

For publication

General Fund Budget Monitoring 2021/22

Meeting:	Cabinet
Date:	23 November 2021
Cabinet portfolio:	Deputy Leader
Directorate:	Finance

1.0 Purpose of report

- 1.1 To provide Cabinet with an update on the General Fund revenue position at the end of the second quarter 2021/22, including the impact of actual and planned management action to address the adverse variance against the budget and to reaffirm the Council's commitment to delivering services within budget.
- 1.2 To meet the requirement in the Financial Procedure Rules to provide Cabinet with regular updates on the Council's financial position.

2.0 Recommendations

- 2.1 That the financial performance of the General Fund Revenue Account for the first half of the financial year be noted (**Section 4.2**)
- 2.2 That the General Fund reserves position as set out in **Section 4.5** of the report be noted.

3.0 Reasons for recommendations

- 3.1 This periodic report summarises the current assessment of the Council's forecast outturn for the General Fund Revenue Account and enables formal monitoring of progress against the 2021/22 budget including the impact of actual and planned management actions to address the adverse variance to budget.

4.1 General Fund Revenue Account

- 4.1.1 The Council approved the original General Fund revenue budget for 2021/22 on 24 February 2021. The Band 'D' Council Tax was set at **£174.89**. The forecast budget for 2021/22 was a deficit of **£188k**, which was to be met from the Council's Budget Risk Reserve if savings and efficiencies were not identified during the financial year.
- 4.1.2 The deficit forecast assumed the in-year delivery of savings amounting to **£524k**, of which **£374k** would be delivered through the ICT Improvement Programme.
- 4.1.3 All indications pointed to a challenging medium-term outlook. The Medium-Term Financial Plan (MTFP) forecast approved by full Council on 24 February 2021 showed deficits of **£12k** in 2022/23 rising to **£181k** in 2025/26 after the delivery of planned savings of **£1.285m** in 2022/23 rising to **£1.934m** in 2025/26.
- 4.1.4 Since 24 February 2021, new ongoing cost pressures have emerged, the most significant of which are the increased cost of providing a kerbside recycling service and the ongoing impact of the Covid-19 pandemic on fees and charges income. The latest forecasts therefore evidence a challenging outlook.
- 4.1.5 The MTFP is currently being reviewed and a revised draft will be presented to Cabinet in December 2021.

4.2 Current Year's Budget

- 4.2.1 The quarter 2 position was reported to Cabinet and Council on 20 July and 21 July 2021 respectively. At that point the forecast deficit was **£32k** for 2021/22. Key variances included:
- Additional cost of **£869k** for an alternative service provider of kerbside recycling due to the previous contractor entering administration
 - Estimated loss of income of **£487k** from car parking, sports facilities and venues by year end based on the forecast income for the first two months of 2021/22.

These costs were offset by savings and the use of Covid-19 related grant support, as follows:

- Savings of **£723k** from the buyout of the superior landlord's interest in the Pavements Shopping Centre. The annual cost of borrowing to fund the acquisition will start to be incurred from 2022/23.

- **£208k** from the Sales, Fees and Charges Compensation Scheme
- **£153k** in Cultural Recovery Grant to offset the costs of operating venues and museums
- **£131k** in Local Council Tax Compensation Grant.

4.2.2 At the end of the second quarter the Council is forecasting a net deficit variance of **£1.005m** after Covid-19 related grant support of **£1.134m**. The Council has, however, identified mitigations and management actions which have reduced the deficit to **£355k** at year end. A summary of the key variances is provided in the table below:

Table 1: 2021/22 UPDATED BUDGET FORECAST - TO END OF QUARTER 2			
Budget item	Month 2 Movements £000	Quarter 2 Movement s £000	Total £000
Deficit at the start of the year	188		188
Movement during the year			
Vicar Lane – reduction in income	46	193	239
Recycling Contract	869	0	869
Reduced Sales, Fees & Charges (Car Parking, Sports Facilities, Venues, Markets and Catering)	487	1,195	1,682
Industrial and Commercial Properties/ Innovation Centres (voids)	0	125	125
Pay Award Negotiations	85	0	85
Non-achievement of Voluntary Redundancy savings outside those delivered through the ICT Improvement Programme	0	50	50
Pavements Shopping Centre- income	(723)	(210)	(933)
Spirepride Trading Account Surplus	(81)	(68)	(149)
Other net movements	(12)	(3)	(15)
Covid-19 related support			
Local Council Tax Compensation Grant	(131)	0	(131)
Furlough Scheme	(16)	0	(16)
Cultural Recovery Grant	(153)	0	(153)
Sales Fees and Charges Compensation Scheme	(208)	142	(66)
Other Covid-19 Grants (Environmental Health and Contain Outbreak Management Fund)	0	(125)	(125)
Covid-19 Grant (Tranche 5) Allocated to General Fund	(320)	(324)	(644)
Updated Deficit before Management Actions and Mitigations	32	973	1,005

Management Actions/Mitigations			
Review of Supplies and Services budgets		(113)	(113)
Maximising the use of retained Enterprise Zone business rates to support growth projects and programmes		(300)	(300)
Review of recharges to capital, HRA and trading accounts.		(237)	(237)
Net Forecast Deficit	32	323	355

NB tables may not sum due to rounding

4.3 Quarter 2 Movements

4.3.1 The final position on rent receipts from the Vicar Lane shopping centre for the previous two financial years was received during quarter 2 with rent income declining significantly over that period (**£193k**).

4.3.1 Estimates of the initial impact of Covid-19 on fees and charges income were reflected in the month 2 budget monitoring report to Cabinet. These have been revised based on the latest position and assumptions at quarter 2 resulting in further reductions in income of **£1,195k** for sports centres, venues, and car parking. Although the Sales, Fees and Charges Compensation Scheme was extended until 30 June 2021, it falls significantly short of compensating the council for lost income. 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.

4.3.2 Demand for industrial/commercial/innovation centres space has fallen due to the Covid-19 pandemic. This has resulted in an additional cost pressure of **£125k**. Loss of income from commercial rents is not covered by the Government's income compensation scheme.

4.3.3 The 2021/22 budget included as an in-year saving a Voluntary Redundancy target of **£50k** in 2021/22. This saving has been removed as it is unlikely to be achieved in addition to the in-year Voluntary Redundancy / Voluntary Early Retirement savings that will be delivered through the ICT Improvement Programme.

4.3.4 The final element of the tranche 5 financial support received from the then Ministry for Housing, Communities and Local Government (MHCLG) to assist with 2021/22 Covid-19 pressures has now been applied in full as has the Environmental Health Grant and the Contain Outbreak Management Fund (COMF) grant, which was specifically provided to support councils with test, trace and contain activities.

4.4 Balancing the 2021/22 General Fund Revenue Account

- 4.4.1 The current forecast has major implications for the MTFP and without further management action this adverse variance would increase the financial gap and the size of the challenges in future years.
- 4.4.2 The Council is committed to delivering services within its approved budget and has been working collectively through budget managers to agree clear, robust, and immediate management action plans to address the adverse forecast. Measures have included the review of non-essential spending, maximising grant opportunities, appropriate charging to other funds and general efficiencies. These measures have reduced the deficit to **£355k**.
- 4.4.3 The Council has only 4 months left to recover the potential deficit within 2021/22 and work is ongoing to identify areas where spending can be contained, and income maximised to ensure projected departmental forecasts are contained and managed within existing budgets. This will include enhanced spending controls and vacancy management.
- 4.4.4 Corporate communications have already been issued to all budget managers reiterating the Council's challenging financial position and asking for caution in relation to spending on non-essential items.
- 4.4.5 A review of current General Fund reserves and provisions is also underway to identify any earmarked monies that could be repurposed to finance any shortfall that these activities fail to address. However, it is acknowledged that reserves should be used strictly for one off events and not to meet service pressures or failures to achieve planned savings. Reserves can only be used once and are not the solution to ongoing budgetary pressures.
- 4.4.6 The outcome of the afore-mentioned activities will be reported to Cabinet with the first draft of the 2022/23 General Fund revenue budget in December.

4.5 Reserves

- 4.5.1 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.
- 4.5.2 A review of planned commitments against these finite financial resources is underway to ensure that they are used in the most effective way and to identify any capacity for reassignment if needed. Any suggested changes to

the current use of reserves will be included in the first draft of the 2022/23 General Fund budget report to Cabinet in December.

4.5.3 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 stand at **£1.281m**.

4.6 Medium Term Outlook

4.6.1 The MTFP approved at Council on 24 February 2021 evidenced a more challenging outlook from 2022/23 onwards with annual forecast deficits peaking in 2023/24 at **£292k**.

4.6.2 The month 2 budget monitoring report to Cabinet in July 2021 revised these deficit forecasts upwards to a high of **£720k** in 2023/24 before improving slightly in future years.

4.6.3 The MTFP is currently being reviewed and a revised draft will be presented to Cabinet in December 2021.

4.6.4 The MTFP 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 uncertainties are outlined below:

- **Delivering existing budget savings** at the required level and at the right time continues to be a challenge. The Council has a good track record of tackling budget deficits and delivering savings although it has become more difficult to achieve as easier options are exhausted. Future budget savings proposals are now 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 is fundamental to achieving a balanced budget in future financial years.
- **Fees and charges** income may take time to recover following the effect of the Covid-19 pandemic on attendances particularly at our sports centres and venues, with consequential impacts on the substantial annual income that the council generates from these sources.

- **Property rents** from our industrial, commercial, and retail units continue to be affected by the state of the economy and the impact of the Covid-19 pandemic.
- **Pay award** uplifts of 2% for 2022/23 and future financial years are included in the forecasts. The pay award for 2021/22 has, however, not yet been agreed. Each 1% increases the costs to the General Fund by **£113k** per annum.
- **A programme of capital receipts** from the sale of surplus assets has been a significant source of funding for the capital programme. The pipeline of assets sales is reducing which will mean that future capital projects will have to be funded from borrowing. The costs of servicing this borrowing will create further pressure on the MTFP.

4.7 Conclusions

- 4.7.1 The severe impacts of the Covid-19 pandemic in 2021/22 will continue to have material financial consequences into the medium term. An event of this magnitude undoubtedly means that the Council will need to consider closely how its services should operate in the future. There remain potential longstanding impacts on Council income if current working and spending patterns continue.
- 4.7.2 The current forecast deficit for the year is **£355k**. Councils have a legal duty to balance their budgets and we must therefore identify appropriate courses of action to eliminate the current deficit.
- 4.7.3 Given the uncertainty and volatility of the forecasts, no budget amendments are recommended at this stage.
- 4.7.4 However, two concurrent actions are required (a) accurate, timely and robust financial monitoring through year-end and (b) officers to continue to review their respective budgets and identify and agree further savings in 2021/22 as part of the budget setting process to reduce the in-year deficit to a position which will require no or only minimal recourse to the use of reserves.
- 4.7.5 The one-off use of reserves to cover any residual deficit forecasts will have an adverse impact on our financial standing going forward and our ability to fund service developments in future years; and is therefore an option of last resort.

4.7.6 The outlook for future years shows further revenue pressures undermining the council's ability to deliver a balanced MTFP. Work is ongoing to produce a sustainable and balanced MTFP to present to Cabinet in December through identifying further opportunities to transform how the Council delivers services.

5.0 Alternative Options

5.1 There are no alternative options to consider.

6.0 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 February 2021 for the current financial year 2021/22 and seeks to project forward the implications of known variations on the MTFP.

7.0 Implications for consideration – Financial and value for money

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

8.0 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 balance the in-year budget for 2021/22 and to be able to set a balanced budget for 2022/23 in February 2022.

9.0 Implications for consideration – Human resources

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

10.0 Implications for consideration – Risk management

10.1 Budget forecasting, particularly over the medium term is not an exact science. Assumptions are made points in time, but the outcome could be very different e.g., reductions or increases in government grants, levels of pay awards, investment returns, impacts of 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 in February 2022.

10.2 There are several significant risks inherent in any budget forecasting exercise and these risks increase as the period covered increases.

11.0 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.

12.0 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.

13.0 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, cost saving and/or income generating options.

14.0 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, cost saving and/or income generating options.

Decision information

Key decision number	1058
Wards affected	All

Document information

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