 2022/23 into 2023/24 which was reported as part of the Budget Outturn report to Council in July 2023. The details are set out below:
- Stephenson Memorial Hall (£1.666m) – re-phasing of the budget, as approved by the Department of Levelling up, Housing and Communities (DLUHC), with more works due in 2023/24 and 2024/25 than originally estimated. There is no change to the expected completion date for the project.
 - Hollis Lane Link Road Phase 1 (£1.318m) – re-phasing of the scheme contribution to Derbyshire County Council as more works now due in 2023/24 than originally expected.
 - Staveley 21 (£611k) – re-phasing of the budget with more works now due in 2023/24 than originally expected.
 - Waterside Basin Square Development (£1.399m) – re-phasing of the budget into 2023/24.
- 4.34 In addition, **£123k** has been included in the Programme in respect of the Tennis Courts at King George V Park. This scheme is to be funded from Lawn Tennis Association Grant (£63k) and Community Infrastructure Levy contributions (£60k), as approved by Cabinet on 21st June 2022.
- 4.35 To period 5, actual expenditure in the General Fund Capital Programme is **£1.750m**, which represents circa **6%** of the full year forecast. However, it is too early to project the full impact on the profile of spend for individual schemes. This is particularly difficult given the current climate of high inflationary pressures, supply chain issues and volatile and rising interest rates, all of which can have significant adverse implication for project delivery, affordability and value for money in relation to current and planned schemes.

5 Alternative options

- 5.1 There are no alternative options. Effective budget monitoring and forecasting will be critical to understanding the budget pressures and ensuring that there are appropriate plans in place to manage and mitigate financial risks.

6 Implications for consideration – Financial and value for money

- 6.1 The report in its entirety considers the financial and value for money implications of maintaining balanced General Fund Revenue and Capital Programme budgets whilst ensuring sufficient resources are available to enable the Council to deliver on its agreed priorities and objectives.

7 Implications for consideration – Legal

- 7.1 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992 for the Council to produce a balanced budget. Further work is required over the coming months to be able to set a balanced budget for 2024/25.

8 Implications for consideration – Human resources

- 8.1 There are no human resource implications to consider in this report.

9 Implications for consideration – Council Plan

- 9.1 Every effort has been made to maintain the General Fund Revenue and Capital Programmes at levels that enable the Council to continue to deliver on the priorities and objectives that it has set itself in the of the Council Plan.
- 9.2 The maintenance of adequate General Fund Revenue reserves and provisions over the medium term is also essential in demonstrating delivery against the third Council Plan priority of delivering value for money services.

10 Implications for consideration – Climate Change

- 10.1 Climate Change is a key consideration in the development of the MTFP. Climate Change Impact Assessments are undertaken for specific spending options and activities and form a key part of informed decision making. The MTFP also makes a significant positive climate change commitment through the allocation of mainstream funding to provide the staffing resources and project funds required to support delivery of the Council's Climate Change Strategy and Action Plan.

11 Implications for consideration – Equality and diversity

- 11.1 Equality and diversity are a key consideration in the development of the MTFP. Equality Impact Assessments are undertaken for specific spending options and activities and form a key part of informed decision making.

12 Implications for consideration – Risk management

- 12.1 There are a number of significant risks inherent in any budget forecasting exercise and these risks increase as the period covered increases. A critical element to achieving long term financial sustainability is to ensure savings proposals included within the budget are delivered. As we move into the development of savings and income generation proposals, budget holders will be required to properly quantify and qualify all risks associated with the delivery and implementation of proposals to avoid underachievement. Detailed implementation plans will be required for each proposal.

Document information

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| Background documents These are unpublished works which have been relied on to a material extent when the report was prepared. | |
| This must be made available to the public for up to 4 years. | |
| Appendices to the report | |