

**For publication**

**Period 6 Budget Monitoring Report 2022/23 and Updated Medium Term Financial Forecast**

<b>Meeting:</b>	Cabinet
<b>Date:</b>	29 November 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 based on activity to the end of period 6 (September 2022) and the emerging medium-term financial position.
- 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 period 6 of the financial year 2022/23.
- 2.2 To support the strategy for achieving a balanced budget outturn position for the financial year 2022/23.
- 2.3 To note the emerging Medium-Term Financial Forecast beginning with the financial year 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 2022/23 budget. It also provides a robust basis for medium term financial planning.
- 3.2 This is the second 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 scale of the in-year pay award, cost inflation and the ongoing impact of the Covid-19 pandemic.

## **4.0 Report Details**

### **Local and national context**

- 4.1 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 except for Sports Centre income which was anticipated would take one year longer to recover.
- 4.2 In the months since the Medium-Term Financial Plan (MTFP) was approved, the national fiscal and economic situation has changed dramatically and a number of in-year 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.
  - The Office for National Statistics (ONS) published the latest figures for inflation on 16 November 2022. They show that prices rose in the year to October by 11.1% - this is higher than the September figure of 10.1% and the highest in the UK for 41 years. This is due to increases in the price of oil, gas, raw materials and food which have been affected by the Ukraine conflict.
  - In November 2022, the Bank of England increased the bank rate by 0.75 percentage points to 3% which is the highest rate in 14 years and warned that the UK is facing its longest recession since records began. The increase in interest rates will have an impact on the cost of borrowing and the ability to support the future capital programme.
  - The cost-of-living crisis not only impacts on the Council's own expected future costs of supplies, but, also on local businesses' financial viability and the ability of our tenants and residents to pay their bills.
  - The level of inflation and the increases in 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. The Council has been protected in 2022/23 from the significant increases seen in utility prices as its current energy contracts endure until 31 March 2023. These contracts were secured at rates significantly below the current government cap levels.
  - 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. In July 2022, the National Employers offered an increase of £1,925 (equivalent to between 4 and 10%) on all Green Book pay points with effect from 1 April 2022. This has led to an estimated pay pressure of **£925k** above the 2% already provided for in the budget.

- The Covid-19 pandemic and Brexit have 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, skills shortages and difficulties in recruiting across all sectors. The Council has at times had to resort to utilising interim staffing resources pending the achievement of permanent recruitment to specialist roles.

- 4.3 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 present a real risk that the Council may not be able to deliver its statutory obligations and Council Plan priorities and objectives within the resources available without fundamental mitigations to reduce costs and raising fresh income. The Council will continue to work with other local authorities to raise with Government the significant challenges that this fiscal situation brings to local government.

### **General Fund Revenue Account 2022/23 – estimated outturn position**

- 4.4 The estimated outturn position for the financial year 2022/23 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.
- 4.5 Table 1 includes a summary of the key variances. It shows that at the end of September 2022 (period 6), the Council is forecasting a year-end overspend of **£1.053m**, after mitigations and management actions of £764k have been applied. A further, one off, **£350k** has been confirmed as a contribution from the Derbyshire Business Rates Pool and if applied in-year, this reduces the year-end overspend to **£703k**. Further details of the key variances are set out in the section below.

**Table 1: Summary of main variances based on the period 6 forecast**

<b>Budget Movement</b>	<b>Movement Period 2 £000</b>	<b>Movement Period 6 £000</b>	<b>Total Forecast £000</b>
Reduced Income			
Pavements Shopping Centre	96	0	96

Town Centre - Retail Units	16	0	16
Car Parks	457	(57)	400
Markets	0	150	150
Vicar Lane Rental	96	(96)	0
Sports Centre Cafe	0	45	45
Sport Centre - increased income	(100)	0	(100)
Venues	0	39	39
<b>Net Reduced Income</b>	<b>565</b>	<b>81</b>	<b>646</b>
<u>Increased Costs</u>			
Homelessness ( Bed and Breakfast)	0	107	107
By Election	10	0	10
Private Sector Housing – legal and professional	0	10	10
Travellers Eviction	17	0	17
Refuse Contract indexation	97	0	97
Other	5	0	5
<b>Increase Costs</b>	<b>129</b>	<b>107</b>	<b>246</b>
<b>Net Increase in Costs before the Pay Award</b>	<b>694</b>	<b>198</b>	<b>892</b>
Additional Pay Award (£1,925 per FTE)	0	925	925
<b>Forecast Deficit before Mitigations</b>	<b>694</b>	<b>1,123</b>	<b>1,817</b>
Forecast mitigations (including line by line review of expenditure budgets)	<b>0</b>	<b>(764)</b>	<b>(764)</b>
<b>Forecast Deficit</b>	<b>694</b>	<b>360</b>	<b>1,053</b>
Additional Business Rates Pool contribution 2021/22	0	0	(350)
<b>Forecast Deficit</b>	<b>694</b>	<b>339</b>	<b>703</b>

### Income and cost variances

- 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 delays in the letting of the Elder Way retail units and completion of the Northern Gateway Enterprise Centre. The reduction in income is forecast to be **£400k** on a budget of **£2.760m**.

- Sports Centres – The MTFP assumed that levels of expenditure and income would return to pre 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. 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.

Markets – Occupancy levels, and corresponding rental income from market stalls is forecast to be £150k lower than anticipated. Chesterfield's markets have not seen a recovery following the pandemic and it is not anticipated that the situation will improve as the cost-of-living crisis continues.

- Vicar Lane Rental – The final rental positions for 2021/22 have now been received and are more positive than previously anticipated, an improvement of £96k on the period 2 position.
- Sports Centre Café – Usage of the café at Queens Park Sports Centre (QPSC) has been lower than budget estimates and is not anticipated to improve. A full review of the provision and the relationship of the café to other income generating activities at QPSC is currently underway.
- Income from Venues – The MTFP assumed that income from venues would return to pre pandemic levels from 2022/23. Venues have to date seen small reductions in income from shows, lettings and bar and catering sales though advanced sales for the key pantomime season look to be strong.
- Homelessness (Bed and Breakfast) - Homelessness services are under significant pressure, and this will only increase with the cost-of-living crisis and more people facing eviction. Pressures on the General Fund have arisen from the increased use of bed and breakfast temporary accommodation and the need for additional staff, but this has been mitigated to some extent by maximising the use of external grant funding to pay for staff costs wherever possible. The latest forecast is for a **£107k** overspend on homelessness services through March 2023.
- By Election - An unexpected by-election arose in 2022/23 leading to additional costs of **£10k**.
- Private Sector Housing Legal and Professional – Additional costs have arisen largely due to increased demand for enforcement activity in relation to private sector landlords, which has necessitated the use of external solicitors at a higher cost.

- Travellers' evictions – Additional spend of **£18k** has been incurred as the eviction of travellers this year has been conducted 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**.

### **Forecast mitigations**

- 4.6 The Council is committed to delivering services within the approved budget and 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.
- 4.7 Measures have included a line-by-line review of budgets, removal of non-essential spending, vacancy control, maximising the use of grant funding and other efficiencies. These measures, most of which are one off, will not have an impact on service delivery and have reduced the original forecast overspend of £1.817m by £764k to £1.053m.

### **Additional business rates pool 2021/22**

- 4.8 Chesterfield Borough Council is a member of the Derbyshire Business Rates Pool which consists of all eight Derbyshire District and Borough Councils, Derbyshire County Council and Derbyshire Fire and Rescue Authority. Instead of each District and Borough Council paying 50% of their growth above the baseline over to Government, it is kept within the Pool and distributed amongst all the members on an agreed basis. The estimated return from the pool in 2020/21 (which is to be applied in 2022/23) was c£650k which is c£350k above the budgeted figure. This additional one-off income has therefore been used to reduce the General Fund Revenue Account deficit in year to **£703k**.

### **Balancing 2022/23**

- 4.9 Failure to balance the in-year budget would increase the pressure on our MTFP and significantly deplete reserves. There are significant 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.
- 4.10 Whilst there is an expectation that the Council will need to utilise a proportion of the Budget Risk Reserve to achieve a balanced outturn in year, this should **only be after close monitoring and identification of further**

**mitigations.** CLT and budget managers will continue to work with Cabinet Members towards delivering a balanced budget. 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.
- Maximising the use of grant funding and substituting Revenue Account funding with that received from other sources where appropriate.
- Robust and effective vacancy control measures.
- Review of reserves and provisions balances and annual contributions.

## **Reserves**

- 4.9 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, which are largely earmarked for specific purposes.
- 4.10 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**.

## **Medium Term Financial Forecast/Outlook**

- 4.11 The Institute of Fiscal Studies (IFS) has warned that public services face a shortfall of £18bn a year, which is the amount needed to keep pace with inflation and demand pressures across the public services, and that the local government share of that is estimated at £3.2bn.
- 4.12 Following the economic and fiscal turmoil of the last few months, the Chancellor announced the Autumn Statement on 17 November, setting out plans to reduce debt and to grow the economy. The Office of Budget Responsibility also published its updated forecast, confirming the estimated fiscal gap of £55bn.
- 4.13 Despite levels of inflation being significantly higher than forecast at the time of the October 2021 spending review, the government has previously communicated that there will be no further increases in the overall funding envelope over the spending review period to 2024/25. Whilst the Chancellor announced, in the Autumn Statement, that there will be no change in department spending plans for the remainder of the spending review i.e., 2023/24 and 2024/25, departments will have to "make efficiencies to deal with inflationary pressures in the next two years".

4.14 There was confirmation that a “policy statement” would be provided in the next couple of weeks setting out in more detail the overall funding for the sector, although we will not know what the announcements specifically mean for this council until the provisional 2023/24 local government finance settlement, which is now due to be announced on or before 21 December 2022. However, some details relating to local government funding were announced in the Autumn Statement and these are set out below:

- Spending increases were announced for adult social care which is set to increase by £2.8bn in 2023/24 and by £4.7bn in 2024/25, to be funded by a combination of the Adult Social Care precept, new money and the postponement of the care charging reforms.
- The Council Tax Band D “core” threshold has also increased, giving local authorities the opportunity to increase Band D by 2.99% in 2023/24 rather than 1.99% in the current year. It is assumed that the £5 threshold for district councils will also apply.
- For Business Rates there is a package of relief and support to help businesses and the 2023 Revaluation will go ahead as planned with a government funded transitional relief scheme. In addition there has been confirmation that the business rates multiplier will be frozen in 2023/24 and that the cost of the freeze to local authorities will be fully funded. No announcement has been made about the continuation of business rate pilots.

4.15 Despite continued uncertainty, local authorities are required to produce their budget plans and have a legally approved balanced budget for the financial year 2023/24 agreed by 11 March 2023. The delays in funding reform, and political instability however make it incredibly difficult to predict the funding available and it is likely there will be changes that have to be managed at short notice.

4.16 The MTFP was approved at Council on 23 February 2022 and evidenced a more challenging outlook from 2023/24 onwards. The budget was constructed in accordance with the Council’s budget principles and the 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.

4.17 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, which have already been set out in section 4.2. The impact of these will reach beyond the current financial year and the additional financial challenges will need to be considered as part of the Council’s ongoing medium term financial planning.

4.18 The medium-term financial position is being updated to reflect the emerging cost pressures and latest funding assumptions. These will inform the budget

gaps and our strategy for balancing 2023/24 and the medium term. Emerging pressures and changes to assumptions include:

- The ongoing impact of the recently announced 2022/23 pay award is estimated at **c£1.1m**
- Updated pay award assumptions for 2023/24. The current MTFP assumes a pay award of 2%. This is deemed insufficient given the current projections for inflation. A further 2% increase, to 4%, would result in additional costs of **c£350k** per year.
- Utility costs - the Council has previously benefited from low prices for utilities. However, these contracts are due to expire in March 2023 and the retendering of these contracts will cost significantly more than the current budget provision. As there is currently no additional government support planned for businesses and the public sector, the additional costs are likely to be in the region of **c£1m** per year. A report is being prepared, for presentation to Cabinet in December, setting out the procurement process and delegations required to secure best value for the Council.
- Non-pay inflationary pressures – further work will need to be undertaken to understand the financial impact of increased inflation levels on our contracts.
- Service pressures – detailed work is being progressed to understand the ongoing impact of the pressures already identified in the current year e.g., homelessness as well as emerging new pressures.

4.19 The above are subject to more detailed work and political decision making. The overall position will be subject to change both in terms of the level of resources from central government and the continuing impact of inflation.

4.20 Work is ongoing to develop options for balancing the 2023/24 budget and a strategy to balance over the medium term, based on the emerging pressures as set out above. However, given the size and scale of the financial challenges it is anticipated that the Budget Risk Reserve will need to be utilised to smooth the impacts, This will enable the Council to manage the budget gaps and enable a strategic review of priorities to be undertaken in the medium to long term.

4.21 The provisional is now expected on or before 21 December and will provide the funding allocations for 2023/24. These will be reported to Cabinet in January along with the draft MTFP, which will confirm funding levels, pressures and updated assumptions. It will also set out the budget strategy and consider draft proposals to ensure a balance budget is set. The final MTFP will be considered at full Council on 22 February 2023.

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

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

## **6 Implications for consideration – Legal**

- 6.1 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 2023/24.

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

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

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

- 8.1 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.
- 8.2 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.

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

- 9.1 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.

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

- 10.1 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.

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

- 11.1 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.

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

- 12.1 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.

### **Document information**

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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.	