

**For publication**

**Month 2 Budget Monitoring Report 2022/23**

<b>Meeting:</b>	Cabinet
<b>Date:</b>	19 July 2022
<b>Cabinet portfolio:</b>	Deputy Leader
<b>Directorate:</b>	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, General Fund Capital Programme and Housing Revenue Account (HRA), based on activity to the end of period 2 (May) 2022.
- 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 two of the financial year 2022/23.
- 2.2 To approve the ringfencing of **£200k** from the Budget Risk Reserve to support any interim or recruitment agency costs which may be required to mitigate recruitment pressures (para 4.5).
- 2.3 To note new burdens funding of **£140k** which will be used to strengthen council tax and rent recovery and provide increased levels of customer support (Para 4.10).
- 2.4 To approve the updated General Fund Capital Programme and financing (paras 4.15 to 4.17).
- 2.5 To note the position of the Housing Revenue Account Revenue and Capital budgets at the close of month two of the financial year 2022/23 (paras 4.18 to 4.24).

**3.0 Reasons for recommendations**

- 3.1 This periodic report summarises the current assessment of the Council's forecast outturn and enables formal monitoring and active management against the 2022/23 budget.
- 3.2 This is the first monitoring report for the 2022/23 financial year and comes at a time when the Council is experiencing financial pressures due to the current economic situation, the high levels of cost inflation and the ongoing impact of the Covid-19 pandemic.

#### **4.0 Report Details**

##### **General Fund Revenue Account**

- 4.1 The Council approved the original General Fund Revenue Account budget for 2022/23 on 23 February 2022. The Band 'D' Council Tax was set at **£179.89**.
- 4.2 The budget was constructed in accordance with the Council's budget principles and the Medium-Term Financial Plan (MTFP) was balanced for the first two financial years with an expectation that the gaps in the latter two years of the MTFP would be met from savings delivered through the Council's Organisational Development programme.
- 4.3 The budget assumed the in-year delivery of new savings and efficiency proposals amounting to **£477k** and these are on track for delivery in 2022/23.
- 4.4 The budget for 2022/23 was produced against the backdrop of the ongoing Covid-19 pandemic and some of the medium and long-term effects of the pandemic relating to the demand for Council services were difficult to project. The budget assumed that income from fees and charges and expenditure levels would return to pre-Covid levels from 2022/23 with the exception of Sports Centre income which was anticipated would take one year longer to recover.
- 4.5 In the months since the MTFP was approved, the national fiscal and economic situation has changed dramatically and a number of spending pressures have emerged These include:
  - Assumptions around the recovery of income streams following the Covid-19 pandemic have not materialised at the levels expected. With the increased pressures on the cost of living, we are seeing that behaviours and habits have changed as disposable income and secondary spend is impacted.
  - Inflation is currently at 9% and the Bank of England has warned it could peak at 11% later this year (the highest rate in around 40 years). This is due to oil, gas and food prices which have been affected by the Ukraine conflict and the expected rise in the energy price cap in October 2022. In May 2022, the Bank of England voted to increase the Bank rate by 0.25%

percentage points to 1% (the highest level in 13 years) and warned that the cost-of-living crisis could push the economy into recession this year. The cost-of-living crisis will not only impact on the Council's own expected future costs of supplies, but also on local business' financial viability and the ability of our tenants and residents to pay their bills.

- The level of inflation and the increases in utilities and fuel costs are significantly above that which the Council could have reasonably assumed in setting the budget for 2022/23 and for the medium term. Further work will need to be undertaken to establish the financial impact on council services.
- The 2022/23 budget included the additional costs relating to the pay award for 2021/22 and the increase in the National Insurance contribution. It also included an assumption of a 2% pay award for 2022/23. Provision has also been made for the recent increase of the Real Living Wage to £9.90 per hour. Negotiations are ongoing at a national level on the Local Government Pay Award, and it may be some months before the actual award is known; however, it is estimated that an additional 1% award would cost the Council **c£200k**.
- The Covid-19 pandemic and Brexit has fundamentally changed the skills landscape, with many local employers struggling to attract, recruit and retain people with the right skills. This has led to skills gaps in the current workforce and skills shortages and difficulties in recruiting across all sectors.

Failure to recruit is a significant issue for the Council and the availability of suitably qualified candidates to fill vacant posts has been an issue for the Council over the past few months. There are business critical roles across the council which are either vacant and/or need to be filled with suitably qualified staff in order to ensure the effective operation of a number of the Council's services. The Council will need to utilise interim arrangements until appropriate, permanent recruitment is secured. It is therefore recommended that **£200k** is earmarked from the Budget Risk Reserve to offset any interim or recruitment agency costs which may be required to mitigate workforce pressures.

- 4.6 These additional financial challenges are being considered as part of the Council's ongoing medium term financial planning. The impact will reach beyond the current financial year and presents a real risk that the Council may not be able to manage its obligations within the resources available without further financial support from the Government.
- 4.7 A high-level assessment of the forecast outturn has been undertaken based on the budgetary position at the end of the first two months of the financial year and this is set out in Table 1. However, this excludes the implications in relation to many of the pressures and challenges set out in 4.5, as it is too early in the financial year to provide a robust assessment and further work

will be required to provide a better understanding of the financial impact for both the in-year position and for the MTFP.

- 4.8 As at the end of May 2022, the Council is forecasting a year-end overspend within services of **£694k** based on quantifiable pressures but this is likely to be significantly higher once we have more certainty on the impact of the cost pressures set out in 4.5. A summary of the key variances is provided in Table 1 and further details in the section below:

<b>Table 1: Summary of main variances based on May 2022 forecast</b>		
<b>Budget Movement</b>	<b>£000</b>	<b>Total £000</b>
<b>Income</b>		
Pavements Shopping Centre	96	
Town Centre - Retail Units	16	
<b>Car Parks</b>		
Saltergate	104	
New Beetwell Street	152	
Surface	201	
Vicar Lane Rental	96	
Sport Centre - increased income	(100)	
<b>Net Reduced Income</b>		<b>565</b>
<b>Increased Costs</b>		
By Election	10	
Travellers Eviction	17	
Refuse Contract indexation	97	
Other	5	
<b>Increase Costs</b>		<b>138</b>
<b>Forecast Deficit @ period 2</b>		<b>694</b>

- Pavements Shopping Centre - Rental income from the Pavements is forecast to be **£59k** lower than expected due to the renegotiation of leases to retain tenants and non-renewal of leases. The budgeted income for 2022/23 is **£1.183m**. Additional business rates on vacant units are estimated to be **£37k**.
- Town Centre - Empty retail units in the town centre and in Falcon Yard are anticipated to reduce annual budgeted income of **£287k** by **£16k**.
- Car Parks – Income from all car parks is lower than expected due to the longer than expected recovery of the economy post pandemic, the ongoing economic impact on town centre footfall (the impact of cost inflation on shopping habits and higher fuel prices) and slippage on expected increases in demand arising from the Northern Gateway retail offers and the opening of the Holywell Cross Enterprise Centre. The forecast reductions are:
  - Saltergate – reduction of **£104k** on a budget of **£432k**

- Beetwell St – reduction of **£152k** on a budget of **£340k**
- Surface car parks – reduction of **£201k** on a budget of **£1,988k**
- Sports Centres – The MTFP assumed that levels of expenditure and income would return to post pandemic levels from 2022/23 with the exception of Sports Centres income which we anticipated would take one more year to recover. The income budget was therefore reduced by **£240k** to **£3.5m** for 2022/23 to reflect the impact of the Covid-19 pandemic on sports centre usage. The final months of 2021/22 saw an increase in numbers using the sports centres and this has continued into 2022/23. The forecast for income has been increased by **£100k** to reflect this upturn. Work will continue to monitor and validate this increase in activity.
- By Election - An unexpected by-election has arisen in 2022/23 leading to additional costs of **£10k**.
- Travellers' evictions - Additional spend of **£18k** has been incurred as the eviction of travellers this year has been carried out by bailiffs instead of the usual method due to backlogs in the magistrate's court.
- Refuse Contract - Indexation of the refuse contract is based on the prevailing rate of CPI in March and is applied from May. The CPI rate to be applied to the contract was higher than the rate included in the budget assumptions, at 7.04%, leading to additional costs of **£97k** on the contract of **£1.95m**.

4.9 In other areas income remains significantly below pre-pandemic levels and there is a risk that they may never recover. Difficult choices will need to be made in relation to service delivery in these areas. To support this, a full review of income from fees and charges has been commissioned which will provide greater clarity and insight on which to base management action and decisions. The outcome of this work will be reported to Cabinet as part of financial monitoring reporting and to provide a strong foundation for the 2023/24 budget setting process.

4.10 Additional new burdens funding of **£140k** will shortly be received in recognition of the work which the council has undertaken to deliver additional Revenues and Benefits activities for a neighbouring council. This funding will be retained within the Customers, Revenues and Benefits budget, so that the service can continue to strengthen council tax and rent recovery and provide increased levels of customer support.

## **Reserves**

4.11 The General Fund Working Balance has been maintained at **£1.5m** to recognise the financial risks and uncertainties that the Council is currently facing. In addition to this, the Council operates several other reserves and many of these are earmarked for specific purposes.

4.12 The Council has also established a Budget Risk Reserve as a supplement to the General Fund Working Balance to provide a further contingency for unforeseen items. The General Fund Draft Outturn 2021/22 was presented to

Cabinet in June 2022 and recommended that **£440k** of the 2021/22 surplus be prudently transferred to the Budget Risk Reserve to mitigate the forecast risks and pressures for 2022/23. This increased the balance on that reserve to **£2.066m**.

- 4.13 There is significant volatility at present in the economy that makes projecting forwards the impact of inflation and energy prices challenging and, whilst the forecast position will continue to be monitored closely and mitigations identified to enable a balanced outturn, there is an expectation that the Council will need to utilise the Budget Risk Reserve to achieve a balanced outturn position for 2022/23. This will reduce the Council's financial resilience and flexibility for future years.
- 4.14 As part of the MTFP process, consideration will be given to including ongoing contingency sums to support inflationary cost pressures – this is a prudent measure and will provide some mitigation from changing market conditions and inflationary increases over the medium term.

### **General Fund Capital Programme**

- 4.15 General Fund Capital Spend – the original capital budget for 2022/23 of **£10.9m** was approved at Council in February 2022. The programme has been revised to include the slippage of **£6.2m** from the 2021/22 capital programme. In addition, the Disabled Facilities Grant element has been reprofiled to reflect the latest funding allocations from the Better Care Fund. There have been no new additions to the original 2022/23 capital programme. The revised programme of **£16.8m** is set out in Appendix A.
- 4.16 Net Capital Financing – The 2022/23 capital programme is to be funded by **£0.642m** of capital receipts, **£12k** from a contribution from reserves and **£11.8m** from Grants and Contributions. Borrowing of **£4.4m** will be required in 2022/23 due to the inclusion of slippage from the 2021/22 capital programme. An updated Capital Programme will be reported to Cabinet as part of the quarter two monitoring to Cabinet in September 2022.
- 4.17 Capital receipts of **£1.1m** have been earmarked to finance flexible capital receipts expenditure in respect of the Council's Organisational Development programme. Any further capital receipts from the disposal of surplus assets are to be ringfenced for reinvestment in the council's existing operational assets as part of the 10-year maintenance programme.

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

- 4.18 **HRA Revenue** – The Council approved the original Housing Revenue Account budget for 2022/23 in February 2022. The table below summarises the position for the working balance.

<b>Table 2: HRA summary Working Balance</b>
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	Revised Budget 2021/22 £'000	Outturn 2021/22 £'000	Original Budget 2022/23 £'000
Balance at 1 <sup>st</sup> April 2021	(20,460)	(20,460)	(6,338)
Decrease in HRA Balance	14,122	6,888	2,902
<b>Closing Balance</b>	<b>(6,338)</b>	<b>(13,572)</b>	<b>(3,436)</b>

- 4.19 The improved out turn position at 31<sup>st</sup> March 2022 was primarily due to a reduction in direct revenue support for capital expenditure. The pandemic had a detrimental impact on the delivery of the capital programme and approval was granted to carry the underspend of **£10.765m** into 2022/23 to enable the schemes to be completed. Cabinet approved the carry forward requests on 21<sup>st</sup> June 2022.
- 4.20 Rent arrears as at 31<sup>st</sup> May 2022 total **£2.232m**. This is an improved position from 31<sup>st</sup> March 2022 when arrears totalled **£2.623m**. The current provision for bad debts is **£1.4m** which is deemed appropriate for the level of arrears. Budget monitoring will continue to ensure the provision is sufficient. The cumulative impact from loss of rental income from void properties amounts to **£21k** to the end of May. Further work is ongoing to bring void properties in to use.
- 4.21 Employee costs are currently under budget as at 31<sup>st</sup> May 2022 by **£220k**. This is largely due to phasing in recruitment relating to the phase 1 restructure. The budget assumed additional costs for the restructure from 1 April 2022, however, it is now anticipated that the structure will be in place from 1<sup>st</sup> August. Budgets will be adjusted to reflect the underspend for this financial year.
- 4.22 Further work is being undertaken to understand the impact of the backlog on both capital programme activity and repairs and maintenance work. Whilst all responsive repairs works have recommenced, the material supply chain of timber and building products has caused delays to some workstreams. Resourcing has been focused on delivering and addressing the backlog in responsive repairs which has had a detrimental impact on planned and capital programmed works. Resourcing levels are currently under review to ensure there is sufficient capacity to meet tenants needs. It is anticipated that the responsive repairs budget will be fully utilised in 2022/23.
- 4.23 **Housing Capital Programme** – The original capital programme for 2022/23 of **£22.932m** was approved at Council in February 2022. The programme has been revised to take account of slippage of **£10.765m** from 2021/22. The revised programme for 22/23 is **£33.696m** and at the end of month two, HRA Capital Programme expenditure stands at **£2.9m** compared with the budgeted profile of **£5.6m**. Work has now completed on the Mallard and

Leander schemes. The new build works on the Middlecroft Cluster and the Aston Court refurbishment works have commenced.

- 4.24 **HRA Business Plan** - The 30 Year HRA Business Plan is currently being updated to reflect the impact of the Covid-19 pandemic including the slippage in the capital programme and the backlog in repairs and maintenance. An updated Business Plan will be presented to a future meeting of Cabinet for consideration.

## **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 financial estimates agreed by Council in February 2022 for the current financial year 2022/23.
- 6.2 The Council is managing a multitude of pressures including the financial impacts of recovery from the Covid-19 pandemic which are still being quantified. If these pressures are not carefully and successfully planned for and managed effectively over the short, medium, and long term, there is a risk of delivery failure against Council Plan priorities.

## **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.

## **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 vastly different e.g., reductions or increases in government grants, pay awards, cost inflation, and investment returns; and the ongoing impact of the Covid-19 pandemic on the demand for our services and levels of income from



fees and charges. 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 within the report.

## **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>1112</b>
<b>Wards affected</b>	<b>All</b>

### **Document information**

<b>Report author</b>	<b>Contact number/email</b>
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<b>Background documents</b>	

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**

Appendix A

Revised Capital Programme 2022/23