

## Budget Monitoring Report 2022/23 – Period 6

Summary: This report summarises the budget monitoring position for the revenue account, and reserves statement to the end of September 2022

Options considered: Not applicable

Conclusions: The overall position at the end of September 2022 shows a £4,191,298 underspend for the current financial year on the revenue account, this is however currently expected to deliver a full year overspend of £909,235. (At the end of 2021/22 £616k was added to the General reserve to help offset the impacts of pay and inflation in the current year)

Recommendations: **It is recommended that Cabinet:**

- 1) Note the contents of the report and the current budget monitoring position.**
- 2) Recommend to Council that any outturn deficit is funded from a contribution from the use of the General Reserve**
- 3) Agree that a regular update should be provided to Members on the measures being undertaken to mitigate and reduce the current forecast deficit**

Reasons for Recommendations: To update Members on the current budget monitoring position for the Council.

### LIST OF BACKGROUND PAPERS AS REQUIRED BY LAW

*(Papers relied on to write the report, which do not contain exempt information, and which are not published elsewhere)*

System Budget monitoring reports
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Cabinet Member(s) Cllr Eric Seward	Ward(s) affected All
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## 1. Introduction

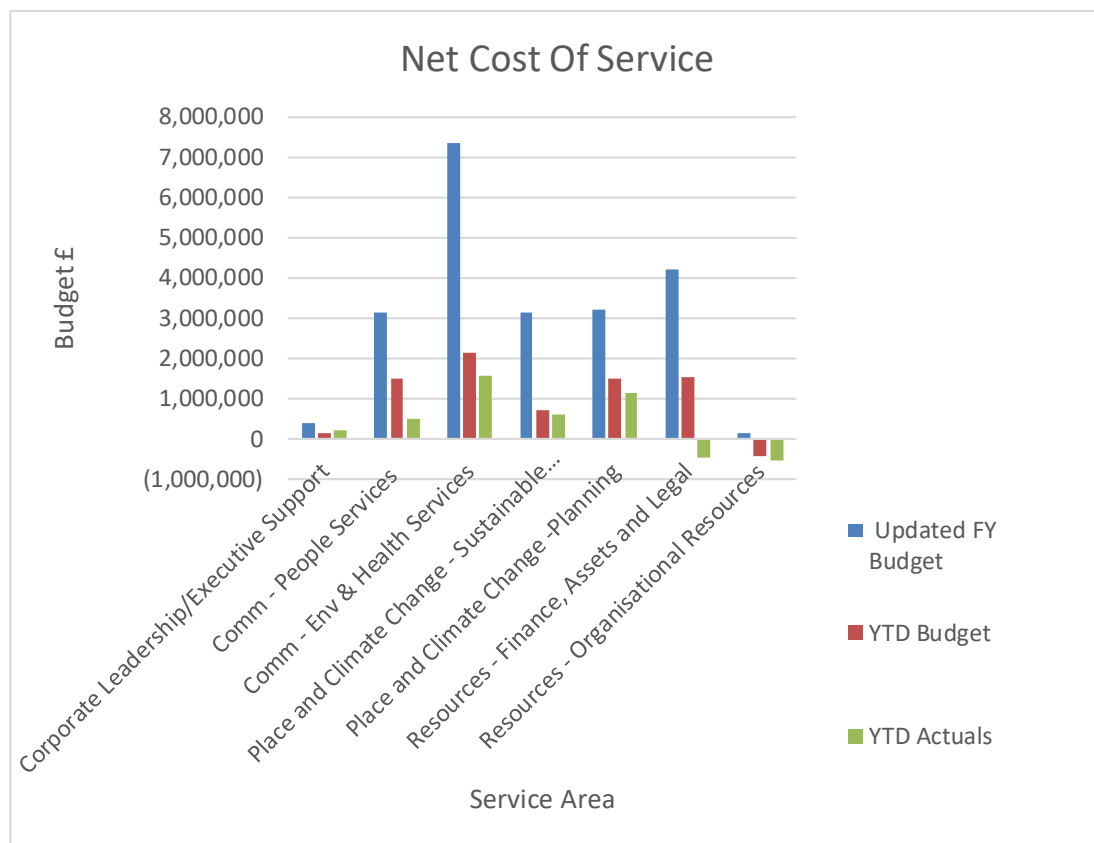
1.1 This report compares the actual expenditure and income position at the end of September 2022 to the Updated budget for 2022/23. The original Base Budget as agreed by Full Council in February 2022 has been updated to reflect approved budget virements.

## 2. Revenue

2.1 The General Fund Summary at Appendix A shows the high level budget monitoring position as at 30 September 2022 and highlights a year to date underspend of £4,191,298 against the profiled updated budget. There is an under spend of £4,026,585 in relation to the service variances with the remainder relating to non-service specific budgets.

2.2 The Chart below illustrates these variances per service area and Appendix B provides further details of the individual service variances. Variances are reported against the updated budget in the Council's General Fund summary as shown in Appendix A. There has been movement within the service areas between the Base budget approved by Full Council and the current updated budget position, this reflects changes in service budget allocation including the transfer of the car park budget and management. From 1 June 2022 this budget transferred from Communities to Resources.

### Variance by Service Area



2.3 A significant part of the year to date surplus (£1,808,096) relates to accruals made in respect of Covid business grant balances that have not yet been repaid to Central Government. It is anticipated that reconciliation work and

subsequent repayments will be completed before the end of the financial year.

- 2.4 (£452,102) relates to the Serco waste contract and specifically the 2022/23 variable billing payments for which we have not received invoices yet
- 2.5 As a result of current economic trends, estimates have been prepared as to the likely impacts on North Norfolk District Council finances. These impacts will continue to be monitored with mitigating action taken where possible.
- 2.6 At period 4 a favourable variance of (£487,234) was forecast for 2022/23 Investment activities, changes to market conditions and the weaker pound have now reduced this estimate to (£139,915), details of this can be found within section 3 of this report.
- 2.7 As reported at P4 the 2022/23 base budget allowed for a 2% increase on employee budgets, currently the national pay award is likely to be far higher than this value once agreed. Based on current negotiations the shortfall could be in the region of £474,000.
- 2.8 Due to global shortages in energy supplies prices have increased significantly on Electricity, Gas and Oil. The current year to date variance against budget is £49,473, however some of this overspend is due to electrical vehicle charging point usage which will be offset by recoverable charges. Vertas, a facilities management company purchase electricity on the council's behalf. The first 6 months were at a rate of 0.29pkwh, October to March kwh price will increase to 0.42pkw. It is currently estimated the energy costs will come in at £200,000 above budget.
- 2.9 The renegotiated leisure contract will result in a net £114,150 increase in 2022/23. This follows contract negotiations for a five-year extension with the current provider, the outcome of which was not forecast as part of the budget process. Beyond 2022/23 a profit share will be budgeted for.
- 2.10 Increased inflation on the Serco Waste Contract is calculated at £250,000. In addition, there are additional costs of £160,000 in relation to 2021/22 variable contract payments. This growth is partially offset by an anticipated surplus of £190,000 from trade waste income.
- 2.11 Table 1 below shows the over/underspend to date for the more significant variances, this is compared to the updated budget. The estimated full year variance is what the likely financial position will be at the end of the financial year.

<b>Table 1 – Service Variances</b>	<b>Over/(Under) spend to date against updated budget +/- £20,000 As per General Fund Summary £</b>	<b>Estimated Full Year Variance Against Updated Budget £</b>
<b>Corporate</b>		
<b>Corporate Leadership and Executive support</b> – Additional employee costs alongside planned recruitment for Director of Resources and interim Section 151	49,363	60,000

cover.		
<b>Human Resources and Payroll</b> - The majority of this variance is in respect of recruitment costs, which will be allocated to the service areas.	29,538	20,000
<b>Corporate Delivery Unit</b> - (£26,628) Staff turnover saving due to vacant posts.	(28,358)	(20,000)
<b>Communities – Environment &amp; Leisure</b>		
<b>Parks and Open Spaces</b> – £15,405 Higher repair & maintenance costs. £4,295 Surveyors fees.	20,147	20,000
<b>Foreshore</b> – £6,432 Staffing costs (to be transferred to Markets); £17,132 R&M - Sheringham Prom & shelters.	24,751	15,000
<b>Leisure Complexes</b> – (£69,763) Accruals brought forward from 2021/22 for the hire of school halls; £4,226 Consultancy fees in connection with the negotiation of management fees; £101,257 Higher management fees (new contracts). This will lead to a potential full year overspend of c. £120k.	36,668	See 2.9
<b>Other Sports</b> – £14,579 Net costs associated with the Mammoth Marathon; £10,358 Staffing costs - to include a redundancy payment.	23,166	15,000
<b>Waste Collection and Disposal</b> – (£250,381) No variable billing contract invoices received from Serco; £20,924 NEWS contractor payments; £9,782 Consultancy costs associated with legal advice. (£168,707) Additional commercial fee income against profiled budget; £35,838 Accruals brought forward relating to the shares for the Deed of Variation and recharge of clinical waste disposal.	(345,188)	See 2.10
<b>Cleansing</b> – No variable billing contract invoices received from Serco. (£13,461) Additional income from recharging for dog and litter bins; (£4,895) Sale of vehicle.	(230,427)	0
<b>Communities – Peoples Services</b>		
Benefits Administration – Grants received from the Department for Works and Pensions (DWP) to offset additional costs of legislative changes and service improvements.	(132,453)	0
<b>Homelessness</b> - Increased Bed and Breakfast accommodation charges offset by subsidy and client contributions. Additional grant funding to be allocated to staffing and service provision.	(488,847)	0
<b>Housing Options</b> – (See Homelessness) – Additional grant income to be allocated to	53,246	0

staffing budgets.		
<b>Community</b> – This significant variance is mostly made up of grants and contributions drawn down which were not budgeted for, this is being used to fund additional staffing and partnership payments.	(407,524)	0
<b>Place and Climate Change – Planning</b>		
<b>Development Management</b> – (£50,339) Staff turnover saving due to vacant posts. (£3,979) Travel costs. £16,850 Legal fees. (£35,127) Fee income and pre-application advice. (£58,775) Section 111 & Section 106 income ringfenced to be offset by appropriate expenditure. To be allocated to fixed term contracts additional staffing contracts. The service Manager is looking to use this underspend to finance additional temporary staffing to help service provision and performance.	(131,370)	(20,000)
<b>Planning Policy</b> – Staff turnover savings due to vacant posts. Recruitment is currently in process.	(35,663)	(20,000)
<b>Conservation, Design &amp; Landscape</b> – (£52,501) Staff turnover savings due to vacant posts. £12,072 Enforcement board works. (£10,047) Grant income received from Department for Environment, Food and Rural Affairs (DEFRA). A number of the vacant posts were fixed term funded from earmarked reserves.	(52,498)	(10,000)
<b>Major Developments</b> – Staff turnover due to vacant posts. Some of this understand relates to a vacant post funded from earmarked reserves.	(55,632)	0
<b>Building Control</b> – Staff turnover due to vacant posts. Fee income over the profiled budget - as this is a self-financing service any surplus/deficit position on the fee earning element of the service will be met with a corresponding earmarked reserve movement at the year end.	(53,292)	0
<b>Place and Climate Change – Sustainable Growth</b>		
<b>Coastal Management</b> – Staff turnover due to vacant posts, this will not result in a full year effect but will require less financing from earmarked reserves.	(70,336)	0
<b>Resources – Finance, Assets and Legal</b>		

<b>Parklands</b> – This asset has now been sold; we are expecting some final account adjustments to be made.	(33,975)	(25,000)
<b>Revenue Services</b> – (£1,759,283) Covid - 19 Grant accruals b/f from 2021/22 awaiting final reconciliation work and repayment to Department for Business, Energy & Industrial Strategy (BEIS).	(1,766,521)	0
<b>Corporate Finance</b> – Staff Turnover savings due to vacant posts - this will be offset by temporary agency support costs. Subscription budget not included in the base budget. (£67,490) Accrual in relation to Business rate contributions which have not yet been offset by expenditure.	(84,638)	15,000
<b>Investment properties</b> – Additional Repair and Maintenance costs, service charge accruals not yet offset by income.	71,537	30,000
<b>Corporate and Democratic Core</b> – Accrual in respect of 2021/22 audit fees not yet offset by expenditure. (£125k) Unbudgeted grant received from Central Government for consultancy, admin and support costs relating to the Levelling Up Bid process.	(230,734)	0
<b>Legal</b> – (£20,499) Vacant post, partly offset by other prof. fees in relation to a legal case £7,266. No other major variances. Reduction in income forecast due to reduction in work carried on behalf of BCKLWN.	(14,661)	51,000
<b>Resources – Organisational Resources</b>		
<b>Car parking</b> – Higher than anticipated R & M costs of £30,224. (£174,409) Car park income is up against the profiled budget. This budget will continue to be monitored.	(144,185)	(100,000)
<b>Public Conveniences</b> - £8,125 R&M Buildings Overspend due to unbudgeted vandalism and arson costs. £6,713 Overspend in relation to £10,900 Overspend in relation to Electricity Costs. £8,435 Overspend in relation to Toilet Unit Hire at Weybourne. £9,280 Unbudgeted costs in relation to Sanitary & Nappy waste collection service. £8,868 Overspend in relation to Cromer Melbourne - removal of internal walls.	45,835	20,000
<b>Customer Services - Corporate</b> – (£24,847) Staff turnover savings due to vacant posts. (£10,610) Service charge Income.	(41,964)	(25,000)
<b>Net Position</b>	<b>(3,972,561)</b>	<b>41,000</b>

2.13 Table 2 below summarises the bottom-line position of all the current Full Year effects.

**Table 2 – Full Year Effects**

	<b>Budget YTD £</b>	<b>Actuals YTD £</b>	<b>YTD Variance £</b>	<b>Estimated FYE £</b>
<b>Net Cost of Service</b>	7,139,887	3,113,302	(4,026,585)	41,000
<b>Employee Inflation</b>				474,000
<b>Energy Costs</b>				200,000
<b>Leisure Contract</b>				114,150
<b>Serco Waste Contract</b>				220,000
<b>External interest – Received/Paid</b>	(495,558)	(660,264)	(164,706)	(139,915)
<b>Income from Government Grant and Taxpayers</b>	(7,770,840)	(7,770,840)	0	0
<b>Total FYE</b>				<b>909,235</b>

2.14 This report recommends funding any out-turn deficit from the general reserve. At the end of 2021/22 £616k was added to this reserve to help offset the national impacts of additional costs such as pay inflation, contract inflation and energy price increases. At the current forecasts this would result in an additional £293k being needed from the general reserve compared to budgets, we will continue to try and address the forecast deficit for the year by looking to make further savings and reallocate resources within the current budget.

### **3. Non-Service Variances to period 6 2022/23**

#### **Investment Interest**

- 3.1 The interest budget for 2022/23 anticipates that a total of £1,149,481 will be earned from treasury investments and loans made for service purposes. Overall an average balance of £42.8m is assumed, at an average interest rate of 2.68%.
- 3.2 At the end of period 6, a total of £714,335 has been earned, resulting in a favourable variance against the year to date budget of £139,751. The average rate of interest achieved was 3.25% from an average balance available for investment of £43.8m. At the end of the year a favourable variance against the budget of £279,195 is anticipated. A total of £32.0m has been invested in pooled funds which are valued at £34.1m at the end of period 6. The high return of interest and variance over budget is a market consequence of the base rate increases following the economic events of Russia. Capital values are not as high as they have been in previous years, this is attributed to the market uncertainty following the election of the new Prime Minister. Both of these forces are outside of Council control but have a direct impact in the total investment return.

- 3.3 The Council has a balanced portfolio with a diverse range of funds investing in different instruments. The Council can expect the valuation of its pooled investments to continue to be volatile, but this is in line with expectations when the investments were placed. The risks inherent in the volatile nature of these investments are mitigated as the Council intends to hold them for the long term, subject to accounting rules remaining constant for the treatment of the valuation changes.
- 3.4 Interest rates no longer outperform borrowing rates due to world events outside of the Council's control as mentioned in point 3.2 above. However this is viewed as a temporary setback, with predictions of rates returning to an acceptable level by the end of March 2023. Holding onto investments still provides the best rate of return for the Council at this time, a significant portion of the extra interest earned in point 3.2 above will be required to pay the increased borrowing interest as outlined below.

### **Borrowing Interest**

- 3.5 The budget for 2022/23 anticipates that £2,000 would be paid in interest for short-term borrowing for cash flow purposes.
- 3.6 At period 6, a total of £59,246.57 has been paid resulting in an adverse variance against the budget of £57,246.57. At the end of the year an adverse variance against the budget of £143,280 is anticipated. This is following increased borrowing interest rates from economic events as highlighted in point 3.2. No extra levels of borrowing have been carried out compared to the previous year, the amount of money borrowed is the same. However there is a consistent deficit of liquid cash.
- 3.7 The figure of £143,280 is likely to be the end of year cost of borrowing. Borrowing arrangements were agreed on the 24<sup>th</sup> September (before the predicted rates increase on the 25<sup>th</sup>) to secure necessary funds to fulfil the Council's financial needs to the end of March 2023. Borrowing for a longer duration at much lower rates (1.3% for 3 month borrowing, 2.8% for 6 month borrowing) was more favourable than borrowing at a higher rate for a shorter period of time due to the rapid increases in the borrowing rate (rate of borrowing was 3.1% for 3 month, 3.55% for 6 month as at 30/09/2022).
- 3.8 Interest for long-term borrowing has been budgeted for £143,532 for financing the re-provision of Splash Leisure Centre and purchase of Waste Vehicles.
- 3.9 At period 6, there had been no commitments to long-term borrowing for capital purposes. At end of the year, if long-term borrowing is not undertaken a favourable variance of £143,532 against budget is forecast, although at the present time we are assuming that the borrowing will be taken. This may change dependent on future cash inflows and the timing of the repayment of excess grant funding from central government. The decision to undertake short-term or long-term borrowing will be made in line with our borrowing strategy.

### **Summary**

- 3.10 Please be aware that borrowing rates have increased significantly as of the 25<sup>th</sup> September 2022, the gap between the rate of return of interest and



borrowing is the highest it has been in the last few years. (Interest approximately 2.2%, Borrowing 3.4%). In prior years the interest return rate has always been higher than the borrowing rate. This is again due the world events mentioned in point 3.2.

- 3.11 The Council's treasury advisors Arlingclose have recommended that all Council's take due caution in making any large capital expenditure outside of the current approved programmes as the costs for these will need to be borrowed at an expense to the Council. The current projections is that the difficult market situation will be resolved by the end of March 2023.
- 3.12 The Council still maintains a strong overall investment position. The predicted borrowing cost of £143,280 is outweighed by the predicted favourable variance on interest earned of £279,195 (as mentioned in 3.2.) Leaving a total favourable gain of £135,915 at the end of the 2022/23 financial year

#### **Retained Business Rates**

- 3.13 There is currently no variance showing against Non-Domestic Rates income for the financial year at this stage of the year. The final variance will not be known until the NNDR3 form is completed at the end of the financial year and the grant actually due to the authority has been determined. Any large value appeals or anything which may significantly affect the NNDR income will be reported in future reports if required.

#### **4. Capital**

- 4.1 Total Capital expenditure amounted to £1,100,731.59 (including budgeted capital salaries) across all projects up to 30 September 2022.
- 4.2 The Capital Programme has is being updated to reflect any current year adjustments and will be presented alongside the next budget monitoring report.

#### **5. Reserves – update for changes including the capital expenditure**

- 5.1 The Council's current Reserve Statement is included at Appendix C, this gives the latest position of amounts allocated to services. Included in this position is the £615,740 outturn surplus from 2021/22 contribution to the general reserve.

#### **6. Corporate Plan Objectives**

- 6.1 Corporate Plan objectives are supported by the Councils allocated budgets

#### **7. Medium Term Financial Strategy**

The report provides an update on the budget monitoring position to the end of September 2022 which forms part of the Medium Term Financial Strategy

#### **8. Financial and Resource Implications**

The report is financial in nature and financial implications are included within the content of the report.

#### **9. Legal Implications**

None as a direct consequence of this report

**10. Risks**

**10.1** The detail within section 2 of the report highlights the more significant variances including those that are estimated to result in a full year impact.

**10.2** The estimated outturn will continue to be monitored during the year.

**11. Sustainability**

None as a direct consequence of this report

**12. Climate / Carbon impact**

None as a direct consequence of this report

**13. Equality and Diversity**

None as a direct consequence of this report

**14. Section 17 Crime and Disorder considerations**

None as a direct consequence of this report

**15. Conclusion and Recommendations**

15.1.1 The revenue budget is showing an estimated full year overspend for the current financial year of £909,235. The overall financial position continues to be closely monitored.

15.1.2 The Council will continue to try and address the forecast deficit which may arise during the year by looking to make further savings and reallocate resources within the current budget as the reserves are already under pressure and only represent a one-off source of funding which is not sustainable in the medium term. Should the Council not be able to make these adjustments in year then reserves will be required to balance