

## Part I



**Meeting:** EXECUTIVE

**Portfolio Area:** Resources



**Date:** 16 November 2022

## **2<sup>ND</sup> QUARTER REVENUE MONITORING REPORT – GENERAL FUND AND HRA**

### **KEY DECISION**

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### **1. PURPOSE**

- 1.1 To update Members on the projected General Fund and Housing Revenue Account (HRA) 2022/23 net expenditure and seek approval to amend the General Fund and HRA budgets as part of the quarterly revenue review.
- 1.2 To update Members on the reserves and balances available to support revenue expenditure and seek approval for revisions to the allocated reserves.

### **2. RECOMMENDATIONS**

#### **General Fund**

- 2.1 That the 2022/23 2<sup>nd</sup> quarter projected net decrease in General Fund expenditure of £199,920 be approved.
- 2.2 That Members note the cumulative changes made to the General Fund net budget remains within the £400,000 increase variation limit delegated to the Executive.

#### **Housing Revenue Account**

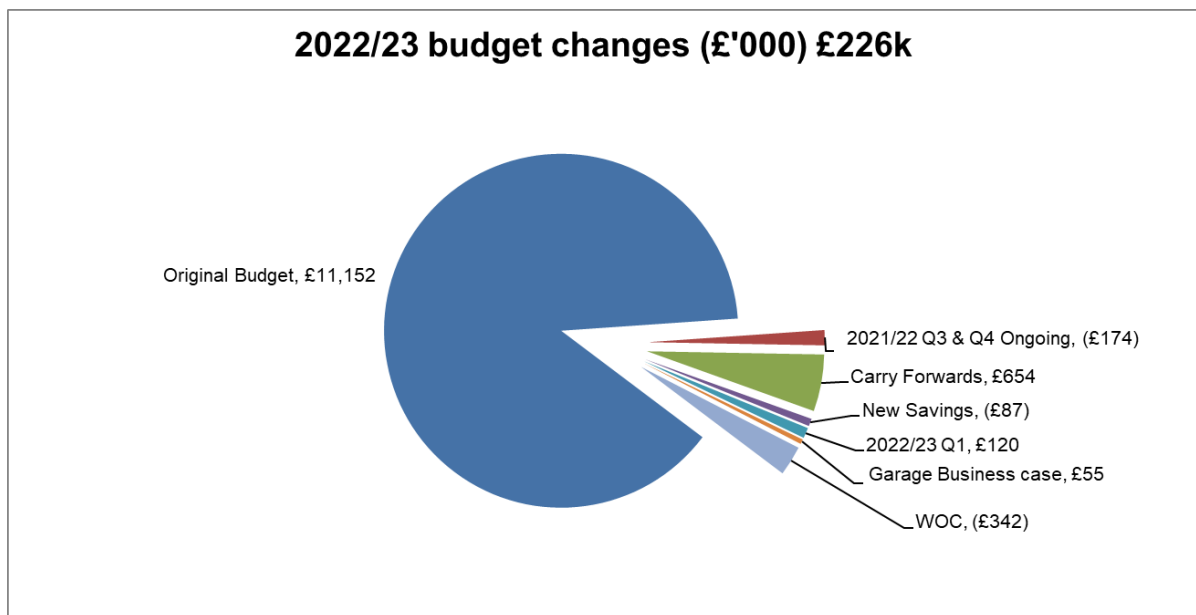
- 2.3 That the 2022/23 2<sup>nd</sup> quarter projected net decrease in HRA expenditure of £263,300 be approved.

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2.4 That Members note the cumulative increases made to the HRA net budget remain within the £250,000 increase variation limit, delegated to the Executive.

### **3. BACKGROUND - GENERAL FUND**

3.1. Since the General Fund net budget of £11,151,570 was approved at Council, Members have approved net budget changes of £225,850 as detailed in the chart below, this now includes the Wholly Owned Company (WOC) Marshgate impact on the General Fund for 2022/23 relating to net interest income for loans to the company predominately for one development which will be repaid in the next two years:

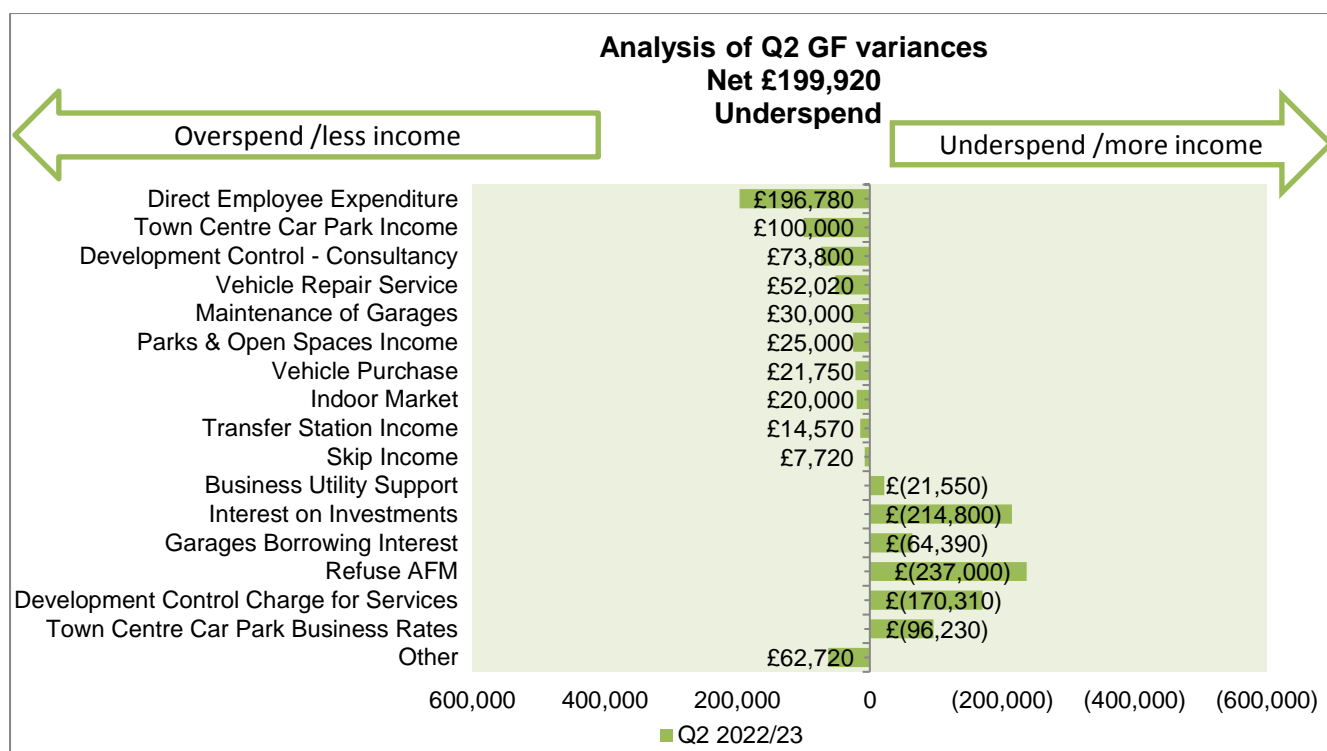


### **4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS**

#### **4.1 General Fund – Budget Review**

4.1.1 Following the 2<sup>nd</sup> quarter review of revenue budgets officers have identified the following budget movements.

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(-) lower expenditure / more income

### 4.1.2 Direct Employee Expenditure – pressure £196,780

- Refuse and Recycling Salaries -pressure **£154,260** – increased reliance on agency staff due to long and short term sickness (388 total days since April, out of this number - 68 days are COVID related). Additional bank holidays (Queens Jubilee and Funeral) and associated agency staff to support weekend work.
- Landscape maintenance - pressure **£40,630** – Additional costs for redundancy payment resulting from business unit review.
- Accountancy - pressure **£33,000** – this represents the costs of short term agency staff brought in to assist with the closure of accounts and to support capital.
- Development Control – pressure **£20,000** this relates to agency costs due to additional capacity required within the team.
- Town Centre Management – pressure **£7,500**. Costs associated with the provision of maternity leave cover of the town centre manager.
- Street scene salaries – underspend **£32,280** – current vacancies due to timing delay of service review implementation.
- Play services – underspend **£26,330** – The service has carried a number of vacancies this year due to staff secondments and casual staff vacancies following Covid-19.

Although not reported at quarter 2 the budgeted pay award was based on 2.00% increase, but an offer of £1,925 per employee has been made and agreed with the unions. The impact is included in the Medium Term Financial

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Strategy and due to be paid in November in the main and will add in the region of £662,000 to the General Fund pay bill (on-going pressure).

- 4.1.3 **Town Centre Parking Income – pressure £100,000.** Continued reduction in car park income. Improvement is expected during Christmas period. This is in addition to the pressure reported in quarter 1 of £175,000 and the losses built into the base for 2022/23 of £695,000, representing a total reduction for 2022/23 of £970,000.
- 4.1.4 **Development Control Consultancy – pressure £73,800.** This represents the cost in relation to high number of pre and planning applications which require consultants. One large planning site incurred costs of circa £130,000, further costs may be recovered.
- 4.1.5 **Vehicle Repair Service – pressure £52,020,** which is a combination of
- An increase in cost of materials of £19,000.
  - Taxi inspections have not been reinstated since Covid resulting in £15,000 loss of income.
  - Sale of vehicles -£15,000- There are no vehicle sales anticipated this financial year
- 4.1.6 **Maintenance of Garages – pressure £30,000.** This is required in order to support the reactive garage repairs. With the current economic climate and the increase of cost of living there has been a spike in the cost of materials. The additional funds will cover the on-going reactive repairs for this financial year.
- 4.1.7 **Parks and open Spaces Income – pressure £25,000.** Fees have increased but the commercial let for Chells pavilion is being finalised later than budgeted for.
- 4.1.8 **Vehicle Purchase – pressure £21,750.** This is a replacement of two written off vehicles. The insurance claim was in 2019/20 but the budget was not carried forward into 2022/23.
- 4.1.9 **Indoor Market – pressure £20,000.** Removal and fit of new market banners including redecoration. This was from underspend in 2021/22 but the budget was not carried forward into 2022/23.
- 4.1.10 **Transfer Station Income – pressure £14,570.** External use of Transfer Station has ceased due to capacity in tonnages, however the Council has submitted a change to the current licence to the Environment agency from 2023/24.
- 4.1.11 **Skip Income – pressure £7,720.** The skip service continues to struggle in a competitive market, resulting in lower income - a drop of 50%. A review of charges has been included in the Making Your Money Count report to this Executive for approval.
- 4.1.12 **Business Utility Support – additional income £21k** from the Government propose business utility scheme between October 2022 and March 2023, this is based on projected increases in utilities of 279% for Gas and 106% for

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electricity, however, this may be higher once the Council is notified of the rate for October.

4.1.13 **Interest on Investments – additional income £214,800.** The Council had estimated an average interest rate for the year of 0.35%. However, following increases to the Bank of England base rate (to 2.25%) over the last few months, this has resulted in additional interest income.

4.1.14 **Refuse Alternative Financial Model (AFM) – additional income of £237,000.** This was introduced to encourage waste reduction across the county and improve recycling gains. Latest correspondence with HCC indicates an income of £237k is due this year. HCC has indicated that as part of its need to make savings the scheme will now cease.

4.1.15 **Development Control: Charge of Service – additional income £170,310.** In connection to pre and planning applications. This income is partly offset by additional agency and consultancy costs as described above. The net difference will then be transferred to a reserve as per 4.1.16.

4.1.16 **Other variances of £62,720.** This is made of variance on Movement in Reserves (see breakdown below) and other small net variances across General Fund Services and as such are not reported separately.

**Movement in Reserves** – There are recommended reserve movements of £115,000 which are:

- Transfer of Development control in year surplus to fund additional staff £77K
- Transfer to Queensway reserve £43K relating to parking income received from the LLP
- Transfer from New Homes Bonus reserve of £5K for residual unspent balance.

4.1.17 The cumulative changes made to the General Fund net budget remains within the £400,000 increase variation limit delegated to the Executive. The total value of changes is an underspend of £79,990 based on first two quarters.

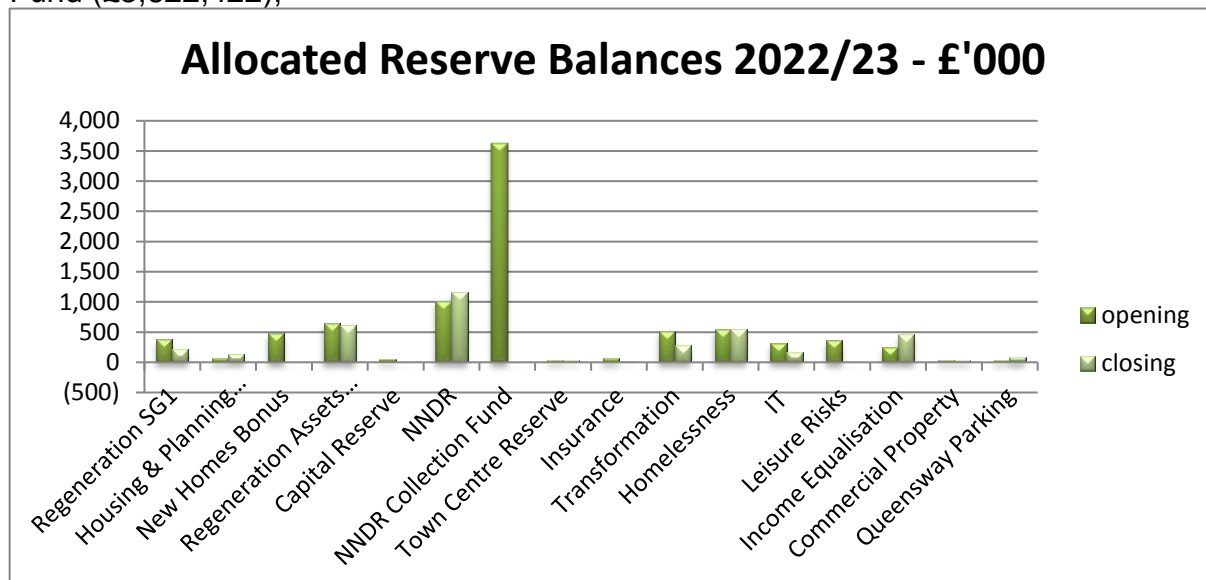
<b>Executive Delegation - General Fund</b>	<b>£'000</b>
<b>Original Net General Fund Budget</b>	<b>11,152</b>
Q4 Carry Forwards	654
2021/22 Q3 & Q4 Ongoing	(174)
New Savings	(87)
Garage Survey	55
WOC	(342)
Total	<b>11,258</b>
Quarterly monitoring Q1 & Q2	(80)
<b>Within Executive Delegated Limit</b>	<b>(112)</b>

() represents a surplus

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### 4.2 Review of General Fund Balances

**Allocated Reserves** – these balances are ‘ring fenced’ and have been set aside for specific purposes. The estimated total value of (revenue) allocated reserves as at 31 March 2023 is **£3,730,558**, (31 March 2022, £8,430,125). Reserve balances are projected to decrease by £4,699,567 during this year, the majority of this reduction relates to NNDR repayments to the Collection Fund (£3,622,422),



4.2.1 General Fund Balance – Following the 2<sup>nd</sup> quarter review and MTFs to the September Executive the General Fund balance as at the 31 March 2023 is now forecast to be £5,672,262

General Fund Balances	£'000
<b>Original Net General Fund Budget</b>	<b>11,152</b>
Approved budget changes	226
<b>Net Working budget approved to Date</b>	<b>11,378</b>
2nd Quarter Review	(200)
<b>Total Net Expenditure post Q2 review</b>	<b>11,178</b>
less core resources	(10,096)
Adjustment to Core Resources	154
<b>Transfer (to)/from General Fund balances</b>	<b>1,235</b>
<b>General Fund balance 31/3/22</b>	<b>(6,908)</b>
Transfer (to)/from General Fund balances	1,235
<b>Projected General Fund balance 31/3/23</b>	<b>(5,672)</b>
Allocated Revenue Reserves –repayment to Collection Fund	(1,162)
Other Allocated Revenue Reserves	(2,573)
<b>Total General Fund Revenue balances</b>	<b>(9,407)</b>
<b>(estimated 31/3/23)</b>	

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*\*may not include other assumptions included in the MTFS*

*\*\* Adjustment to core resources relates to 2021/22 lower business rates received in year lowering the transfer to the allocated reserve. A gain of £171K re 2021/22 will be received in 2023/24.*

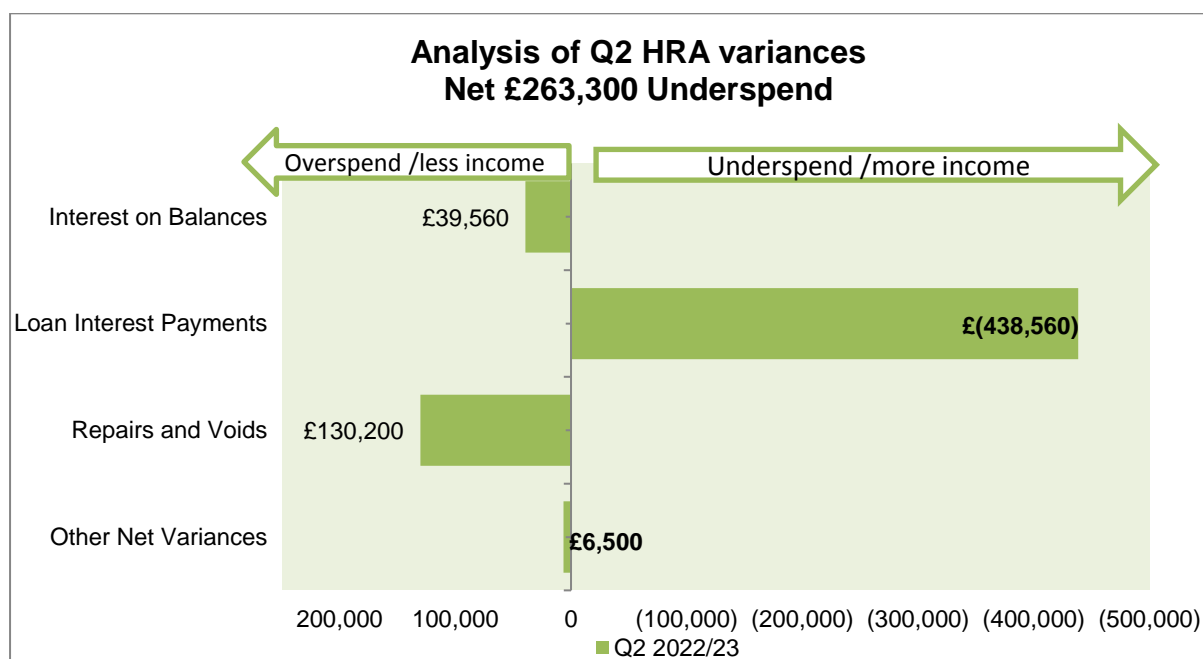
### 4.3 Housing Revenue Account

4.3.1 Since the Housing Revenue Account (HRA) net budget surplus of £1.956Million was approved at Council, Members have further approved net changes of £1.612Million as detailed in the following table. The majority of these changes are from unspent budgets in the prior year and will be met from the higher surplus in 2021/22.

HRA Working Budget	£'000
<b>Original Budget 2022/23</b>	<b>(1,956)</b>
21/22 Q3 Carry Forwards	325
21/22 Q4 Carry Forwards	973
21/22 Q4 Ongoing Budget Pressures	64
22/23 Q1 Net Projected Pressure	250
<b>Approved Movement</b>	<b>1,612</b>
<b>Total Working Budget</b>	<b>(344)</b>

### 4.4 Housing Revenue Account - Budget Review

4.4.1 Following the second quarter review of revenue budgets officers have identified the following budget movements.



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4.4.2 **Interest on Balances £39,560.** The original budget for interest earned on balances was £277,000 and this was increased to £647,000 in the Q1 report in response to the recent increases in interest rates. The latest estimate, based on current projected spend and income, is a slight reduction of £40,000, but still an increase of £330,000 over the original estimate.

4.4.3 **Loan Interest Payments (£438,560).** As a result of the recent increases in the cost of borrowing, the timing of when the Council is likely to take on new loans has been reviewed. This means a lower amount of external borrowing has been taken leading to lower borrowing costs, with a higher amount of internal borrowing reducing the potential investment income as shown above. This will continue to be monitored and if conditions become favourable the planned loans may still be taken in this year and this forecast underspend will reduce. Based on current projections, the Council will have internal borrowing of £43Million for the HRA. There is a plan in place to steadily reduce internal borrowing over the next few years.

4.4.4 **Repairs and Voids £130,200.** There is a further projected net increase in costs for repairs and voids work of £130K and the details of this increase are shown at 4.5 below.

4.4.5 **Other net variances £6,500.** There were other small variances totally £6.5K across the HRA accounts that have been included in the new forecast for Quarter 2.

4.4.6 In addition to the variances highlighted above, like the General Fund, the budgeted pay award was based on a 2.00% increase, but an offer of £1,925 per employee has been made, but not yet agreed with the unions. If agreed this award would add in the region of £352,000 to the HRA budget as an on-going pressure. The impact of this will be built into the budget when there is more certainty on the final agreement.

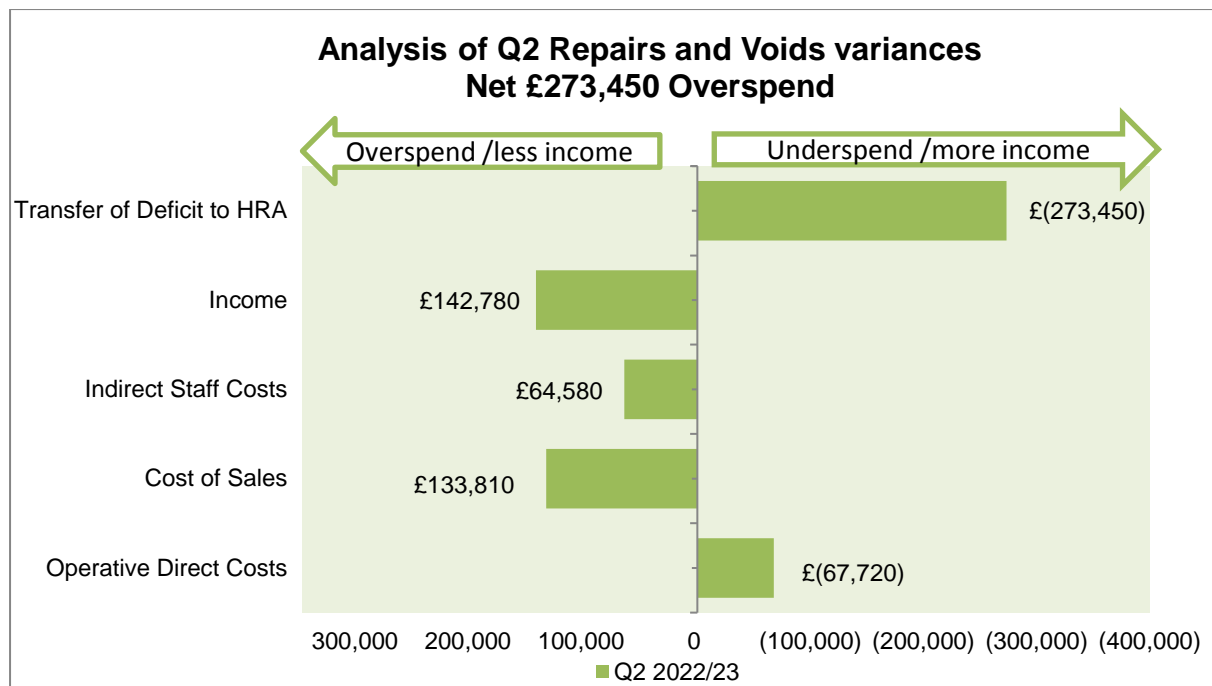
4.4.7 Another area to be noted concerns the cost of gas and electricity for communal supplies in flat blocks and sheltered housing schemes. In total the working budget for these costs is currently £774,000 for 2022/23. Allowing for the Government's current support scheme and the renewed utility agreements from October of this year, it is currently projected that this will rise by £432,000. Normally, the majority of this increase would be recovered from service charges to tenants and leaseholders. However, due to the scale of the increases, the approach to recovering these higher costs is currently under review and any further budget pressures will be reflected in future reports.

## **4.5 Responsive Repairs and Voids Performance**

4.5.1 The net Repairs and Voids team financial position is included in the overall HRA as a further budget pressure of £130,000. This consists of the increased deficit of £273,450, detailed below, (partly driven by material and sub-contractor price increases). The job rate charged to the HRA from Repairs and Voids was increased by an annual inflation factor of 4%, however prices have exceeded this, causing an increase in the deficit. In addition, there is also a projected lower cost of repairs charged to the HRA of £142,780.



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- 4.5.2 Operative Direct Costs (£67,720).** There are currently 4 operative posts vacant within the structure and agency cover is being used. Allowing for the timing to recruit to the vacancies, a further £67,720 under spend is currently projected. The service is currently having difficulty in retaining and recruiting staff in a competitive job sector and is looking at market analysis for trade operative salaries to allow the service to ensure more successful recruitment going forward. It should also be noted that this underspend has been offset by increased indirect salaries detailed in 4.5.4.
- 4.5.3 Cost of Sales £133,810.** The cost of materials has continued to increase and a further £61,000 pressure has been included in the projection to reflect current prices. There is also a further pressure of £76,000 on subcontractor works (driven by higher inflation as well) and this is linked to the capacity of the in-house team, while vacancies are recruited, and the type of repairs that are reported by tenants. As some work will require specialist sub-contractors to complete.
- 4.5.4 Indirect Staff Costs £64,580.** There are a number of issues that have led to the need for a further four short term scheduling posts that have been employed from the Operative employee underspend (detailed in 4.5.2), to improve job scheduling and the completion of works.
- 4.5.5 Income £142,780.** Current income projections show a reduction of £143K on the working budget and this is linked to both the volume of repairs and capacity issues within the team.
- 4.5.6 Transfer of Deficit to HRA (£273,450).** The impact of these changes is a further increase in the deficit charged to the HRA of £273K. However, it should be noted that trading conditions remain difficult, with higher inflation and difficult labour and material availability. In addition, the Repairs and Voids schedule of rates or the amount per job they charge the HRA increased by 4%

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for 2022/23 and current inflationary pressures are far outstripping this. The trading account is still looking to increase income from other work streams to compensate for the lower repair charges in this financial year.

### **4.6 Housing Revenue Account Balances**

4.6.1 Following the 2nd quarter review the HRA balance is now forecast to be £28.8Million.

<b>Housing Revenue Account Outturn Position</b>	<b>£'000</b>
<b>Working Budget</b>	<b>(344)</b>
2nd Quarter Net Projected Underspend	(263)
<b>Projected net Surplus post 2nd Quarter review</b>	<b>(607)</b>
HRA balance brought forward 1/4/22	(28,208)
Surplus in year	(607)
<b>Projected HRA balance 31/3/2023</b>	<b>(28,815)</b>
<b>Within Executive Delegated Limit of £250K</b>	<b>199</b>

## **5 IMPLICATIONS**

### **5.1 Financial Implications**

5.1.1 This report is financial in nature and consequently financial implications are included above. The impact of these changes for future years will be incorporated into the budget setting process.

### **5.2 Legal Implications**

5.2.1 The objective of this report is to outline the projected General Fund net expenditure for 2022/23 and the impact on the General Fund balances. While there are no legal consequences at this stage Members are reminded of their duty to set a balanced budget.

### **5.3 Equalities and Diversity Implications**

5.3.1 This report summarises external and internal factors that impact on approved budgets and recommends changes to those budgets in year. Budget changes identified for future years that could adversely impact on groups covered by statutory equality duties will be incorporated into the budget setting process which includes Equality Impact Assessments (EqIA). None of the budget changes reported will change any existing equalities and diversity policies.

5.3.2 The service department has been asked to look at the equalities and diversity implications in the increase in void re-let times and any potential impact on protected groups.

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### **5.4 Risk Implications**

- 5.4.1 A risk based assessment of balances is undertaken and reported to Council as part of the General Fund Budget setting process. Both the General Fund and HRA balances are projected to be above minimum levels.
- 5.4.2 Inflationary pressures continue to be a financial risk to both the HRA and General Fund, in the form of higher borrowing, wages and material costs, these risks will be reviewed as part of the budget setting process.

### **5.5 Policy Implications**

- 5.5.1 The budget framework represents a development of a policy led budgeting approach across Council services and the overall Medium Term Financial Strategy.

### **5.6 Climate Change Implications**

- 5.6.1 The Budget and Policy setting process prioritised growth for climate change as part of the 2022/23 budget setting process. The 2022/23 process should have due regard for climate change implications based on the Council's Climate Change Strategy. There are no direct climate change implications from the budget changes in this report.

## **6. BACKGROUND PAPERS**

BD1 – 2022/23 Council Tax Setting and General Fund Budget (Council 24 February 2022)

BD2- 2022/23 Final HRA and Rent setting report (Council 28 January 2022)

BD3- General Fund Medium Term Financial Strategy Update (2021/22 – 2025/26)

BD4 - First Quarter Revenue Budget Monitoring Report 2022/23 (Executive 14 September 2022)