

TEWKESBURY BOROUGH COUNCIL

Report to:	Executive Committee
Date of Meeting:	31 August 2022
Subject:	Financial Update – Quarter One Performance Report
Report of:	Head of Finance and Asset Management
Head of Service/Director:	Head of Finance and Asset Management
Lead Member:	Lead Member for Finance and Asset Management
Number of Appendices:	Three

Executive Summary:

The budget for 2022/23 was approved by Council in February 2022 with the reserves being approved at Executive Committee in July 2022. This report is the first quarterly monitoring report of the Council's financial performance for the year.

The report highlights a projected outturn surplus, based on the quarter one position, of £275,461 on the revenue budget and details the expenditure to date against both the capital programme and the approved reserves.

It should, however, be noted that the forecast currently includes the budgeted assumption of a 2% pay award for staff. The pay request made by the Unions and the recent offer made by the employers' side are both significantly in excess of this, reflecting the push of the anticipated national living wage and current inflationary impacts. Once agreed, it is expected that additional full year costs of a minimum £300,000 will be incurred. A pay award reserve of £500,000 has been set aside to meet the in-year impact.

Recommendation:

To consider the financial performance information for the first quarter of 2022/23.

Financial Implications:

As detailed within the report.

If the budget is in deficit at year-end, then the Council will have to use reserves to fund the overspend, meaning that these resources are not available to fund other activities or future financial management of the Council's projected medium term budgets. The Council currently has a £1m General Fund balance but significant earmarked reserves.

Legal Implications:

The authority is required to set a balanced budget having given regard to the advice of its Chief Finance Officer (Section 151 Officer). Section 25 of the 2003 Local Government Act requires the Section 151 Officer to comment on the robustness of the estimates and the adequacy of reserves.

Environmental and Sustainability Implications:

None arising from this report.

Resource Implications (including impact on equalities):

None associated with the report.

Safeguarding Implications:

None associated with the report.

Impact on the Customer:

None associated with the report.

1.0 INTRODUCTION

1.1 This report provides the quarter one (Q1) monitoring position statement for the financial year 2022/23. The purpose of this report is to notify Members of any known significant variations to budgets for the current financial year, highlight any key issues, and to inform members of any action to be taken if required.

1.2 The report is prepared based on expectations as at the end of quarter one. However, the current economic conditions are extremely volatile and, although provision is made in this report for expected inflationary impact and risks are outlined with regard to the pay settlement, it cannot be ruled that there will be a deterioration in the financial projection in coming quarters.

2.0 REVENUE BUDGET POSITION

2.1 The financial budget summary for Q1 shows a projected surplus of £275,461 for the full year against the approved budget. The following table highlights the forecast outturn position for service provision, the net position on corporate income and expenditure and the resulting surplus.

	Budget	Full Year Projection	Full Year Variance
<u>Services expenditure</u>			
Employees	£11,746,948	£11,353,272	£393,676
Premises	£613,798	£650,417	-£36,619
Transport	£61,560	£47,788	£13,772
Supplies & Services	£2,218,531	£2,232,910	-£14,379
Payments to Third Parties	£6,647,923	£8,331,513	-£1,683,590
Transfer Payments - Benefits	£9,000,000	£9,000,000	£0
Central Recharges	£29,929	£29,929	£0
COVID-19 Costs	£0	£5,676	-£5,676
Projects Funded Externally	£0	-£271,972	£271,972
Income	-£17,194,670	-£18,479,108	£1,284,438
Services Sub Total	£13,124,019	£12,900,425	£223,594
<u>Corporate expenditure</u>			
Treasury – Interest Received	-£439,000	-£624,000	£185,000
Treasury – Borrowing Costs	£467,000	£449,000	£18,000
Investment Properties	-£3,230,484	-£3,173,675	-£56,809
Corporate Savings Targets	-£100,000	£0	-£100,000
Core Government funding	-£1,511,086	-£1,511,086	£0
New Homes Bonus	-£1,633,094	-£1,633,094	£0
Business Rates	-£3,066,786	-£3,066,786	£0

Business Rates – deficit from 21/22	£1,179,606	£1,179,606	£0
Council Tax Surplus	-£98,009	-£98,009	£0
Council Tax precept	£2,433,310	£2,433,310	£0
Use of reserves & MRP	£119,430	£113,754	£5,676
Corporate Sub Total	-£5,879,113	-£5,930,980	£51,867
Surplus / (deficit)			£275,461

2.2 Service Expenditure

The quarter one full year projection highlights a full year cost of service provision totalling £12.9m, resulting in a surplus against the approved budget of £223,594.

The following paragraphs highlight the main reasons for this projected surplus. In addition, Appendix A provides detail at a service level with notes on variances over £10,000.

2.3 The full year projection for employees highlights a potential gross surplus of £591,914. It should however be noted that within the Council's corporate expenditure is a target to save £100,000 from employment costs across the Council. The net position is therefore a surplus against target of £491,914.

Savings are expected due to high levels of turnover and a number of vacant posts. This has affected many service areas including One Legal, Development, Democratic and Corporate Services.

Included within employment costs is an assumed 2% pay award for April 2022. In early June, the Unions submitted a pay claim which requested an increase of £2,000 or the current rate of RPI, whichever is the greater, for every scale point plus a number of other specific changes to terms and conditions. The employers side responded in late July with an offer of £1,925 on every scale point plus an additional day of annual leave.

The size of the claim and offer is being driven by the need to increase the lowest scale point by an estimated 10.5% to meet the expected National Living Wage. The need to increase the bottom scale point by this size means that there is a significant implication for all other scale points. In addition to this, the current inflationary pressures, coupled with the cumulative impact of zero or low pay awards, are driving significantly higher pay claims than were imagined twelve months ago.

The Council's budget assumed a 2% pay award based on the core inflation target for the Bank of England and what was affordable given the reduction in central funding contained within the settlement for 2022/23. No central funding was made available at the time of settlement for inflationary pressures and the government's current position remains that no further funding will be made available during the year to meet increased cost pressures.

The Council will therefore have to meet the cost of the pay award, once it is agreed, from its own resources. A reserve of £500,000 was established at year-end to meet this requirement. An estimate of the impact of the employers' offer is a £500,000 gross cost to the Council, including the Ubico contract, of which, circa £200,000 is available in base budget.

- 2.4** Premises costs highlights a projected overspend of £36,619. It is expected that programmed maintenance costs will exceed budget by £25,000. Any overspend in the year will be funded from the asset maintenance reserve. Due to One Legal now occupying the top floor office space within the public service centre, the business rates have risen as these can no longer be recharged.
- 2.5** There is a projected saving of £13,772 for transport costs, the main reason for this being the reduction of business travel across the Council.
- 2.6** The projected outturn for Supplies & Services highlights a potential overspend of £14,379. Annual computer licences are expected to be £28,000 over budget due to the renewal fees being greater than budget as they tend to be based on current levels of inflation. We are expecting higher costs within postage, printing and audit fees. This overspend is reduced by a potential saving in card terminal bank charges of £26,000.
- 2.7** Payments to third parties highlights a projected overspend of £1,683,590. However, it should be noted that £1.5m of this overspend is due to the M5 A46 government grant, highlighted within the income figures, being paid over to the County Council.

The Ubico contract is forecast to be overspent by £240,000 at year-end driven in large part by the rising cost of fuel. This alone accounts for an estimated overspend of £141,000. They have also estimated a rise in employment costs and supplies & services. This is mainly due to potentially requiring agency staff to cover absences and holiday cover but also includes the increased cost of vehicle hire.

At the start of this financial year, and after the budget was set, we were informed by Cheltenham Borough Council of additional running costs in relation to Swindon Road Depot. The costs, previously borne by Cheltenham, are in relation to the day-to-day running costs and maintenance requirements for the depot are estimated to be in the order of £150,000 per annum.

The MRF gate fee is expected to be £150,000 lower than budget which is due to a significant reduction in the gate fee per tonne being paid. The current buoyant market for recycled materials has resulted in the gate fee paid dropping from £67 per tonne at the start of the contract last year to a current price of £26 per tonne.

- 2.8** Income in many areas of Council activity are showing a positive position. In particular, Development Management is predicting a 20% increase in planning fees due to a rise in the number of planning applications. In addition, a number of other income streams are projected to deliver income in excess of budget including car parking and licensing.

A few areas however are projecting lower income than budget. Income from Tewkesbury Leisure Centre is expected to be £66,000 lower than budget. Due to a vacant commercial unit in the Council offices income is predicted to be £50,000 down on budget. In addition, One Legal income is below target, although this is offset against savings within employee costs.

The income position is significantly boosted by the receipt of the M5 A46 government grant of £1.5m, this is to be paid over to Gloucestershire County Council which is shown within payments to third parties.

2.9 Corporate Expenditure

The expenditure associated with corporate activities as well as the financing of the Council is shown in the second section and highlights an estimated surplus of £51,867 for the financial year.

- 2.10** Treasury activities are expected to deliver savings in borrowing costs, despite the increasing rates, as the Council has been able to divest itself of some of its previous borrowing need.

The increased market rates are however good news for our investment activities with significant additional income now forecast for the year. Both our day-to-day investments and our pooled funds are experiencing returns significantly in excess of the budget expectations given the step rises in the base rate.

- 2.11** Our commercial property portfolio is currently predicting a deficit on the year as a result of the expected temporary void at one office unit in Hertford. Whilst the unit has now been let, inducements of six months rent free will mean only limited income on this unit in the current year but will secure a tenant for the next ten years if the full course is run. Similarly, unit 5 at Tipton has also been let but inducements will restrict income in this financial year. Unit 5 is not in this year's budget so any income received is additional to expectations. The forecast variance on the income stream will be met by the commercial property reserve.
- 2.12** The overall projected position on retained business rates is currently inline with budget expectations at £3.06m.
- 2.13** The income line 'Use of Reserves & MRP' highlights the intended level of reserves being brought into the general fund during the year less the cost of the repayment of borrowing – the Minimum Revenue Provision. Outside of the budgeted transfer from reserves, expenditure being financed by reserves is usually allocated directly to reserves and shown separately in section 4 of the report. However, some expenditure is recorded in the general fund and so additional funding is brought in to match off that expenditure.
- 2.14** Bringing together both the surplus on net service expenditure and that on net corporate expenditure results in an overall budget surplus projection of £275k for the year. As highlighted earlier in the report, inflationary pressures are starting to impact the financial projection and could worsen as go further through the year. In particular, the cost of the pay award could be substantial and, although in year reserve provision exists, the ongoing impact, coupled with the potential for a similar award in 2023, will have a dramatic effect on our cost base without additional government funding being made available.
- 2.15** **CAPITAL BUDGET POSITION**
- 2.16** Appendix B shows the capital budget position as at Q1. This is currently showing an underspend of £525k against the profiled budget of £1,294,000.
- The capital programme estimates total expenditure for the year to be circa £5.17m. The main elements of this year's forecast include:
- Ashchurch Bridge.
 - Vehicle replacement.
 - Solar canopy.
 - Disabled Facilities Grants (DFG).
- 2.17** As noted in previous budget reports, there are currently unavoidable delays with the delivery of the Ashchurch bridge project which accounts for the majority of the reported underspend on land and buildings. The solar canopy was close to completion in Q1 with expenditure at that point being £382,000 with a further £200,000 expected. This will be partly funded from the external capital grant the Council received last year.
- 2.18** An overspend is being reported for vehicle replacement as the new sweeper, which was expected in Q4, was delayed until the new financial year. No further vehicles are expected to be acquired this year.

- 2.19** As can be seen in Appendix B, Disabled Facilities Grants is showing an overspend as more grants have been paid out. The overspend will be met by increased grant being released by the County Council.
- 2.20 RESERVES POSITION**
- 2.21** Appendix C provides a summary of the current usage of available reserves and supporting notes are provided for reserves where expenditure is high. As at 1 April 2022, these reserves stood at £18.13m which is an increase of £1.93m on the previous year. The increase reflects the 21/22 budget surplus which includes significant external funding for a range of projects.
- 2.22** Reserves have been set aside from previous years to fund known future costs and the strategic planning of the authority's operation. The information in the appendix does not take account of reserves which have been committed, but not yet paid.
- 2.23** As would be expected at the end of Q1, reserves expenditure is relatively modest but it is expected that further significant expenditure will be incurred against these reserves through the remainder of the year.
- 3.0 CONSULTATION**
- 3.1** Budget holders have been consulted about the budget outturn for their service areas. The feedback has been incorporated in the report to explain differences between budgets and actual income and expenditure.
- 4.0 ASSOCIATED RISKS**
- 4.1** None.
- 5.0 MONITORING**
- 5.1** Budget monitoring occurs on a monthly basis and is formally reported quarterly.
- 6.0 RELEVANT COUNCIL PLAN PRIORITIES/COUNCIL POLICIES/STRATEGIES**
- 6.1** Budget monitoring is on the approved annual revenue and capital budget for 2022/23 which has been prepared in line with the Medium-Term Financial Strategy.

Background Papers: None.

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Appendices: A – Revenue position by service.
B – Capital position.
C – Earmarked reserves update.