

TEWKESBURY BOROUGH COUNCIL

Report to:	Executive Committee
Date of Meeting:	29 November 2023
Subject:	Financial Update – Quarter Two 2023/24
Report of:	Associate Director: Finance
Head of Service/Director:	Executive Director: Resources
Lead Member:	Lead Member for Finance and Asset Management
Number of Appendices:	Six

Executive Summary:

The budget for 2023/24 was approved by Council in February 2023 with the reserves being approved at Executive Committee in July 2023. 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 £257,681 on the revenue budget and details the expenditure to date against both the capital programme and the approved reserves.

Recommendation:

To CONSIDER the financial performance information for the second quarter of 2023/24

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 Council must set a budget in accordance with the provisions of the Local Government and Finance Act 1992 and approval of a balanced budget is a statutory responsibility of the council.

The advice of the Chief Finance Officer (Section 151 Officer) must be taken into account, particularly in relation to the robustness of the estimates and the adequacy of reserves.

Members are also required to monitor the Council's finances so that they are satisfied that mechanisms are in place to deliver savings and new expenditure is contained within the available 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 2023/24. 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 and financial climate are extremely volatile and have already had an impact on our financial forecasts which could affect future forecasting.

2.0 REVENUE BUDGET POSITION

2.1 The financial budget summary for Q2 shows a projected surplus of £257,681 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	£12,827,598	£12,298,592	£529,006
Premises	£697,810	£737,349	-£39,539
Transport	£71,479	£49,409	£22,070
Supplies & Services	£2,462,578	£2,464,647	-£2,069
Payments to Third Parties	£7,705,273	£7,753,918	-£48,645
Transfer Payments – Benefits Service	£59,229	£142,442	-£83,213
Projects Funded Externally	£220,000	£265,089	-£45,089
Income	-£8,780,923	-£8,391,732	-£389,191
Services Sub Total	£15,263,044	£15,319,714	-£56,670
<u>Corporate expenditure</u>			
Treasury – Interest Received	-£1,000,000	-£1,235,127	£235,127
Treasury – Borrowing Costs	£633,641	£427,823	£205,818
Investment Properties	-£3,330,500	-£3,429,525	£99,025
Corporate Salary Savings	-£208,516	£0	-£208,516
Core Government funding	-£2,022,525	-£2,022,525	£0
New Homes Bonus	-£1,240,366	-£1,240,366	£0
Business Rates	-£4,498,258	-£4,665,526	£167,268
Council Tax Surplus	-£160,899	-£160,899	£0

Parish precept	£2,600,442	£2,600,442	£0
Use of reserves & MRP	£1,690,229	£1,690,229	£0
Corporate Sub Total	-£7,536,752	-£8,035,474	£498,722
Transfer to reserves (externally ringfenced funding)			-£184,372
Surplus / (deficit)			£257,681

Service Expenditure

- 2.2** The quarter two full year projection highlights a full year cost of service provision totalling £15.3m, resulting in a deficit against the approved budget of £56,670. 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 £529,006. It should, however, be noted that within the Council's corporate expenditure is a target to save £209k from employment costs across the Council. The net position is therefore a surplus against target of £315k. The majority of the overall surplus is being accrued by One Legal. This is matched off by a reduction in third party income.
- 2.4** The national pay award has now been agreed - each employee will receive an increase of £1,925 or 3.88% above scale point 43, Executive Directors were awarded 3.5%; however, at the time of calculating this quarter's forecast it had not been agreed. Therefore, a 4% pay increase has been included in the forecast. Ubico has included the £1,925 pay award in its latest forecast. Any adverse variance arising will be funded from an approved reserve.
- 2.5** There is a projected overspend of £39,539 for premises costs. The main reason for this is due to various unplanned maintenance work carried out across numerous sites. It's anticipated that maintenance costs to the homeless properties will be over budget, some of these costs will be recovered through the rental charges.
- 2.6** A saving of £22k is expected within Transport costs which is due to reduced travel across the Council and only four pool cars being used when five were budgeted.
- 2.7** Payments to third parties highlights a projected deficit of £48,645.
- The Ubico contract is forecast to be overspent by £73k, this is mainly due to the pay award now being reflected in their forecast.
- Emergency homeless accommodation is anticipated to be £52k over budget due to the increased demand in temporary housing, 85% of these costs will be recovered from housing benefit which is included within income.
- The MRF gate fee is expected to be £233k over budget which is due to a significant increase in the gate fee per tonne being paid, increasing from £38 per tonne to £69 per tonne, this is affected by the declining value of materials and increase in energy prices. We also incurred a one-off fee for increased energy prices.
- The third-party payment saving from the cessation of the trade waste service is estimated to be approximately £82k for 2023/24. This is supplemented by further direct employee savings at the Council but is offset by reductions in expected income. The cessation of the trade waste service is predicted to save over £100k annually in net terms from 2024/25, assuming savings from Ubico's corporate support and support

services recharge. There will be no saving this year due to Ubico's budget for indirect costs already being set.

Swindon Road Depot running costs are estimated to be £108k less than budget based upon quarter 2 actual expenditure. These costs were previously borne by Cheltenham and are in relation to the day-to-day running costs and maintenance requirements for the depot.

- 2.8** Income is expected to be below budget by £389k. This is mainly due to the cessation of the trade waste service where income is estimated to be £138k below target. Income from Tewkesbury Leisure Centre will be £78k lower than budget as a reduced management fee has been agreed. Due to vacant space in the Council offices, rental income is predicted to be £39k down on budget. In addition, One Legal income is significantly below target, although this is offset against savings within employees. One Legal Management Board is considering income targets for One Legal at its next meeting.

Corporate Expenditure

- 2.9** 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 £498,722 for the financial year.
- 2.10** Treasury activities are currently performing above budget expectations. Due to the rise in interest rates the Council will see a gain in investment activities, this will be monitored and reported as the year moves forward. This rise will not impact our borrowing costs as the interest rate was fixed and no additional borrowing is expected.
- 2.11** The favourable variance within investment properties is due to a reduction in costs associated with managing our portfolio.
- 2.12** The overall projected position on retained business rates is currently showing a positive position. The position in terms of budget is in line with expectations. The valuation list was reset in 2023/24 financial year, making it more difficult to predict the level income and reliefs for businesses. The gain relates to the tariff, paid to central government, being reduced from what was originally calculated.
- 2.13** The Q2 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 £184k 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.
- 2.14** Bringing together both the deficit on net service expenditure and surplus on net corporate expenditure results in an overall budget surplus projection of £258k for the year. The budget will continue to be monitored, with the Q3 forecast being reported in February.

3.0 CAPITAL BUDGET POSITION

- 3.1** Appendix B shows the capital budget position as at Q2. This is currently showing an underspend of £296k against the profiled budget of £1.3m.

The capital programme estimates total expenditure for the year to be circa £1.65m. The main elements of this year's forecast include:

- Vehicle replacement programme
- High street heritage action zone
- Disabled Facilities Grants (DFG)

- 3.2** The Council has purchased various equipment for the office refurbishment and tablets and mobiles for new Members which is in line with the capital programme.
- 3.3** The capital budget for vehicles is currently underspent due to no vehicles being purchased this half of the year. It is planned that new vehicles will be acquired by the end of this financial year.

4.0 RESERVES POSITION

- 4.1** Appendix D 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 2023, these reserves stood at £17.54m which is a decrease of £587k on the previous year. The decrease reflects the fact that expenditure of reserves in 2022/23 exceeded the transfer to reserves at outturn.
- 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:
- Place Programme Reserve – to support the development of the place planning approach.
 - Temporary staff support for Revenues & Benefits.
 - Policy and Performance Support – to provide temporary capacity to develop the Council's approach to performance management and ensure the Council is responding to and planning for changes in government policy.
 - Upgrade of the income management system.
- 4.3** Actual expenditure of £1,090,286 has been made against reserves at Q2. This mostly consists of expenditure relating to the digitalisation team, temporary posts in Revenue and Benefits, community support grants, Borough election costs and the second quarter costs of the Garden Town Team. The full breakdown is provided in Appendix D.

5.0 KEY PERFORMANCE INDICATORS (KPIs)

- 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 E shows the level of bad debt for each service area and the percentage that is greater than one year.

5.4 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 Q2 is 38.9 out of a total workforce of 222.2fte. There are various reasons for these vacancies and management team will be working with HR and Heads of Service to help with recruitment to ensure there is minimal impact on services.

6.0 PRUDENTIAL INDICATORS

6.1 In December 2021, CIPFA published its revised Prudential Code and Treasury Management Code of Practice following concerns around the commercial activity undertaken by several local authorities and the affordability of borrowing plans.

6.2 The Code required the Prudential Indicators (which are approved as part of the Council's Treasury Management Strategy) to be reported quarterly (from semi-annually) as part of the financial updates. The Code permitted this reporting to be implemented by the 2023/24 financial year so Appendices C and F will be a recurring addition to the quarterly financial reports.

6.3 The indicators in the Appendices are used to monitor our performance against the prudential indicators approved by Council prior to the start of the financial year.

7.0 CONSULTATION

7.1 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.

8.0 ASSOCIATED RISKS

8.1 None

9.0 MONITORING

9.1 Budget monitoring occurs on a monthly basis and is formally reported quarterly.

10.0 RELEVANT COUNCIL PLAN PRIORITIES/COUNCIL POLICIES/STRATEGIES

10.1 Budget monitoring is on the approved annual revenue and capital budget for 2023/24 which has been prepared in line with the Medium-Term Financial Strategy

Background Papers: Treasury and Capital Management – Executive 4 January 2023
Budget 2023/24 – Executive 1 February 2023

Contact Officer: Associate Director: Finance

Appendices: Appendix A – Revenue position by service
Appendix B – Capital position
Appendix C – Capital Prudential Indicators
Appendix D – Earmarked reserves update
Appendix E – KPIs
Appendix F – Treasury Management Indicators