

**For publication**

**Month 2 Budget Monitoring Report 2021/22 & Updated Medium Term  
Financial Plan**

<b>Meeting:</b>	Council Cabinet
<b>Date:</b>	21 July 2021 20 July 2021
<b>Cabinet portfolio:</b>	Deputy Leader
<b>Directorate:</b>	Finance

**1.0 Purpose of report**

- 1.1 To provide Council with an update on the budget position at the end of month 2, covering:
- General Fund Revenue Account
  - General Fund Capital Programme
  - Housing Revenue Account
- 1.2 To meet the requirement in the Financial Procedure Rules to provide Council with regular updates on the Council's financial position.

**2.0 Recommendations**

- 2.1 To note the position of the General Fund revenue account at the close of month 2 of the financial year 2021/22 and the updated medium-term financial plan (Sections 4.2 and 4.5).
- 2.2 To approve the changes to the medium-term financial plan outlined in Sections 4.2, 4.3 and 4.5.
- 2.3 To approve funding for the posts outlined in section 4.3.9.
- 2.4 To approve the repurposing of the provision outlined in section 4.4.5.
- 2.5 To approve the updated General Fund Capital Programme outlined in section 4.6.

- 2.6 To approve the financing of the General Fund Capital Programme outlined in section 4.6.
- 2.7 To note the position of the Housing Revenue Account Revenue and Capital budgets at the close of month 2 of the financial year 2021/22 (Section 4.7).
- 2.8 To approve the funding request outlined in section 4.7.1.

### 3.0 Reasons for recommendations

- 3.1 To actively manage the Council’s finances in the current financial year and forecast forward the emerging budget position to future financial years.

### 4.1 General Fund Revenue Account

4.1.1 The Council approved the original General Fund Revenue Account budget for 2021/22 on 24<sup>th</sup> February 2021. The Band ‘D’ Council Tax was set at £174.89. The forecast budget for 2021/22 was a deficit of £188k.

4.1.2 The impact of the pandemic continues to influence our financial position in 2021/22. Key revenue streams remain under pressure. Government compensation schemes are in place for the first quarter of the financial year but it is uncertain as to what will happen in the future in terms of the economy, the ability of people to pay commercial rents, business rates and council tax, and the speed with which the numbers of customers using our car parks, leisure centres and cultural venues will return to pre Covid19 levels (if that proves to be the case).

### 4.2 General Fund - Current Year’s Budget

4.2.1 We started the year with a forecast deficit of **£188k**. At the end of month 2, known variances have reduced the anticipated deficit forecast for 2021/22 to **£32k**. A summary of the key variances is provided in the table below:

2021/22 UPDATED BUDGET FORECAST - TO END OF MONTH 2		
	£000	Total £000

Deficit at the start of the year		188
<b>Grant Income:</b>		
MHCLG Covid19 SFC Compensation (*)	(208)	
MHCLG Covid19 Tranche 5 Grant Utilised (*)	(320)	
Arts Council Cultural Recovery Fund	(153)	
Local Council Tax Compensation Grant	(131)	
Coronavirus Job Retention Scheme Grant	(16)	(828)
<b>Cost Pressures Identified:</b>		
Waste Recycling Contract	869	
Reduced Sales Fees and Charges (Car Parking, Sports Facilities, Venues and Catering) (*)	487	
Pay Award @ 1.5%	85	
Vicar Lane Rental income	46	
Bank Charges (*)	41	1,528
<b>Savings Identified:</b>		
Pavements – rental income	(723)	
Spirepride Surplus	(81)	
Cricket Festival Cancellation	(25)	
Refuse Collection – Markets and Market Hall	(20)	(849)
Other Movements		(7)
<b>Updated Deficit Forecast</b>		<b>32</b>

### 4.3 Month 2 Movements

- 4.3.1 The Sales, Fees and Charges Compensation Scheme has been extended until the 30<sup>th</sup> June 2021. Loss of income from Car Parking, Sports Facilities, Venues and Commercial Catering is greater than expected (£487k) when measured against the forecast income for the first two months of 2021/22. The scheme only allows for 75% of lost income to be claimed after applying a 5% deductible charge based on the approved budget for 2020/21, which will enable us to claim an additional £208k to compensate for the lost income giving a net cost pressure of £279k.
- 4.3.2 A further £153k of Arts Council Grants has been confirmed for 2021/22 in relation to Venues and the Museum which will assist in offsetting the costs of operating these facilities pending the full easing of lockdown restrictions.

- 4.3.3 We continue to submit Coronavirus Job Retention Scheme grant claims to HMRC. A further claim of £16k is to be made above the £53k that was included in the approved budget estimates reported to Council on the 24<sup>th</sup> February 2021.
- 4.3.4 The government has provided £131k in Local Council Tax Compensation Grant.
- 4.3.5 Assumptions relating to staff pay awards included in the budget estimates were based on an increase in 2021/22 of 1%. The current offer to the trade unions stands at 1.5%. The projected additional staffing costs of 0.5% is £85k and have therefore been included in the month 2 position.
- 4.3.6 Buy out of the superior landlord's interest in the Pavement Shopping Centre was legally completed on 7<sup>th</sup> July. This will achieve a budget saving of £723k in 2021/22. The position will change in future financial years as the saving to the council in not having to meet the contractual annual minimum rent payment will be offset by the annual costs of borrowing to fund the acquisition.
- 4.3.7 The contractor providing kerbside recycling services to the Council went into administration during 2020/21. This has resulted in additional cost pressures associated with an alternative contractor providing the service to residents on a temporary basis for 2021/22. These additional costs are estimated at £869k.
- 4.3.8 Where variations from the original budget estimates are attributable to the continuing impact of Covid19(\*), it is appropriate for these to be met by applying an element of the Tranche 5 financial support received from the government, which is currently held in reserves; approval for which was included in the budget setting report of the 24<sup>th</sup> February 2021.
- 4.3.9 A review of Tier 4 posts has been carried out and a report setting out the outcomes of the review included on the agendas of both the Joint Cabinet and Employment and General Committee of the 20<sup>th</sup> July 2021 and tonight's Council meeting. This report proposes the establishment of a number of new fixed-term and permanent roles. Most of the new roles are to be established on a fixed term basis and it is proposed that they be funded from reserves and provisions (para 4.4.5). However, one of the new roles is to be established on a permanent basis, which when taken alongside proposed salary adjustments to a number of existing posts creates an ongoing requirement for funding. It is therefore proposed that additional funding of £7,940 in 2021/22 and £49,490 in

future years be included respectively within the General Fund Revenue Account estimates for 2021/21 and future years.

#### 4.4 Reserves & Provisions

4.4.1 In addition to the General Working Balance, which is maintained at £1.5m, the Council operates several other reserves. Many of the reserves are earmarked and committed for specific purposes, such as property repairs and vehicle & plant replacements.

4.4.2 The 2021/22 Budget & Medium Term Financial Plan approved by Council on 24<sup>th</sup> February 2021 reported that reserve levels were adequate for 2021/22. Reserve levels at the start of this year are reasonable at £11.8m and are unchanged from the forecast position in February 2021.

4.4.3 There are two major reserves where the Council has wider discretion on how they are used. These are the Budget Risk Reserve and the Service Improvement Reserve. The uncommitted balances in these two reserves currently stands at £1.303m.

4.4.4 As part of year end processes, officers carry out a review of balances on earmarked reserves and provisions. This identified that a provision previously set aside for OSD remedial works is no longer required.

4.4.5 It is proposed to repurpose £364k of this provision (which in total stands at £789k to fund the fixed-term roles that it is recommended be established as part of the Tier 4 review.

#### 4.5 Medium Term Outlook

4.5.1 The table below compares the latest medium-term financial plan with that approved on 24<sup>th</sup> February 2021:

	<b>Budget Forecasts</b>				
	<b>2021/22</b> <b>£'000</b>	<b>2022/23</b> <b>£'000</b>	<b>2023/24</b> <b>£'000</b>	<b>2024/25</b> <b>£'000</b>	<b>2025/26</b> <b>£'000</b>
<b>February 2021 budget Deficit / (Surplus)</b>	<b>188</b>	<b>12</b>	<b>292</b>	<b>77</b>	<b>181</b>
Increase / (Decrease) Month 2	(156)	356	428	455	483
<b>Latest Forecasted Deficit / (Surplus) Month 2</b>	<b>32</b>	<b>368</b>	<b>720</b>	<b>532</b>	<b>664</b>

4.5.2 The original budget forecasts assume that all of the proposed cost reduction / income generation actions set out within the savings action plan and ICT improvement programme would be delivered in full, placing the medium term financial plan on a path towards a balanced position through 2025/26.

4.5.3 These targets are in themselves challenging to deliver with the forecasts assuming savings of £524k in 2021/22 rising to £1.9m per annum in the final years of the plan.

4.5.4 Since 24<sup>th</sup> February 2021, new cost pressures have emerged, the most significant of which is the increased cost of providing a kerbside recycling service.

4.5.5 The latest forecasts therefore evidence a challenging outlook with deficits increasing to as high as £720k in the later years of the medium term financial plan.

4.5.6 Work has begun to identify further savings for consideration by members that can then be included in the working papers informing the development of the draft budget report for 2022/23 and future financial years.

4.5.7 The medium-term financial plan is based on the best available information but inevitably there is a degree of risk and uncertainty in some of the assumptions made. The most significant risks and pressures are outlined below:

- **Delivering budget savings** at the required level and at the right time continues to be a challenge. Budget savings proposals are focused on several larger savings programmes rather than those delivering smaller savings. Significant savings from the ICT Improvement Programme have been included within the medium-term financial forecast and timely delivery of this element of the savings plan is fundamental to achieving a balanced budget in future years.
- **Fees and charges** income may be affected by further restrictions, a drop in public confidence and the state of the economy post the Covid19 pandemic. The council generates a substantial annual income from car parks, leisure, cultural venues and planning fees, which are all exposed to such factors.

- **Property rents** from our industrial, commercial, and retail units are also affected by the state of the economy. Current occupancy levels remain high and the Council continues to invest in its rental properties. However, income from the council's interests in the Pavements and Vicar Lane Shopping Centres continues to decline, placing an additional adverse pressure on the medium-term financial plan.
- **Pay award** uplifts of 1% for 2021/22 and 2% in future financial years were included in the original medium-term financial plan. The pay award for 2021/22 has not yet been agreed but employers have already offered 1.5%; though this has to date been rejected by the trade unions.
- **The Council tax referendum limit** for 2022/23 may be capped at 1.99%. This contrasts with the position in 2021/22 where district councils were able to increase council tax by up to 2% or £5. The level of council tax collected is also impacted by the number of claimants in receipt of local council tax support. This increased significantly during 2020/21. A 1% reduction in council tax income equates to £51k per annum.

## 4.6 General Fund Capital Programme

4.6.1 **Capital Receipts** - No capital receipts have been received to date in 2021/22. The latest forecast for the year is £1.6m and includes the first payment in respect of the council's land at Linacre. Further capital receipts will need to be identified beyond 2021/22 otherwise the council's borrowing will have to increase over time to fund further capital projects, putting more pressure on General Fund deficits.

4.6.2 **General Fund Capital Spend** –the original capital budget for 2021/22 was £17.2m, the revised position now stands at £45.0m (see appendix A for details). This includes £27.6m in respect of slippage from the 2020/21 capital programme.

This slippage includes the acquisition of the superior landlord's interest in the Pavements Shopping Centre which was legally completed on 7<sup>th</sup> July 2021. The other major differences in the capital programme are:

- Inclusion of additional Hollis Lane Link Road expenditure (£990k approved March 2021);

- Re-profiling of DFG grants to be fully funded from the Better Care Fund.

**4.6.3 Net Capital Financing** – The original 2021/22 capital programme assumed a break even position and was approved by Council on 24<sup>th</sup> February 2021. The revised position assumes a surplus of £1,077k which has been earmarked to potentially finance flexible capital receipts expenditure in the future. Total borrowing of £37m is required in 2021/22.

The re-profiling of expenditure into 2021/22 has had a favourable impact on the General Fund Minimum Revenue Provision (MRP) for 2021/22, which has reduced from £711k to £339k. This is reflected in the figures in section 4.2. An updated Capital Programme will be reported to members in October 2021.

## **4.7 Housing Revenue Account (HRA)**

**4.7.1 HRA Revenue** - Rent arrears for the first two months of the financial year are at much the same level as the same period in 2020/21 due to the continuing impact of the Covid19 pandemic. The current provision for bad debts is £2.7m. Budget monitoring will continue to ensure the provision is sufficient.

The main areas of spend, i.e. on employees, premises, and supplies and services are in line with the budget estimates for 2021/22.

Due to the continuing impact of Covid19, housing repairs work has largely been restricted to external works. Consequently, there is an underspend of £482k to the end of May. It is anticipated that Housing Property Operational Services will be able to re-commence internal works in the coming month, and that the repairs budget will be fully utilised by year-end.

The review of Tier 4 posts referenced in para 4.3.9 will also impact the HRA and in line with current policy would require a contribution from the HRA. Therefore, this report includes a request for approval for additional funding of £9,760 in 2021/22 and £20,940 in future years towards the proposed permanent changes and a contribution of £135k from the HRA working balance for the proposed fixed term appointments.

**4.7.2 Housing Capital Programme** - At the end of month two, HRA Capital Programme expenditure stands at £2.4m compared with the budgeted profile of £5.4m. Covid-19 restrictions have placed further delays on the ability of housing services and their contractors to carry out internal

capital works. It is anticipated that these works will commence in July, most notably:

- Kitchens & Bathrooms
- Communal Lighting replacements
- Central Heating
- Windows & Doors

Expected spend on the New Build programme is also currently below profile. Work on the Middlecroft cluster is now underway as is the construction of new homes at Brockwell Court.

In spite of the ongoing challenges presented by the Covid-19 pandemic, we still expect to spend the whole of the capital programme budget of £32.8m by the end of the financial year.

**4.7.3 HRA Business Plan** - The 30 Year HRA Business Plan is currently being updated to reflect the impact of Covid19 and other changes and will be presented to a future meeting of Cabinet for consideration.

## **4.8 Conclusions**

**4.8.1** The Covid19 pandemic continues to have a detrimental impact on the budget position. The current forecast deficit for the year is £32k. Councils have a legal duty to balance their budgets and we must therefore identify appropriate courses of action to eliminate the current deficit.

**4.8.2** The ability to deliver the approved savings and to identify new areas for cost reduction and income generation is now a key priority for officers. Further revenue pressures may arise as a result of the pandemic undermining the council's ability to deliver a balanced medium-term financial plan. The recently approved Organisational Development initiative will help to drive achievement of the necessary savings.

**4.8.3** At the same time there are several risks that could add further pressure to the forecast deficits in future years e.g. Business Rates income, retail rents, inflation and the state of the economy.

## **5 Alternative Options**

**5.1** There are no alternative options to consider.

## **6 Implications for consideration – Council Plan**

- 6.1 The third of our three council priorities is to deliver value for money services. This report monitors progress against the General Fund Revenue Account budget estimates agreed by Council on 24<sup>th</sup> February 2021 for the current financial year 2021/22 and also seeks to project forward the implications of known variations on the medium-term financial plan.

## **7 Implications for consideration – Financial and value for money**

- 7.1 The report in its entirety deals with financial and value for money implications.

## **8 Implications for consideration – Legal**

- 8.1 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 2022/23 in February 2022.

## **9 Implications for consideration – Human resources**

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

## **10 Implications for consideration – Risk management**

- 10.1 Budget forecasting, particularly over the medium term is not an exact science. Assumptions are made at the time of writing, but the final outcome could be very different e.g. reductions or increases in government grants, pay awards, and investment returns, further Covid-19 spikes and lockdowns etc. A full risks and uncertainties scenario analysis will be included as part of the final budget setting reports.
- 10.2 There are several significant risks inherent in any budget forecasting exercise and these risks increase as the period covered increases. The most significant budget risks have already been referenced, in summary form, at paragraph 4.5.7.

## **11 Implications for consideration – community wellbeing**

- 11.1 Although there are no direct community wellbeing implications to consider in this report, the ability for the Council to appropriately manage its day to day finances and to be able to achieve a balanced budget position is critical to the continued delivery of the full range of council

services that are targeted at supporting community wellbeing across the borough.

## **12 Implications for consideration – Economy and skills**

- 12.1 Although there are no direct economy and skills implications to consider in this report, the ability for the Council to appropriately manage its day to day finances and to be able to achieve a balanced budget position is critical to the continued delivery of the full range of council services that are targeted at supporting the economy and skills agenda across the borough.

## **13 Implications for consideration – Climate Change**

- 13.1 Individual climate change and environmental impact assessments are not required for the budget process. These are included as part of the decision-making processes for specific spending options.

## **14 Implications for consideration – Equality and diversity**

- 14.1 Individual equality and diversity impact assessments are not required for the budget process. These are included as part of the decision-making processes for specific spending options.

### **Decision information**

<b>Key decision number</b>	<b>1039</b>
<b>Wards affected</b>	<b>All</b>

### **Document information**

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<b>Appendices to the report</b>	
Appendix A	Revised Capital Programme 2021/22