TEWKESBURY BOROUGH COUNCIL

Report to:	Executive Committee
Date of Meeting:	1 March 2023
Subject:	Financial Update – Quarter Three 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 third quarterly monitoring report of the Council's financial performance for the year.

The report highlights a projected outturn surplus, based on the quarter three position, of £1.18m on the revenue budget and details the expenditure to date against both the capital programme and the approved reserves.

The pay award has now been finalised and paid during quarter 3, this was fully funded from reserves.

Recommendation:

To consider the financial performance information for the third 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 balance 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 three (Q3) 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 three. However, the current economic conditions are extremely volatile but have not impacted our financial position this financial year but it cannot be ruled out that it may impact future years.

2.0 REVENUE BUDGET POSITION

2.1 The financial budget summary for Q3 shows a projected surplus of £1,182,959 for the full year against the approved budget and is an increase of £1.05m against the projection made at Q2 of £138,305.

This significant increase in surplus projection is due to the following:

- the costs of both the Pay Line Review Phase 1 and the excess cost of the national pay award have now been taken to the reserves which were set aside to fund these costs. The total cost of these is £353k;
- increased Business Rates retention of £249k;
- increase in planning fees - quarter 2 income was greater than expected by £90k and we forward project a further £200k due to one large application;
- the receipt of the UK Shared Prosperity Fund grant of £128k which is not expected to be spent by year-end;
- investment interest received is £100k more than expected;
- the MRF gate fee has reduced by a further £35k;
- Ubico's forecast deficit has reduced since Q2 by £100k, mainly within diesel and employment costs.

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**
Services expenditure			
Employees	£11,747,740	£11,106,910	£640,830
Premises	£613,798	£612,696	£1,102
Transport	£61,560	£41,656	£19,904
Supplies & Services	£2,218,461	£2,085,043	£133,418
Payments to Third Parties	£6,526,985	£6,714,979	-£187,994
Transfer Payments - Benefits	£9,000,000	£9,131,880	-£131,880
Central Recharges	£29,929	£29,929	£0
COMF Funding	£0	£1,753	-£1,753

COVID-19 Costs	£0	-£10,714	£10,714
COVID-19 Recovery	£0	£83	-£83
Projects Funded Externally	£60,000	£46,865	£13,135
Income	-£17,134,454	-£17,297,277	£162,823
Services Sub Total	**£13,124,019**	**£12,463,803**	**£660,216**
Corporate expenditure			
Treasury – Interest Received	-£439,000	-£952,000	£513,000
Treasury – Borrowing Costs	£467,000	£449,812	£17,188
Investment Properties	-£3,230,484	-£3,060,651	-£169,833
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	-£2,286,421	£399,241
Council Tax Surplus	-£98,009	-£98,009	£0
Parish precept	£2,433,310	£2,433,310	£0
Use of reserves & MRP	£119,430	£130,062	-£10,632
Corporate Sub Total	**-£5,879,113**	**-£6,528,077**	**£648,964**
Transfer to reserves (externally ringfenced funding)			**-£126,220**
Surplus / (deficit)			**£1,182,959**

2.2 Service Expenditure

The quarter three full year projection highlights a full year cost of service provision totalling £12.46m, resulting in a surplus against the approved budget of £660,216.

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 £640,830. 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 £540,830.

There are employee savings being accrued across most service areas, but the majority of the overall surplus is being accrued by One Legal. It should be remembered that these savings will be shared by all of the partners in One Legal.

The national pay award was agreed in November and resulted in an uplift of £1,925 on every scale point. The Council has budgeted for a 2% increase in salaries and as a result the excess cost, calculated at £215,111, has now been charged to the pay award revenue reserve.

Similarly, the first phase of the local pay line review has now been calculated at a cost of £138,503 and this has been charged against the MTFS reserve as set out in the Council paper.

2.4 There is a projected saving of £19,904 for Transport costs. The main reason for this saving is the reduction of business travel across the council and only using four pool cars, when five were budgeted.

2.5 The projected outturn for Supplies & Services highlights a potential underspend of £133,418. Computer annual renewals is expected to be £34k below budget across many service areas, this is due to a large majority of licences remaining within current contracts or being renegotiated at current levels. It is anticipated that bank charges will deliver a saving of £29k. IT equipment will be £52k under budget, as some equipment has been purchased at a lower cost than expected and some would not be purchased until next financial year.

2.6 Payments to third parties highlights a projected overspend of £187,994.

The Ubico contract is forecast to be overspent by £300k at year end which is a reduction of £100k on the Q2 estimate. The overspend is mainly driven by the annual pay award, which equals £152k. Due to the increased cost of fuel Ubico estimate an overspend of £99.5k on diesel. Other areas of additional spend within the contract include vehicle hire, which has been partially funded from reserves, for the additional food round.

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 £244k 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 £38 per tonne.

2.7 Income in many areas of Council activity is showing a positive position. Several income streams are projected to deliver income more than budget including planning fees and licensing.

A few areas however are projecting lower income than budget. Income from Tewkesbury Leisure Centre will be £65k lower than budget as a reduced management fee has been agreed. Due to a vacant commercial unit in the council offices, rental income is predicted to be £60k down on budget. In addition, One Legal income is below target, although this is offset against savings within employee costs and is again shared with One Legal partners.

The income position is boosted by the receipt of external ringfenced funding for the UK Shared Prosperity Fund of £128k. This is to be carried over at year-end into reserves, as expenditure is not anticipated until next financial year.

2.8 <u>Corporate Expenditure</u>

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 £648,964 for the financial year.

2.9 Treasury activities are expected to deliver some small 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 steep rises in the base rate and a surplus of £513,000 is projected.

2.10 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.

2.11 The overall projected position on retained business rates is currently exceeding budget expectations, generating additional income of £399k. This is due to awarding more reliefs than anticipated, resulting in more s31 grants income which is greater than budget.

2.12 The Q3 report has now separately identified the external grant funding that is unlikely to be spent by year end and must be ringfenced to a particular project or service. This is estimated at £126k and whilst it will increase our year end reserves, we do not have discretion as to where it can be spent. It is therefore excluded from our reported position.

2.13 Bringing together both the surplus on net service expenditure and surplus on net corporate expenditure results in an overall budget surplus projection of £1,183k for the year.

3.0 CAPITAL BUDGET POSITION

3.1 Appendix B shows the capital budget position as at Q3. This is currently showing an underspend of £2.4m against the profiled budget of £4.1m.

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.
- Solar canopy.
- 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.

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 2021/22 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 £419k.
- the partial funding of land acquisition to support the Garden Town which will utilise the full balance in the Investment Reserve of £450,000.
- temporary staff support for Development Services.
- funding the forecast income deficit on the commercial property reserve.

4.3 Significant actual expenditure has now been made against reserves and totals £1.49m. This now includes the cost of the Local Pay Line Review Phase 1 and the excess cost of the national pay award as referred to in paragraph 2.3. Full details of all reserves expenditure are provided in Appendix C.

5.0 KEY PERFORMANCE INDICATORS (KPI's)

5.1 As part of the financial management code, approved by the Audit and Governance Committee, this report now includes a number of KPI's. The reason for their inclusion is to ensure frequent and meaningful data is reported regularly and therefore allows for further scrutiny of our financial performance. This is part of a range of actions to comply with the CIPFA Financial Management code which is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.

5.2 An area that we closely monitor is the Council's aged sundry debt. Service areas receive monthly reports to make them aware of aged debt and focus their attention on collecting those debts where possible. Each service area is responsible for creating their own bad debt policy and updating Finance quarterly with a progress update. Finance review and analyse aged debt annually for the year-end financial statements which allows finance to determine specific and general bad debt provisions.

5.3 The table in Appendix D shows the level of bad debt for each service area and the percentage that is greater than one year.

5.4 Appendix D also includes some statistics on our treasury management position. Total Investments at Q3 is £42.6m. The return on this is averaging at 2.88% and we are forecasting a total return of £952k by year-end. Total borrowing at Q3 is £30.6m. The estimated cost of borrowing at year-end is £450k.

5.5 The final KPI shows the number of vacancies in each service area. This is also being reported to management team on a monthly basis. Although vacant posts result in a saving against budget, they can in some circumstances have a negative impact on service delivery. The total number of vacant full time equivalents (fte) at Q3 is 35.9 out of a total workforce of 216.5fte. There are various reasons for these vacancies and management team will be working with HR and Operational Managers to either help with recruitment or ensure there is minimal impact on services.

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.

Contact Officer: Head of Finance & Asset Management Tel: 01684 272005
Email: simon.dix@tewkesbury.gov.uk

Appendices:
A – Revenue position by service.
B – Capital position.
C – Earmarked reserves update.
D – KPI's.