

TEWKESBURY BOROUGH COUNCIL

Report to:	Executive Committee
Date of Meeting:	16 November 2022
Subject:	Financial Update – Quarter Two 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:	Four

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 second quarterly monitoring report of the Council's financial performance for the year.

The report highlights a projected outturn surplus, based on the quarter two position, of £138,305 on the revenue budget and details the expenditure to date against both the capital programme and the approved reserves.

The projected outturn includes the current impacts being felt from inflation, most notably the employee pay award. Though not formally agreed, the associated cost has been included within the full year projection. Also included is the recent decision to locally amend the pay line for the second half of the year.

Recommendation:

To consider the financial performance information for the second quarter 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 two (Q2) 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 two. However, the current economic conditions are extremely volatile and, although provision is made in this report for expected inflationary impact, it cannot be ruled out 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 Q2 shows a projected surplus of £138,305 for the full year against the approved budget. This projection is a worsening of the projection made at the end of Q1 which suggested an outturn surplus of £275,461. However, given the impact of rising levels of inflation and the inclusion of both the 2022 pay award and the first phase of the local review of the pay line within these figures, the projection, at this stage, of an outturn surplus is encouraging.

The following table highlights the forecast outturn position for service provision, the net position on corporate income and expenditure and the resulting surplus. It should be noted that Appendix A does not include the retention and recruitment pay grade increase of £106k, but it has been included in the table below.

	Budget	Full Year Projection	Full Year Variance
<u>Services expenditure</u>			
Employees	£11,746,948	£11,426,729	£320,219
Premises	£613,798	£636,633	-£22,835
Transport	£61,560	£49,444	£12,116
Supplies & Services	£2,218,531	£2,269,217	-£50,686
Payments to Third Parties	£6,647,923	£7,089,445	-£441,522
Transfer Payments - Benefits	£9,000,000	£9,131,880	-£131,880
Central Recharges	£29,929	£29,929	£0
COMF Funding	£0	£2,715	-£2,715
COVID-19 Costs	£0	£6,686	-£6,686
COVID-19 Recovery	£0	£83	-£83
Income	-£17,194,670	-£17,265,068	£70,398
Services Sub Total	£13,124,019	£13,377,693	-£253,674

Corporate expenditure

Treasury – Interest Received	-£439,000	-£849,635	£410,635
Treasury – Borrowing Costs	£467,000	£449,812	£17,188
Investment Properties	-£3,230,484	-£3,137,570	-£92,914
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	-£1,887,180	-£2,037,483	£150,303
Council Tax Surplus	-£98,009	-£98,009	£0
Parish precept	£2,433,310	£2,433,310	£0
Use of reserves & MRP	£119,430	£112,662	£6,768
Corporate Sub Total	-£5,879,113	-£6,271,092	£391,979

Surplus / (deficit) **£138,305**

2.2 Service Expenditure

The quarter two full year projection highlights a full year cost of service provision totalling £13.38m, resulting in a deficit against the approved budget of £253,674.

The following paragraphs highlight the main reasons for this projected deficit. 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 £320,219. 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 £220,219.

In deriving this figure, it should be noted that it includes the costs of both the national pay award and the first phase of the local pay line review. The position on both of these are described in the following paragraphs. It should also be noted that significant savings are being made in employee expenditure across the Council as a result of retention and recruitment difficulties. Whilst this results in a financial benefit to the Council, there could be a service disbenefit associated with the issues.

At time of writing, two of the three unions representing the workforce had agreed to the pay award offer made by employers in late July. The employers offer allowed an increase of £1,925 on every scale point which would equate to an increase of 10.5% on the lowest pay point up to just over 2% at the highest pay point outside of Chief Officers and the Chief Executive. Whilst the pay award is yet to be formally agreed, given the support from the unions, the award has been included within our full year projections.

It is estimated that the pay award will cost the Council, including the impact on Ubico, around £500,000 to implement. The 2022/23 budget had assumed a pay offer of 2% and therefore had circa £200,000 within it to meet the cost of a pay award. Given the direction of travel, Executive Committee agreed in July to set aside £500,000 to meet the cost of the inflated pay award. As can be seen when looking at the whole of the budget projection, it is unlikely that the reserve will need to be used to meet this cost given the savings and additional income in other parts of the budget.

In addition to the national pay award, the Council is currently facing challenges with retention and recruitment, which has resulted in high agency costs and numerous vacancies. Therefore at the end of September it approved the first phase of the retention and recruitment programme, which was a benchmarking exercise to ensure professional roles are competitive within the marketplace. These particular pay grades will be increased from 1 October, with an estimated total gross cost of £106k for the second half of the year and this has now been included within the overall employment costs although not yet allocated to specific services. As with the national pay award, a reserve was set

aside to meet the expected additional cost but, on current projections for the whole budget, this is not forecast to be required.

2.4 Premises costs highlights a projected overspend of £22,835. It is expected that maintenance costs will exceed budget by £14,000 as a result of cost inflation. In addition, business rates have risen as a result of the increased occupation of the public service centre with One Legal now occupying a unit on the top floor.

2.5 There is a projected saving of £12,116 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 £50,686. Of this, £100k has been projected in relation to the household support grants which is fully funded by a government grant. Annual computer licences are expected to be £17k over budget due to the renewal fees being greater than budget, as they tend to be based on current levels of inflation. It is expected that bank charges will deliver a saving of £26k and IT equipment will be £43k under budget.

2.7 Payments to third parties highlights a projected overspend of £441,522.

The Ubico contract is forecast to be overspent by £400k at year-end driven in large part by the rising cost of fuel. Despite a falling price during quarter two, the increased cost of diesel alone accounts for an estimated overspend of £133k. Other areas of additional spend within the contract include agency staff to cover absences and holiday cover and the increased cost of vehicle hire which will be funded from reserves. As highlighted in paragraph 2.3, this report has included the expected cost of the national pay award with the cost falling on the Ubico contract estimated to be £174k.

At the start of this financial year, and after the budget was set, the Council was 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 £150k per annum.

The MRF gate fee is expected to be £209k 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. Several 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 £66k lower than budget. Due to a vacant commercial unit in the Council Offices income is predicted to be £50k down on budget. In addition, One Legal income is below target, although this is offset against savings within employee costs.

The income position is boosted by the receipt of external funding including the household support grant of £108k and Joint Strategic Partnership contribution of £120k.

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 £391,979 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 in 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 can be met by the commercial property reserve.

2.12 The overall projected position on retained business rates is currently exceeding budget expectations, generating additional income of £150k. This is due to awarding more reliefs than anticipated, resulting in more s31 grants income which is greater than budget.

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 deficit on net service expenditure and surplus on net corporate expenditure results in an overall budget surplus projection of £138k for the year. Within this forecast, the budget has absorbed the significant impact of employee inflation and the inflation being felt in services buying goods and external services. Whilst the position could deteriorate over the winter, as it currently stands the reserve support expected to be needed to meet the impact of inflation will not be required and could end up being released to support other priorities at year end.

3.0 CAPITAL BUDGET POSITION

3.1 Appendix B shows the capital budget position as at Q2. This is currently showing an underspend of £1.27m against the profiled budget of £2.63m.

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.
- Heat replacement system at the Council offices.
- Disabled Facilities Grants (DFG).

3.2 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 project was completed in Q2 with a final cost of £599k. This project was approved and delivered following the disappointment of not being able to proceed with the replacement heating system at the council offices due to tendered costs. The grant funding awarded for the heat replacement system has been used to partly fund the solar canopy. A new grant application has been made in October for funding towards the heat replacement project.

3.3 An overspend is being reported for vehicle replacement as the new sweeper, which was expected in Q4 of 2021/22, was delayed until the new financial year. No further vehicles are expected to be acquired this year.

3.4 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.

4.0 RESERVES POSITION

4.1 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.

4.2 Reserves have been set aside from previous years to fund known future costs, Council priorities and the strategic planning of the authority's operation. The information in the appendix reflects only expenditure incurred to date and does not take account of reserves which have been committed but not yet paid or are awaiting capital financing at year end. Such expenditure will include:

- the funding of the Garden Town operation during 2022/23 currently estimated at £554k.
- the partial funding of land acquisition to support the Garden Town which will utilise the full balance in the Investment Reserve of £450,000.
- the partial funding of the solar canopy from our own resources, totalling £315k.
- temporary staff support for Development Services.
- funding the forecast income deficit on the commercial property reserve.
- additional Council tax hardship support across the winter.

4.3 As highlighted earlier in the report, based on current forecasts, it is unlikely that the £750,000 set aside in reserves to meet the impact of inflation in the current year will be required.

5.0 SEMI ANNUAL TREASURY REPORT

5.1 At the half year point of the financial year, treasury investment activities have resulted in an average return of 2.29% on its investments which, at the end of September, totalled £34.2m. This performance and level of return has generated interest of £356k in the first half of the year against the budget estimate of £220k, resulting in a surplus of £136k. This is considered to be an excellent return given the relatively low interest rates and represents a return of 0.34% in excess of the benchmark rate. Further gains are expected in the second half of the year and an overall surplus of £410k is currently projected on investment activity.

- 5.2** The Council's investment performance has been boosted by its investment in a number of pooled funds. The funds, which hold investments in equity, multi-asset and property classes, total £9.49m of the Council's investments and continue to return income of 4.27%.
- 5.3** Borrowing costs in the first half of the year stand at £226k, which is £8k below budget. This is as a result of forward borrowing at a time when interest rates were low, coupled with a reduction in overall borrowing.
- 5.4** Overall, the Council's treasury management activities in the first half of the year have been efficiently managed given the difficult circumstances and have resulted in a surplus of £145k against budget, with a full year forecast of a £428k surplus. Full details of the Mid-Year Treasury Management position are contained in Appendix D.

6.0 CONSULTATION

- 6.1** 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.

7.0 ASSOCIATED RISKS

- 7.1** None.

8.0 MONITORING

- 8.1** Budget monitoring occurs on a monthly basis and is formally reported quarterly.

9.0 RELEVANT COUNCIL PLAN PRIORITIES/COUNCIL POLICIES/STRATEGIES

- 9.1** 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: Appendix A – Revenue Position by Service.
Appendix B – Capital Position.
Appendix C – Earmarked Reserves Update.
Appendix D – Treasury Management Mid-Year Report.