

| <b>BUDGET MONITORING P10 2023/24</b> |   |
|--------------------------------------|---|
| <b>Executive Summary</b>             | <p>This report provides an update on the Council's financial performance and projected outturn for 2023/24 for the revenue account, capital programme and reserves statement as at the end of January 2024.</p> <p>As at 31 January 2024, the General Fund projected deficit is £0.986m for the full year 2023/24. This is after adjusting for all known variations and full year forecasting by service managers.</p>  |
| <b>Options considered</b>            | This is an update report on the Council's financial position and so no other options were considered.   |
| <b>Consultation(s)</b>               | Cabinet Member<br>Section 151 officer<br>Budget Managers  |
| <b>Recommendations</b>               | <p>It is recommended that Cabinet:</p> <ol style="list-style-type: none"> <li>1) Note the contents of the report and the current forecast year end position.</li> <li>2) Note the actions to take some short term borrowing and to call back some of the investments that are in our pooled funds.</li> <li>3) Approve the use of the Economic Regeneration Reserve as required as proposed in paragraph 2.25.</li> <li>4) Approve the use of £0.2m of the Treasury Management reserve to cover the overspend as proposed in paragraph 2.42.</li> <li>5) Note that officers will work together to take action to reduce the overall projected General Fund deficit at the for 2023/24.</li> </ol> |
| <b>Reasons for recommendations</b>   | To update members on the current budget monitoring position for the Council.  |
| <b>Background papers</b>             | \\fs\Accounts\Budget Monitoring\BUDGET MONITORING\2023-24\Period 10\Report and Appendices\Draft Budget Monitoring P10 2023-24 .doc  |
| <b>Wards affected</b>                | All   |
| <b>Cabinet member(s)</b>             | Cllr Lucy Shires  |
| <b>Contact Officer</b>               | Tina Stankley, Tina.stankley@north-norfolk.gov.uk   |

| <b>Links to key documents:</b>        |   |
|---------------------------------------|---|
| Corporate Plan:                       | Budgets set to support the Corporate Plan objectives.                 |
| Medium Term Financial Strategy (MTFS) | Budget process in line with MTFS                                      |
| Council Policies & Strategies         | Service Budgets set in line with the council policies and strategies. |

| <b>Corporate Governance:</b> |
|------------------------------|
|------------------------------|

|  |                    |
|--|--------------------|
| Is this a key decision                             | no                 |
| Has the public interest test been applied          | Not an exempt item |
| Details of any previous decision(s) on this matter | N/A                |

## 1. Introduction

1.1 This report provides an updated year-end forecast position for the General Fund for 2023/24 which is based on the actual income and expenditure position as at 31 January 2024 when compared to the latest updated budget for 2023/24. The Original Budget which was agreed by full Council on 22 February 2023 has been updated to reflect approved budget virements. It also discusses the reasons for this forecast position.

## 2. Revenue

2.1 The General Fund Summary at Appendix A shows the high-level budget monitoring position as at 31 January 2024 and highlights a year-to-date variance of £1,122,754 underspend for the net operating expenditure against the profiled updated budget.

2.2 The table below summarises this the position as at 31 January 2024. Financial position as at 31 January 2024:

|  | <b>2023/24<br/>Base<br/>Budget<br/>£</b> | <b>2023/24<br/>Updated<br/>Budget<br/>£</b> | <b>2023/24 YTD<br/>Budget<br/>£</b> | <b>2023/24 YTD<br/>Actuals<br/>£</b> | <b>2023/24<br/>YTD<br/>Variance<br/>£</b> |
|--|--|---|-------------------------------------|--------------------------------------|---|
| <b>Directorate</b>                     |  |   |                                     |                                      |   |
| Corporate Leadership/Executive Support | 484,705                                  | 525,720                                     | 424,283                             | 461,406                              | 37,123                                    |
| Communities                            | 12,243,383                               | 11,733,424                                  | 8,948,747                           | 8,050,325                            | (898,422)                                 |
| Place and Climate Change               | 6,509,032                                | 6,500,859                                   | 4,428,409                           | 4,586,618                            | 158,209                                   |
| Resources                              | 5,108,854                                | 5,518,103                                   | 4,132,000                           | 3,548,736                            | (583,264)                                 |
| <b>Net Cost of Services</b>            | <b>24,345,974</b>                        | <b>24,278,106</b>                           | <b>17,933,439</b>                   | <b>16,647,085</b>                    | <b>(1,286,354)</b>                        |
| Parish Precepts                        | 2,875,207                                | 2,875,207                                   | 2,875,207                           | 2,875,441                            | 234                                       |
| Capital Charges                        | (2,456,953)                              | (2,456,953)                                 | (2,046,643)                         | (2,046,860)                          | (217)                                     |
| Refcus                                 | (1,677,167)                              | (1,677,167)                                 | 0                                   | 0                                    | 0   |
| Interest Receivable                    | (1,533,436)                              | (1,533,436)                                 | (1,277,355)                         | (1,470,161)                          | (192,806)                                 |
| External Interest Paid                 | 0  | 0   | 0                                   | 356,389                              | 356,389                                   |
| Revenue Financing for Capital:         | 710,000                                  | 3,757,576                                   | 0                                   | 0                                    | 0   |
| MRP Waste Contract                     | 330,000                                  | 330,000                                     | 0                                   | 0                                    | 0   |
| IAS 19 Pension Adjustment              | 265,496                                  | 265,496                                     | 0                                   | 0                                    | 0   |
| <b>Net Operating Expenditure</b>       | <b>22,859,121</b>                        | <b>25,838,829</b>                           | <b>17,484,648</b>                   | <b>16,361,894</b>                    | <b>(1,122,754)</b>                        |

### Variance by Service Area

2.3 Appendix B included with this report provides explanations for the variances for each service heading. These are the variances when comparing expenditure for the 10 months to 31 January 2024 months of the year against the updated budget for the same period.

## Variance by Subjective Headings

- 2.4 In line with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice the Council's budgets are prepared using recommended subjective headings; these are, employees, premises, transport, supplies and services, third party payments, transfer payments, support services, capital charges and income. The following table provides a summary of year-to-date variances i.e. as at 31 January 2024.

|                            | 2023/24                    |                    |                     | 2023/24            |
|----------------------------|----------------------------|--------------------|---------------------|--------------------|
|                            | Projected Full Year Budget | 2023/24 YTD Budget | 2023/24 YTD Actuals | YTD Variance       |
|                            | £                          | £                  | £                   | £                  |
| Employee Costs             | 16,801,072                 | 14,039,025         | 13,218,911          | (820,114)          |
| Premises                   | 3,779,344                  | 3,260,408          | 3,464,932           | 204,524            |
| Transport                  | 310,359                    | 254,496            | 220,826             | (33,670)           |
| Supplies and Services      | 13,693,324                 | 10,114,726         | 10,369,372          | 254,646            |
| Transfer Payments          | 17,078,067                 | 0                  | 0                   | 0                  |
| Support Service charges    | (378,755)                  | (298,206)          | (297,733)           | 473                |
| Capital Charges            | 4,134,119                  | 2,046,682          | 2,046,970           | 288                |
| Income                     | (31,139,424)               | (11,483,692)       | (12,376,193)        | (892,501)          |
| <b>Net Cost of Service</b> | <b>24,278,106</b>          | <b>17,933,439</b>  | <b>16,647,085</b>   | <b>(1,286,354)</b> |

## Forecast Outturn

- 2.5 The position at the 31 January 2024 forms the basis for projecting the year end outturn position. This position is adjusted for items such as grants that will be spent, vacancies that will continue or be filled, known commitments and projections of income.
- 2.6 The table below provides a high level breakdown of the anticipated year end position which shows there will be a General Fund Deficit of £0.986m at 31 March 2024 (Line 10 in table below).

| Forecast year-end variance compared with Budget |   | £'m          | Variance Favourable (F) /Adverse (A) |
|---|---|--------------|--------------------------------------|
| 1   | Employee Costs  | -0.578       | F                                    |
| 2   | Premises Costs  | 0.288        | A                                    |
| 3   | Transport Costs   | -0.030       | F                                    |
| 4   | Supplies and Services Costs                                     | 0.394        | A                                    |
| 5   | Income  | 0.132        | A                                    |
| 6   | <b>Total forecast year-end variance for Net Cost of Service</b> | <b>0.206</b> | A                                    |
| 7   | Housing Subsidy recovered for Temporary Accommodation           | 0.600        | A                                    |
| 8   | Net Investment Interest/Interest Paid                           | 0.375        | A                                    |
| 9   | Government Grants & Local Taxpayers                             | -0.195       | F                                    |
| 10  | <b>Forecast variance - Deficit</b>                              | <b>0.986</b> | A                                    |

- 2.7 Explanation of the significant forecast year end variances are contained in the following paragraphs.

**Employee Costs £0.578m Favourable (Line 1 in table at paragraph 2.6)**

- 2.8 Direct – during 2023/24 there have been several vacant posts which has resulted in an underspend against this budget, and after adjusting for posts funded from earmarked reserves, the forecast full year underspend is £578,000. This is effectively reduced further to £378,000 after covering the spend on agency staff that have been brought in to cover vacancies.
- 2.9 Indirect - underspends in qualification and generic training are anticipated to deliver a full year saving of £22,000. However as there is a £15,000 increase in employee related insurance premiums it nets down to just a £7,000 saving for the year.

**Premises £0.288m Adverse (Line 2 in table at paragraph 2.6)**

- 2.10 Repairs and Maintenance – There are two main areas where spend has exceeded the budget and this was where it has been necessary to undertake work to maintain the Council's assets. The overspend here is forecast to be £39,000. It has been necessary to carry out maintenance on the car park machines which is forecast to exceed the budget by £35,000 by the year end.
- 2.11 Grounds Maintenance - Emergency tree work has had to be carried out which will result in a projected overspend for the year of £60,000.
- 2.12 Rents – As there have been higher car park receipts at the car parks where this income is shared with relevant parishes (Fakenham/Sea Palling/Mundesley) this will result in the Council having to pay over an additional £16,000 thus creating an overspend. An overspend of £20,050 has arisen as the Council has had to hire a temporary public convenience.
- 2.13 Business Rates – reduced business rates payments resulting in a full year saving of £25,000.
- 2.14 Energy costs – Increased electricity and gas costs across the council's services, including car parking, public conveniences and amenity lighting is predicted to cost £123,000 more than the budget for the year.
- 2.15 Insurances – Increase in insurance premiums for premises will result in an overspend of £20,000 for the year.

**Transport Costs £0.030m Favourable (Line 3 in table at paragraph 2.6)**

- 2.16 Reduced mileage claims should result in a full year saving of £30,000.

**Supplies & Services £0.394m Adverse (Line 4 in table at paragraph 2.6)**

- 2.17 Reduced levels of spending on miscellaneous equipment and materials are forecast to deliver a saving of £15,000 for the year.
- 2.18 Fees and Services – the spend above the budget for agency staff and professional support is forecast to be £220,000 above the budget. However this is offset by the savings of £200,000 in the employee budgets that have arisen because of staff vacancies. The agency staff have been brought in

cover these vacancies. This effectively gives a net overspend position of £20,000.

- 2.19 Savings have been made in other various professional fee budgets including Legionella works, the cancellation of the Mammoth Marathon and in the IT service, which will partly offset the overspend in in the same areas e.g. Mammoth Marathon costs (see paragraph 2.31).
- 2.20 Consultancy fees – There is a forecast overspend for the year of £41,000 against this budget, which can be attributed to the spend of £25,000 above budget on External HR advice and spend of £10,000 above budget on Occupational Health referrals. Leisure Services also have an overspend against this budget of £6,000 for the consultancy advice that was needed to resolve an issue at the Reef.
- 2.21 Norfolk County Council land charge fees – there is saving of £25,000 due to reduced applications. However this is negated by the adverse variance in land charge fee income.
- 2.22 Election costs – there is a net adverse variance of £70,000 for this budget and there were higher costs for the elections that were associated with the introduction of voter ID being required e.g. additional staffing at polling stations and additional stationery plus there was an increase in costs due to inflationary cost pressures.
- 2.23 Annual Council Tax billing costs are anticipated to be £24,000 higher than budgeted for. This is due to inflationary increases in costs.
- 2.24 General insurance premiums are renewed in July each year after the budget has been set in the February. An estimated increase is included in the budget. However the insurance premiums increased by more than was anticipated. This was in part because of the inflationary pressures. The adverse variance is forecast to be £35,000.
- 2.25 Grants and Contributions – Members agreed to fund the Sustainable Communities Fund using £125,000 of the UK prosperity fund in 2023/24. However the full amount of the grant was allocated without allowing for this. This overspend could be largely funded from the Economic Development Reserve.

**Income £0.132m Favourable (Line 5 in table at paragraph 2.6)**

- 2.26 There are several service areas where there are forecast to be favourable variances for the year. However these will not have an impact on the Council's bottom line as they are offsetting related expenditure overspends or are being transferred to reserves for future use.
- 2.27 There have been additional grants and contributions received above the level budgeted for, but these have been received to cover specific expenditure e.g. additional grant to cover the increase in election expenses; government subsidy and client contributions that are covering increased supplies and service costs for temporary accommodation. Additional New Burdens funding has been received but this must be used for specific additional expenditure e.g. for Revenue Services to fund the additional costs incurred that are due to changes in legislation. Other grants have been received for specific purposes e.g. Household Support Fund grant is to cover additional expenditure that will be incurred because of introducing this scheme.

- 2.28 Additional Waste and Recycling income in respect of contract defaults (just under £400k) is due in 2023/24. However, in accordance with the contract, it has been agreed that any such payment by the contractor to the Council will be ring-fenced as an 'Innovation fund' which must be used for specific projects that will bring about improvements in service delivery.
- 2.29 Fees – Actual income for Planning, Building Control and Land Charges fees are showing a significant adverse variance when compared with the budget. This is forecast to be £365,000 by the end of the financial year. The use of these services by individuals, businesses and developers has fallen significantly in 2023/24. There are three main reasons for this, which are the impact of increases in the cost of living reducing disposable income, the impact of nutrient neutrality and waiting for the outcome of the Local Plan e.g. a large development scheme is on hold waiting for the outcome of the Local Plan before it proceeds. It is anticipated that this will generate fee income in excess of £500,000 over a two to three year period when it starts.
- 2.30 Car parking fees and income from season tickets is expected to exceed the budget and generate an additional £213,500 of income.
- 2.31 The cancellation of Mammoth Marathon will result in a £35,000 loss of income although this will be partly offset by corresponding savings in supplies and services.
- 2.32 There is forecast to be £63,000 adverse variance in rental income from Investment properties for the year. However in other areas there is forecast to be a favourable variance for income of £52,290, relating to various service areas including rechargeable dog and litter bins, and events.

#### **Impact on Service Areas (Line 6 in table at paragraph 2.6)**

- 2.33 The following shows the impact of the variances explained in paragraphs 2.8 to 2.32 on Service Areas.

| <b>Forecast year-end variance compared with Budget for Service Areas</b> |  |              | <b>Variance Favourable (F) /Adverse (A)</b> |
|--|--|--------------|---|
|  |  | <b>£'m</b>   |   |
| 1  | Corporate Leadership/Executive Support                         | 0.069        | A   |
| 2  | People Services - Communities                                  | -0.088       | F   |
| 3  | Environment & Health Services - Communities                    | -0.017       | F   |
| 4  | Sustainable Growth - Place & Climate Change                    | 0.132        | A   |
| 5  | Planning - Place & Climate Change                              | 0.180        | A   |
| 6  | Finance, Assets & Legal - Resources                            | 0.075        | A   |
| 7  | Organisational Resources - Resources                           | -0.146       | F   |
| 8  | <b>Forecast variance for the Net Cost of Service - Deficit</b> | <b>0.206</b> | A   |

#### **Non-Service Variances**

#### **Housing Benefit Subsidy £600,000 Adverse (Line 7 in table at paragraph 2.6)**

- 2.34 The Housing Benefit Subsidy grant payments received by the Council are based on subsidy claims submitted to the Department for Works and Pensions (DWP). Neither the income nor the expenditure is included in the revenue budget figures until the final subsidy position is confirmed as part of

outturn each year. The main reason for this is that they vary significantly compared to both the budgets and the payments to claimants that they relate to, due to timing issues. Subsidy grant payments are paid monthly based on the relevant claim submitted and these do not relate directly to the payments made to claimants in that month necessarily.

- 2.35 For 2023/24, the Council have set a cost neutral budget of £16.9m expenditure and income. The rate of recovery (i.e. how much the Council can claim back from the Government for housing benefit paid to claimants) for most of the correctly paid subsidy is 100%.
- 2.36 However, this is not the case for housing benefit claims paid for temporary accommodation. The Council has to pay the full entitlement of housing benefit to the claimant to go towards their housing costs. The amount paid back by the Department for Work and Pensions (DWP) through the subsidy arrangements is limited to 90% of the Local Housing Allowance (LHA) rates. These LHA rates, calculated by the Valuation Office Agency (VOA, a government agency), are based on rental prices in a geographical area and these can be a lot lower than the actual amounts being charged in rent. In such cases this means that if the cost of the housing benefit claim is higher than those rates, the local authority loses money. As there are increasing numbers of people presenting themselves as homeless this is creating a growing cost pressure for the Council.
- 2.37 In previous years this cost pressure has been offset by the recovered overpayments from claimants. However since 2019/20 as the number of people requiring temporary accommodation has been increasing sharply the cost pressure has been increasing and since 2019/20 the amount of recovered overpayments from claimants has been insufficient to cover this cost pressure. In 2019/20 the gap between the cost pressure and recovered overpayments from claimants was £0.2m. For 2023/24 the current mid-year estimates indicate that this figure is likely to be £0.6m for the full year. This is a significant risk, which will remain throughout the term of the Medium Term Financial Plan, unless there is a change to the amount that can be reclaimed from the Government.

**Interest Received/Paid £375,000 Adverse (Line 8 in table at paragraph 2.6)**

- 2.38 The net investment income budget for 2023/24 is £1.5m. This is based on an assumed average balance of £34.2m, at an average interest rate of 4.48%. The average rate of interest that has been achieved so far is 5.91% from an average balance available for investment of £32.9m. This difference in interest rates has resulted in a forecast year end surplus of £0.219m.
- 2.39 Whilst there was no budget set for borrowing interest to be paid 2023/24, which was a decision taken back in December 2022 there has been a need to take short term borrowing throughout the year which is forecast to cost £0.594m (interest paid) for the full year. This is effectively the cost of the borrowing that is for previous years' capital expenditure that was to be funded by borrowing e.g. £8.4m for the Reef. The alternative would be to call back an equivalent amount of our pooled investments, which would have resulted in a loss of investment income of a similar sum. However at some point in the future the cash will need to be replenished that has been used to date for these schemes (i.e. internal borrowing).
- 2.40 This need to borrow is an indicator that the Council will soon need to consider taking some of the external borrowing that was planned. However as the

interest rates are at the highest level that they have been at for a considerable time, now is not the time to take any long-term borrowing.

- 2.41 The overall net effect of the favourable variance of £0.219m for investment income and the adverse variance of £0.594m for external interest paid is a net cost pressure of £0.375m. It is proposed that £0.200m is taken from the Treasury Management Reserve to reduce the impact on the General Fund Reserve. This reserve was set up for this purpose.
- 2.42 Also to bring some certainty and stability to this situation two of the pooled funds totalling £3.157m will be called back and a PWLB (EIP – equal instalments payments) loan of potentially £5-6m will be taken for the minimum length of time at some point during 2024/25. At the time of writing this report the cost of a one and a half to two year loan at the current interest rate of 5.66% will cost:

|                 |   |
|-----------------|---|
| Amount borrowed | Total amount repaid including principle |
| £5.000m         | £5.354m                                 |
| £6.000m         | £6.425m                                 |

- 2.43 The amount taken will be kept to a minimum and will be delayed until needed but taking the loan will have the benefit of knowing how much interest will be paid, repaying some of the principle during the lifetime of the loan and that by taking this as a short-term loan it will allow interest rates to drop (as predicted by economists at a national level) before taking the long-term loan that will match the life of the asset.

### **Retained Business Rates**

- 2.44 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 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 as they arise.

### **Capital**

- 2.45 Total Capital expenditure amounted to £10.873m (excluding budgeted capital salaries of £0.123m which are not allocated to individual capital schemes until after the year end when the outturn position is calculated) across all projects up to 31 January 2024. The budget for these schemes is £53.915m. There is an underspend of £43.042m as at 31 January 2023. The details of the spend against budget is shown in Appendix C. The capital financing of the capital programme is not calculated until the final outturn position is known so that the best use of resources can be achieved, but the forecast funding is shown in Appendix C too which is in line with what has been previously approved when the Capital Programme by full Council at its budget setting meeting in February each year.

## **4 Reserves**

- 4.1 The Council's current Reserve Statement is included as part of the report at Appendix D, this gives the latest position of amounts allocated to services.



## **5 Corporate Priorities**

- 5.1 Corporate Plan objectives are supported by the Council's allocated budgets.

## **6 Financial and Resource Implications**

- 6.1 This report is financial in nature and financial implications are included within the content of the report.

## **7 Legal Implications**

None as a direct consequence of this report

## **8 Risks**

- 8.1 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.
- 8.2 The estimated outturn will continue to be monitored during the year.

## **9 Net Zero Target**

None as a direct consequence of this report

## **10 Equality and Diversity**

None as a direct consequence of this report

## **11 Community Safety Issues**

None as a direct consequence of this report

## **12 Conclusion and Recommendations**

- 12.1 The revenue budget is showing an estimated full year overspend for the current financial year of £0.986m, compared to £0.515m reported in September 2023. The overall financial position continues to be closely monitored.
- 12.2 The Council will continue to take steps to reduce the forecast deficit for 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. This report seeks approval to use £200,000 of the Treasury Management Reserve to cover some of the borrowing costs which is in line with the intended use of this reserve. It also seeks approval to use the remaining balance (after meeting commitments) of the Economic Regeneration Reserve to cover in part the shortfall in funding for the Sustainable Communities Fund. The Council will need to use other reserves to meet any in year deficit and to balance the budget.
- 12.3 The Capital Programme is showing spend of £10.873m against a budget £53.915m. Whilst the variance is large there are three budgets for the major coastal schemes, totalling £34m, that are just getting underway. There are also numerous projects that have yet to begin and for which the use of the funding for them is not time limited. So these underspends are not a matter for concern.