Part I

Meeting:	**EXECUTIVE**	**Agenda Item:**
Portfolio Area:	Resources	
Date:	**14 September 2022**	

1ST 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 Members approve the 2022/23 1st quarter projected net increase in General Fund expenditure of £119,930.

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, as set out in paragraph 4.1.20.

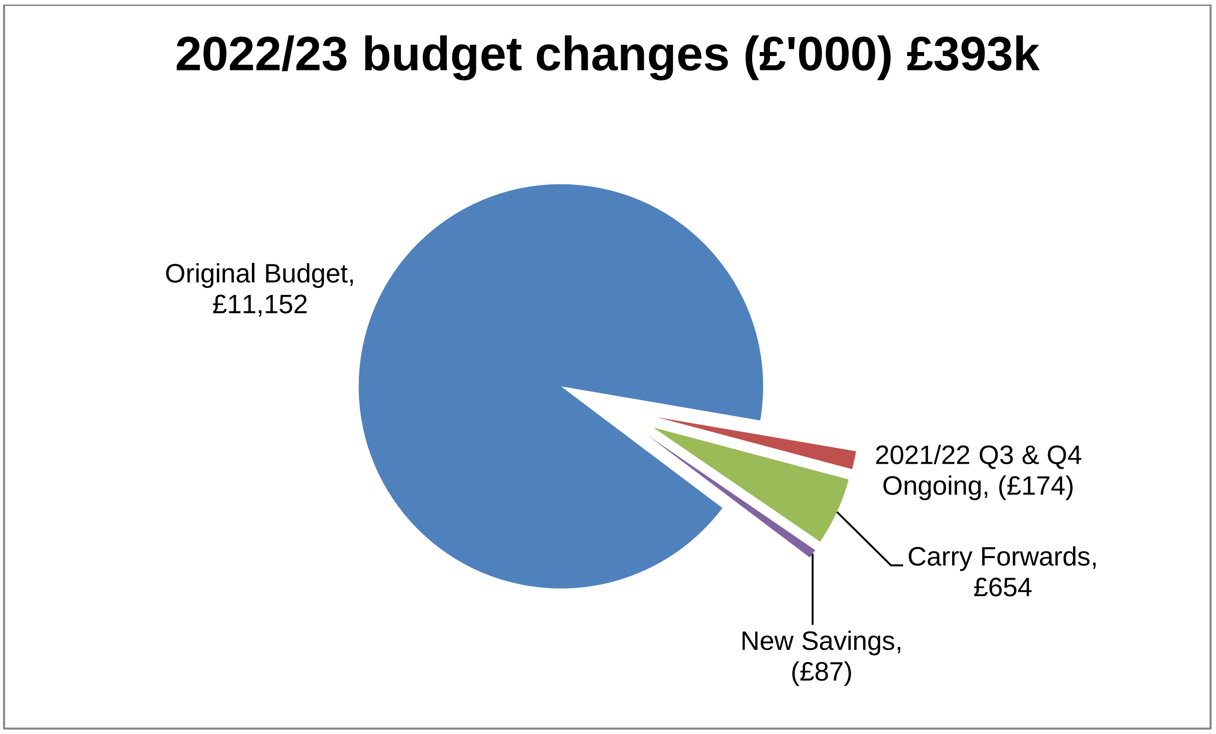
Housing Revenue Account

2.3 That the 2022/23 1st quarter projected net increase in HRA expenditure of £249,890 be approved.

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

3. BACKGROUND - GENERAL FUND

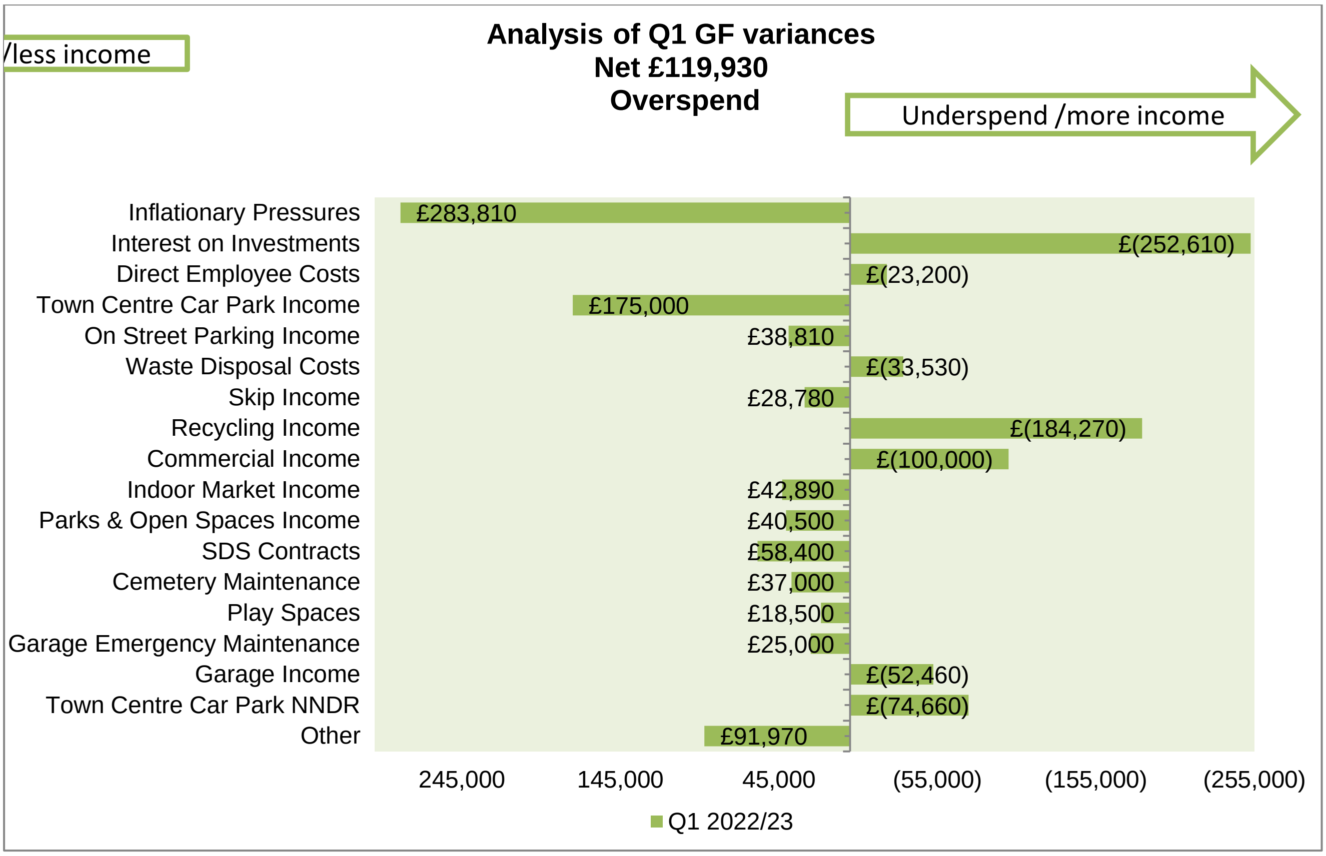
3.1. Since the General Fund net budget of £11,151,570 was approved at Council, Members have approved net budget changes of £392,820 as detailed in the chart below:



4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 **General Fund – Budget Review**

4.1.1 Following the 1st quarter review of revenue budgets officers have identified the following budget movements.



(-) lower expenditure / more income

4.1.2 **Inflationary Pressures** – ongoing pressure

- Utilities of £176,760. SBC have now had the new contract prices for NHH (Non Half Hourly) sites. The NHH sites increased by 61%, more than the anticipated 40% inflation projected. The costs of energy have risen significantly and continue to increase and anticipate further pressures on HH (Half Hourly) sites and Gas. The CCS report in June 2022 estimated HH increase of 106% and Gas 279%. This pressure is net of £17,100 charged to the HRA.
- Vehicle Fuel of £107,050 - Price per litre has increased by 26.21% against budgeted price in June and if this level of increase is maintained throughout the year this will be the impact on the General Fund.

Although not reported at quarter 1 the budgeted pay award was based on 2.00% increase, but an offer of £1,925 per employee has been made (not yet agreed with the unions). If agreed this award would add in the region of £662K to the General Fund pay bill (on-going pressure).

4.1.3 **Interest on balances – increased income £252,610**. Following the increases to the Bank of England base rate (to 1.75%), it is projected that the General Fund interest earned will be £252K higher than the budgeted amount

4.1.4 Direct Employee Expenses – saving £23,200. This is includes a number of changes which are detailed below:

- **£70,000 HRA management** underspend, following the appointment of the interim Operational Director, this recharge reflects the new management arrangements performed by the Operational Director of Communities and Neighbourhoods.
- **£33,000 Accountancy** pressure, this represents the costs of short term agency staff brought in to assist with the closure of accounts and to support capital.
- **£13,800 Town Centre Management** pressure, Costs associated with the provision of maternity leave cover of the town centre manager which will be funded from the town centre reserve.

4.1.5 **Town Centre Parking Income**– **in year additional pressure £175,000.** Parking income has been significantly impacted by COVID and continues to be in 2022/23 due to the change in working habits. After three months, income levels are £85K down on the cumulative running target (previous month, £50k down); the reasons for the shortfall are combination of continued hybrid working habits, combined with the closure of Railway North (and transfer to cheaper car parks), and "one off events" such as the train strikes during June which saw a fall of £10k income in one week. Clearly, the threat/likelihood of future strikes may continue to have an impact on our car parking budgets.

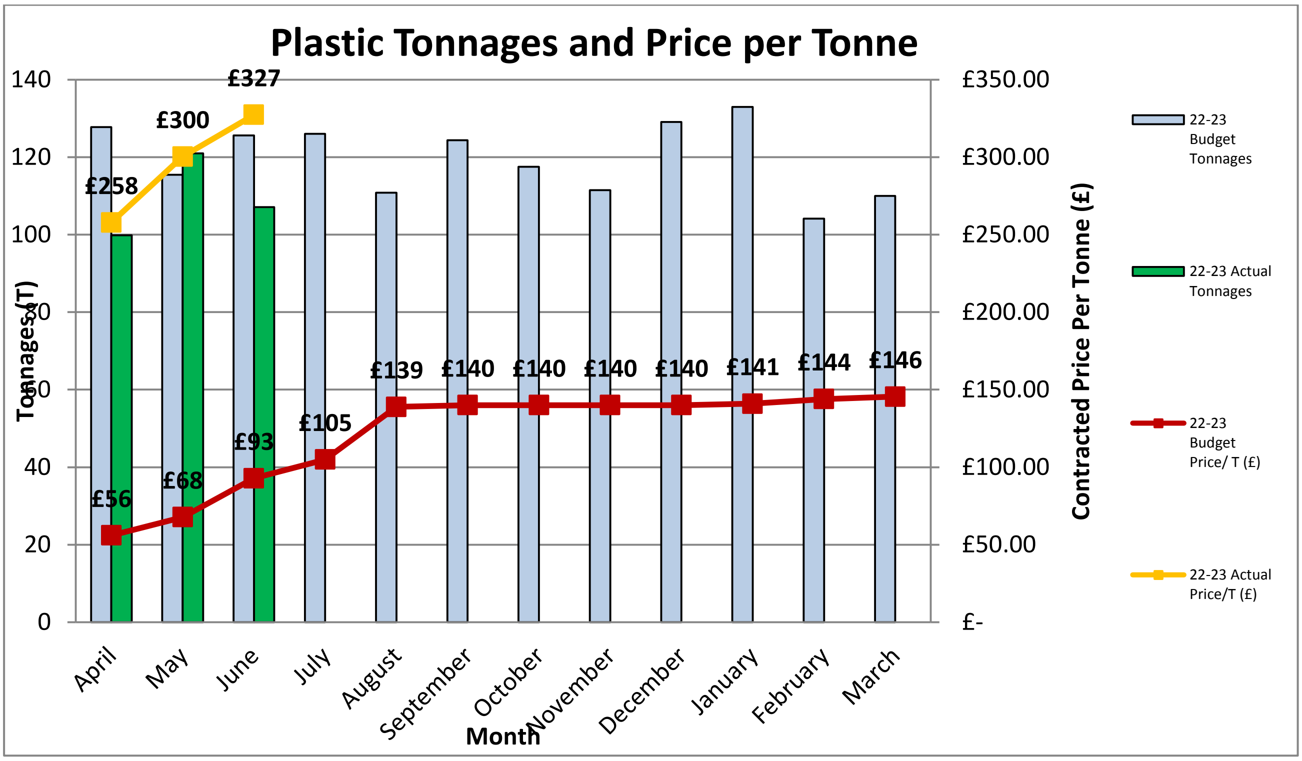
4.1.6 **On Street Parking – pressure £38,810**. There has also been an impact on On-Street parking especially at Corey's Mill where demand has not returned to pre-pandemic levels due to changes in practices at the hospital. This has been offset in part by a reduction in enforcement costs.

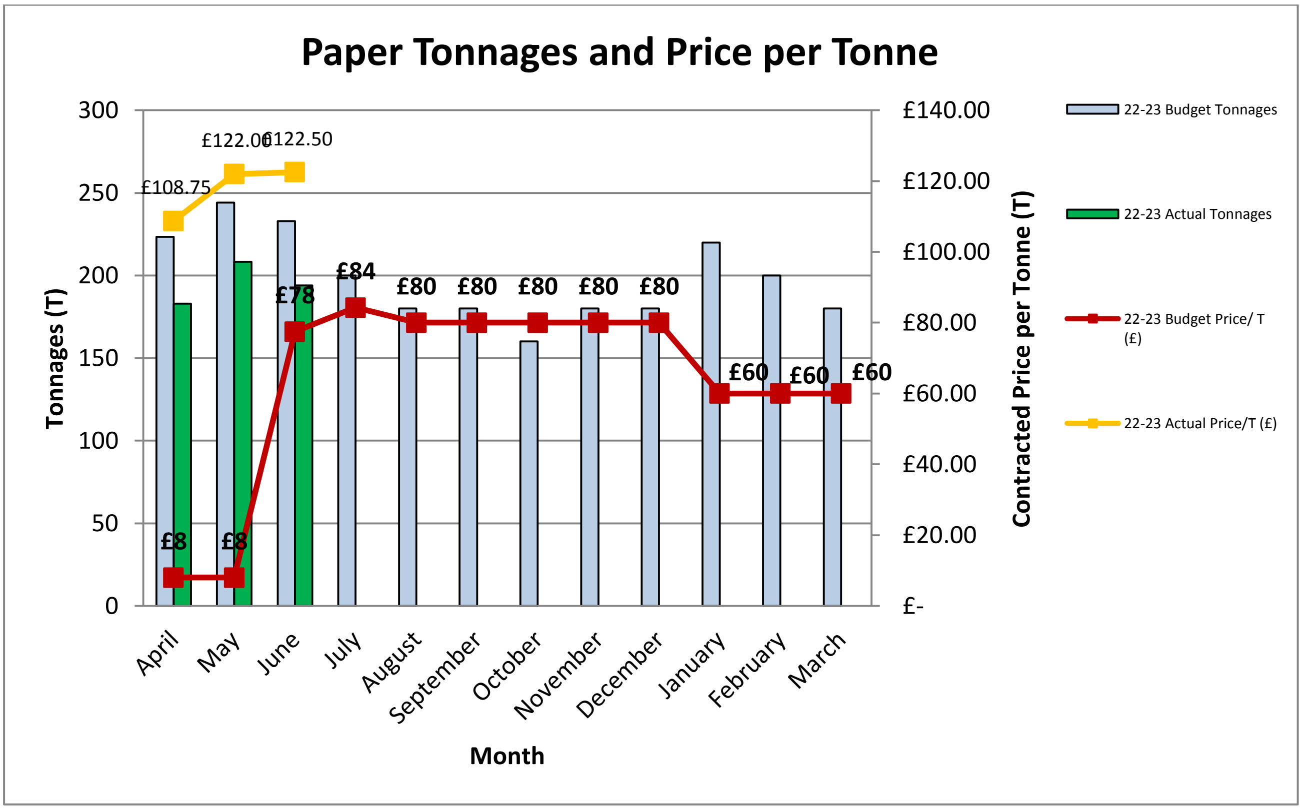
4.1.7 **Waste Disposal Costs – in year saving of £33,720**. Disposal costs associated with the waste collected from skips has fallen in line with the reduced demand for the skip service.

4.1.8 **Skip Income – pressure £28,780**. The skip service continues to struggle is a competitive market, resulting in lower income - a drop of 50%. Service provision will be reviewed as part of the 2023/24 budget setting process.

4.1.9 **Recycling Income – saving £184,270**. Additional income is expected from recycling as prices have continued to rise during the first quarter of 2022/23. Whilst prices can be volatile, it is expected that they remain between the current price and £250 until March 2023. Income from recycling is volatile and not only affected by price but also the tonnage collected. Year to date tonnages have fallen by approximately 5%. This reduction has been built into the quarter 1 estimates, any further reductions in tonnage could have a significant impact on recycling income.

4.1.10 Detail of the projected income from recycling of plastics and paper, which make up 92% of recycling income are shown in the charts below.





4.1.11 **Commercial Income – Additional income of £100,000.** Following 2 years of no increase, rents at the Business and Technology Centre have now been increased in line with the contract and as a result more income is expected (£50,000). Also income from the council's portfolio of shops etc. is expected exceed estimates (£50,000). Further work being undertaken to ascertain if this income will be ongoing.

4.1.12 **Indoor Market Income – pressure £42,890.** Trading conditions at the market continue to be challenging with some stall holders struggling, void rates have increased to 31% (in-year only)

4.1.13 **Parks and open Spaces Income – pressure £40,500.** Fees have increased but demand for the hire of pavilions etc. has not met expectations. Further work is being undertaken to assess a more realistic budget for income.

4.1.14 **Repairs and Maintenance at the Cemetery** – **pressure £37,000**. Works of a health and safety nature have been identified at the cemetery, which requires funding.

4.1.15 **Play Space Maintenance** – **pressure £18,500.** Works of a health and safety nature associated with playground flooring have been identified which requires funding**.**

4.1.16 **Garage Emergency Maintenance** – **pressure £25,000.** Backlog works identified as a result of asbestos inspection of garage blocks.

4.1.17 **Garages additional income of £52,460**. 30 additional garage lets since April, but in the current cost of living crisis this trend may not continue.

4.1.18 **Car Park Business Rates – saving £74,660**. Refunds received due to the closure of some town centre car parks, redevelopment of other sites and reduced parking income**.**

4.1.19 **Other pressures of £91,970.** There are small net variances across General Fund Services and as such are not reported separately. The budget setting process will assess whether any in-year budget changes identified in this report have an on-going impact and this will be reported as part of the quarter 2 report. However, Members should note that while some of the income projections have improved (recycling), there are significant pressures around pay and parking income.

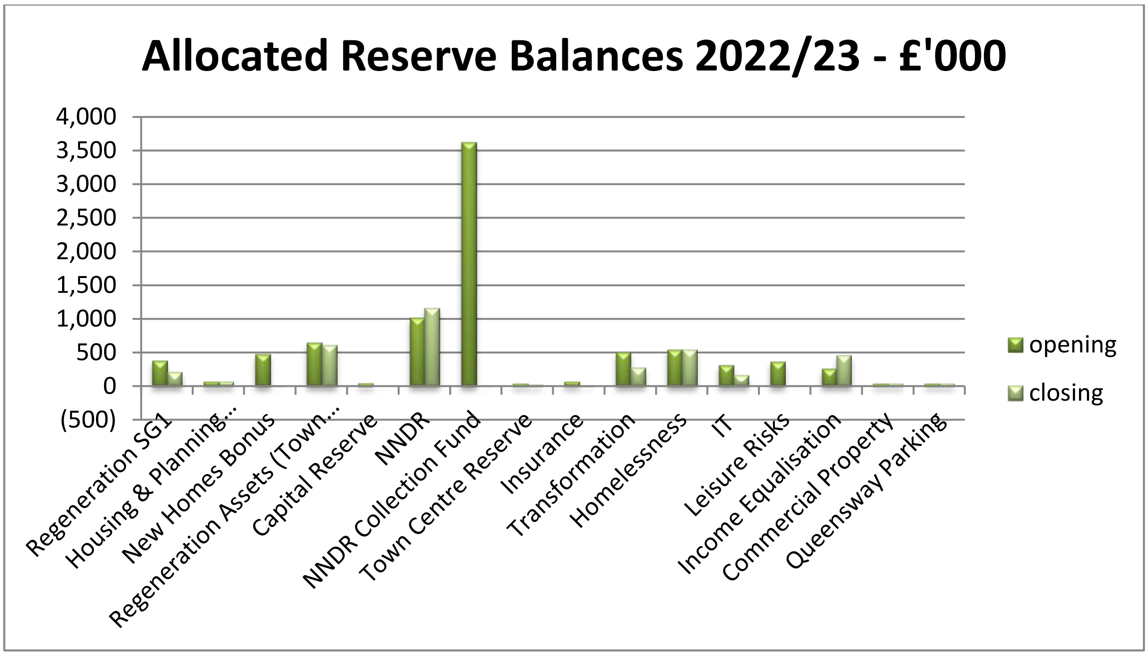
4.1.20 The cumulative changes made to the General Fund net budget remains within the £400,000 increase variation limit delegated to the Executive. The total value of changes is £119,930.

Executive Delegation - General Fund	£
Original Net General Fund Budget	**11,151,760**
Q4 Carry Forwards	653,660
2021/22 Q3 & Q4 Ongoing	(174,080)
New Savings	(86,780)
Total	**11,544,580**
Quarterly monitoring Q1	119,930

Executive Delegation - General Fund	£
Within Executive Delegated Limit	**119,930**

4.2 Review of General Fund Balances

4.2.1 **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 **£3,616,048**, (31 March 2022, £8,430,125). Reserve balances are projected to decrease by £4,814,077 during this year, the majority of this reduction relates to NNDR repayments to the Collection Fund (£3,622,429), regeneration and new build projects.



4.2.3 General Fund Balance – Following the 1st quarter review and MTFS to the September Executive the General Fund balance as at the 31 March 2023 is now forecast to be **£5,195,442**.

General Fund Balances	£
Original Net General Fund Budget	**11,151,760**
Approved budget changes	392,820
Net Working budget approved to Date	**11,544,580**
1st Quarter review	119,930
Total Net Expenditure post Q1 review	**11,664,510**
Adjustment to core resources	153,681
less core resources	(10,096,132)
Transfer (to)/from General Fund balances	**1,722,059**
General Fund balance 31/3/22*	**(6,907,501)**
Transfer (to)/from General Fund balances	**1,722,059**
Projected General Fund balance 31/3/23	**(5,185,442)**

General Fund Balances	**£**
Allocated Revenue Reserves –repayment to Collection Fund	(1,162,483)
Other Allocated Revenue Reserves	(2,453,565)
Total General Fund Revenue balances *(estimated 31/3/23)*	**(8,801,490)**

**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.*

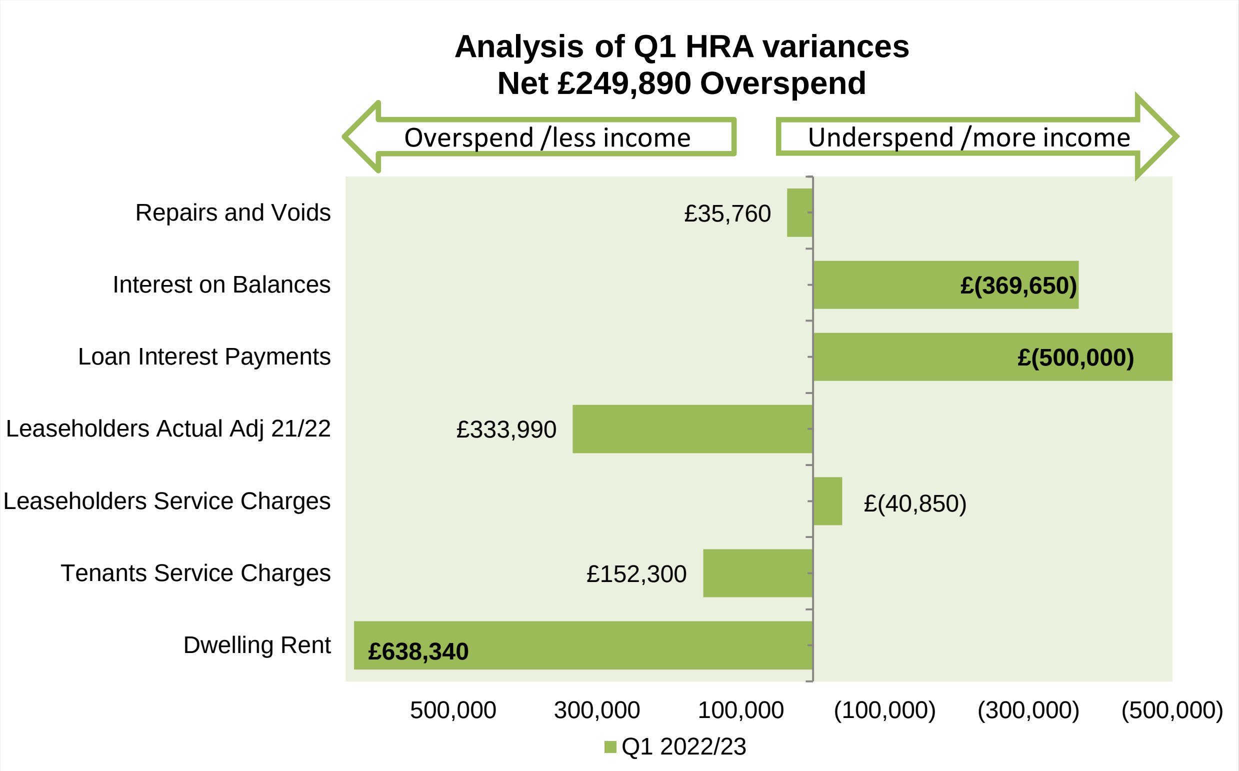
4.3 Housing Revenue Account

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 £1.36Million 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**
Original Budget 2022/23	**(1,956)**
21/22 Q3 Carry Forwards	325
21/22 Q4 Carry Forwards	973
21/22 Q4 Ongoing Budget Pressures	64
Approved Movement	**1,362**
Total Working Budget	**(594)**

4.4 **Housing Revenue Account - Budget Review**

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



4.4.2 **Interest on Balances (£369,650).** Following recent base rate changes and allowing for the closing balances from the last financial year, new forecasts for income on balances have been made. This has led to a £370K increase in investment income for the year.

4.4.3 **Loan Interest Payments (£500,000).** Despite recent interest rate rises, the expected timing and amount of loans borrowed in this year has led to loan interest being reduced from a budget of £8.2Million to a revised figure of £7.7Million. Financing decisions are often taken later in the financial year, when actual spend has been more firmly established, so this area will be reviewed again during the year.

4.4.4 **Leaseholders Service Charge Actual Adj. £333,990**. Leaseholder's service charges are billed on an estimated amount in year and then adjusted to the actual figures in September of the following year. The estimates are mainly calculated using averages of prior year's activity levels and detailed estimates where known. Normally, due to the demand led nature of some of the charges, there is a small variance that can be favourable, or a small pressure. Unfortunately, the actuals for last year were substantially lower than the estimates leading to a budget pressure of £334K. The main reasons for the lower charges were on caretaking and repairs. Repairs costs were £147K lower than estimated, due to both the major works programme on the blocks and the impact of Covid on normal operations. Caretaking costs were also lower by £127K and again this was as a result of the ongoing major repairs programme negating the need for block cleaning and the impact of Covid on the operations during the year.

4.4.5 **Leaseholders Service Charges (£40,850).** The budget for these charges is forecast in November before the actual bills are calculated and sent out in January. Comparing the actual bills to the original budget there is a small positive variance of £41K anticipated in the current year.

4.4.6 **Tenants Service Charges £152,300.** Much like leaseholder's charges, there is a timing difference between the budget being set and the actual bills being calculated. After taking account of the actual charges to tenants in this year there is a £152K fall in income compared to the original budget. The single biggest element in the lower charge is on caretaking that has been based on planned cleaning schedules for the blocks and is lower than the budgeted level of activity and the cost recovery rates that were used to form the budget.

4.4.7 **Dwelling Rents £638,340.** The latest forecast for dwelling rents for the year shows a pressure of £638,340, which is 1.5% lower than the budget of £43Million. The main reasons for the fall in income are detailed in the table below.

Rent income variations to the budget	£
Timing of New Property Completions	470,610
Timing of RTB sales	14,710
Void Loss	153,020
Total	**638,340**

4.4.8 The largest difference from the original budget has been caused by slippage on the Kenilworth and Symonds Green redevelopment schemes. The budget anticipated that 179 new properties would be included in the rent for half of the current year. However, latest estimates indicate that 71 properties will be completed in this year, with the majority of the others coming into use in the first half of 2023/24. The delayed delivery at both of these schemes is a result of supply and labour difficulties currently being faced by the construction industry. These have been caused by the domestic and international impact of the Covid pandemic and more difficult post Brexit supply chains. If the timetables improve over the remainder of this year, this will be reflected in future reports.

4.4.9 When the budgets are calculated, rent loss form right to buy sales is spread evenly over the year. However, there were a large number of sales in the first quarter that have accelerated the forecast rent lost. Despite this first quarter performance, taking into account the current number of applications and likely completions this year, the projected total number of sales still remains at 35 properties for 2022/23.

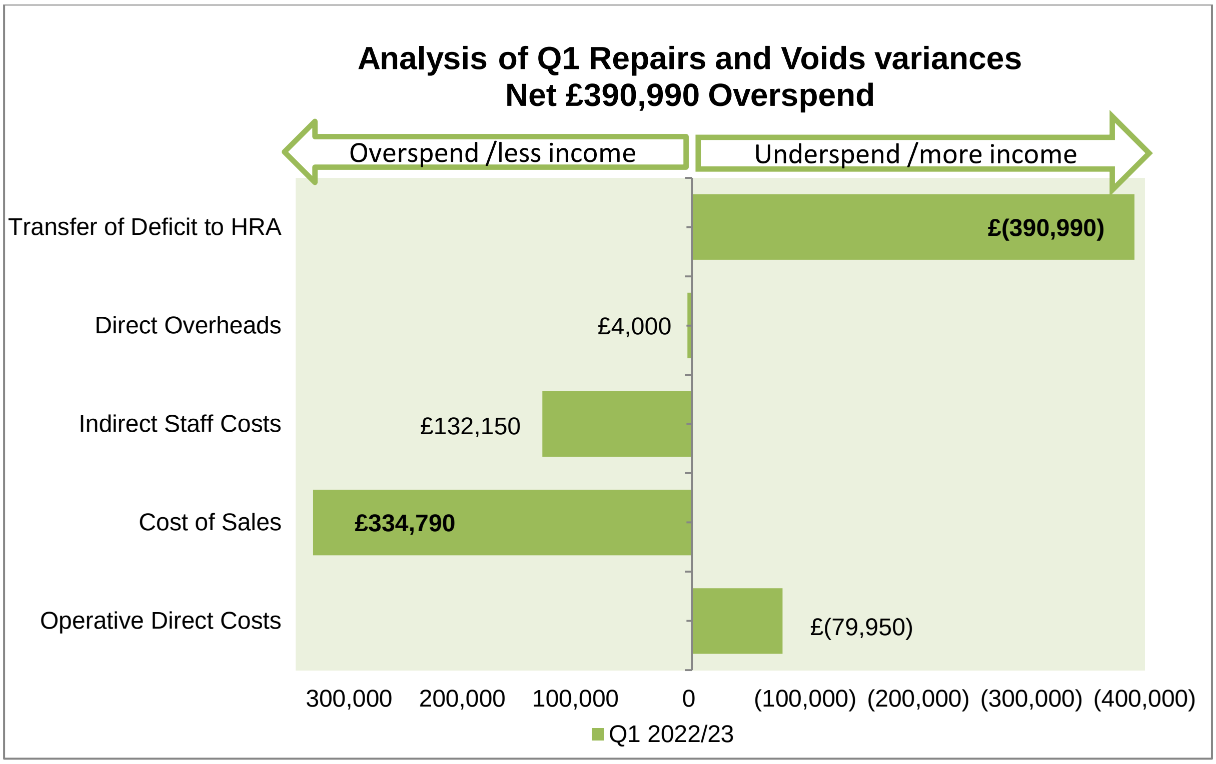
4.4.10 The last major change from the original rent budget is due to current void loss rates. Void loss on the general needs housing stock was budgeted at 0.79%, but is currently running at 1.35%. With no improvement this would increase the void loss from £374K to £671K, a pressure of £296K. However, the forecast has assumed an improvement in void performance over the year, giving a projected pressure of £153K. This has been based on the current action plan and the intention to provide specific resources to ensure homes are returned to occupation as soon as possible.

4.4.11 **Repairs and Voids £35,760.** There is currently a £36K net pressure within this area. While the deficit on the trading account is forecast to increase by £391K (more details for the trading account are included in 4.5 of the report), this has been partially offset by a reduction in repairs costs charged to the HRA of £322K. There are also other net savings on the account of £34K that have further reduced the impact of the trading deficit.

4.4.12 In addition to the variances highlighted above there are two further significant areas of concern to note. Firstly, the current employers offer in the national pay negotiations would increase costs by approximately £350K, based on the full establishment budget. The second area of concern is on utility costs, where the HRA could see over a £500K increase in costs during this financial year. These would relate directly to both tenant and leaseholders service charges and modelling is being undertaken to assess the impact of these increases and any potential recovery through charging. Both of these areas will be need to be addressed during the remainder of the year.

4.5 Responsive Repairs and Voids Performance

4.5.1 The Repairs and Voids team's financial position is included in the overall HRA. The Q1 projection expects the deficit to increase by £391K for this year.



4.5.2 **Operative Direct Costs (£79,950).** There are currently 7 operative posts vacant within the structure, with 5 covered by agency. Allowing for the timing to recruit to the vacancies an £80K under spend is currently projected.

4.5.3 **Cost of Sales £334,790.** The majority of this overspend is due to the forecast for subcontractor costs that are projected to be £279K higher than the budget. This increase is due to the type of work being undertaken, particularly on behalf of the Investment Team, and higher material costs now showing in subcontractor invoicing. Even with this increase, subcontractor costs will be reduced by 13.6% from last year's outturn. Other areas that are showing a pressure are additional fuel costs of £15K, due to current prices, and higher compensation payments of £40K, due to an increase in "no win, no fee" cases being seen.

4.5.4 **Indirect Staff Costs £132,150.** Offsetting the saving shown on direct employees there is a projected over spend of £132K on back office staffing. This is mainly due to the delay in the roll out of the tenant self-service programme. This has led to the need for 3 additional posts in order to operate with the existing systems. Additional resources have also been needed to process the rise in complaint cases, also highlighted in the section above.

4.5.5 **Direct Overheads £4,000.** Additional utility costs have been forecast in the recharge for the Cavendish site and this has led to a £4K increase in overheads to the repairs service.

4.5.6 **Transfer of Deficit to HRA (£390,990).** The impact of these changes is an increase in the deficit charged to the HRA of £391K. However, it should be noted that inflation is now much higher than the 3.6% increase in the job rates (charged to the HRA) that were included in the budget. Subcontractor prices, material costs and staff costs, are all set to increase at a higher rate in this year and will need to be monitored closely. Despite these pressures, the deficit increase has currently been mitigated by a £322K reduction in responsive repair costs and the trading account is expected to increase income earned from other work streams to compensate for the lower repairs charges in this financial year.

4.6 **Housing Revenue Account Balances**

4.6.1 Following the 1st quarter review the HRA balance is now forecast to be a surplus of £28.6Million.

Housing Revenue Account Outturn Position	£'000
Working Budget	**(594)**
1st Quarter Net Projected Pressure	250
Projected net Surplus post 1st Quarter review	**(344)**
HRA balance brought forward 1/4/22	(28,208)
Surplus in year	(344)
Projected HRA balance 31/3/23	**(28,552)**

5 IMPLICATIONS

5.1 Financial Implications

5.1.1 This report is financial in nature and consequently financial implications are included above.

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.

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 A key element in mitigating financial risks within the HRA is the regular revision of the 30 year business plan model for the ring fenced account. It was intended that this plan would be recalculated for the start of the 2023/24 financial year. However, the current statutory and regulatory structures for the HRA are undergoing significant changes, making it difficult to produce a meaningful business plan at this time. It is now proposed that an incremental approach to be taken, starting with a current position paper in the autumn and fully revising the business plan when the impact of any changes can be more accurately assessed. In the meantime, financial risks will continue to be mitigated by use of the medium term financial strategy and the annual 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 January2022)

BD3- General Fund Medium Term Financial Strategy Update (202122 – 2025/26)