

**Bolsover District Council**

**Meeting of the Executive on Monday 31st October 2022**

**Budget Monitoring Report**

**Report of the Portfolio Holder for Finance**

<b>Classification</b>	This report is public
<b>Report By</b>	Assistant Director of Finance and Resources
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**PURPOSE/SUMMARY OF REPORT**

To update Executive on the financial position of the Council following the second quarter's budget monitoring exercise for the General Fund, the Housing Revenue Account (HRA), Capital Programme and Treasury Management activity.

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**REPORT DETAILS**

- 1.1 This report provides the current financial position following the 2022/23 quarter 2 monitoring exercise.

**General Fund Revenue Account**

- 1.2 The General Fund Revenue Account summary is shown in Appendix 1. The original budget for 2022/23 showed a funding deficit of £0.082m. The current budget shows this has reduced to £0.138m surplus after the Council tax increase, Q1 vacancy savings and other small movements are included. As savings are identified and secured they are moved into the relevant cost centres within the main General Fund Directorates. Appendix 2 details the net cost of each cost centre within the Directorates.
- 1.3 After quarter 1 the salary budgets were adjusted to remove the £0.131m identified in the report. This saving was due to a combination of vacant posts taking longer to fill, maternity leave and restructuring changes. Salary budgets are already being reviewed for further savings as part of the revised budget process and savings will be removed from budgets where possible.
- 1.4 Within the Directorates there is the following to report:

- The Resources Directorate shows a favourable variance of £0.463m. This relates mainly to :
  1. Under spends due to invoices not yet paid and vacancies at the end of the quarter (£0.632m) – favourable.
  2. Income received in advance of any expenditure (£1.016m) – favourable
  3. Annual invoices were paid in quarter 1 which makes the profiled budget look overspent (£0.467m) – adverse.
  4. Expenditure has been spent but the income hadn't been received as it is claimed in arrears (£0.513m) – adverse.
  5. Over spends against quarter 1 budget due to less income received, new pressures or where expenditure is seasonal and not profiled over 4 quarters (£0.239m) – adverse
  
- The Strategy and Development Directorate shows a favourable variance of £0.444m. This relates mainly to:
  1. Under spends due to invoices not yet paid and vacancies at the end of the quarter (£0.738m) – favourable.
  2. Income received in advance of any expenditure (£0.280m) – favourable.
  3. Annual invoices were paid in quarter 1 which makes the profiled budget look overspent (£0.315m) – adverse.
  4. Expenditure has been spent but the income hadn't been received as it is claimed in arrears (£0.238m) – adverse.
  5. Over spends against quarter 1 budget due to less income received, new pressures or where expenditure is seasonal and not profiled over 4 quarters (zero) – adverse.
  
- 1.5 In order to improve the monitoring and control of Section 106 monies received by the Council, the sums due to be utilised in a financial year are now recorded within the General Fund directorate budgets with the expenditure recorded against these sums. The amount budgeted to be spent in 2022/23 is £1.449m. Of this £0.030m has to be spent by 1/11/22 and a further £0.068m has to be spent by December 2022. Officers are working to ensure that this spend is undertaken in line with the S106 legal requirements.
  
- 1.6 The overall position at the end of quarter 2 shows that there is a favourable variance of £0.907m, with most identified variances as a consequence of timing. However, work is already under way to establish a revised budget position for 2022/23. Finance began working with budget managers during quarter 2 to establish the necessary increases to fuel, utilities and inflation linked non-staff budgets caused by the current level of inflation. We will include an increase in the revised budgets for the most up-to-date position on the Local Government pay award, nearer to our cut-off time in November. Estimates of income from fees and charges, plus the latest predictions for growth are also being updated.
  
- 1.7 The table below shows the latest position of all years in the current MTFP. It should be remembered that for all years from 2023/24 there is a transfer into the general fund from the NNDR Growth Protection Reserve to replace the losses caused by changes in Government funding. As a Council we made it our strategy to save

extra income earned in years when we received more than we estimated, to be able to use it in future years' when income was reduced.

- 1.8 These transfers are £0.004m into the reserve in 2022/23, then contributions from the reserve of £3.262m in 2023/24, £2.990m in 2024/25 and £1.802m 2025/26. Any surplus made since April 2022 will be returned to the reserve to extend the use of the reserve for as long as possible.
- 1.9 This reserve is not a sustainable source of income for the general fund. For this reason we now include in table1, estimates of potential new income from current projects and plans known about by the Council. As mentioned in 1.6, as part of updating the revised budgets and the MTFP these income estimates will be updated.

<u>Table 1</u>	2022/23 Budget £000	2023/24 Budget £000	2024/25 Budget £000	2025/26 Budget £000
Budget Shortfall – MTFP Feb 2022	82	18	0	1,212
Pension costs to be funded by GF balance	(82)	(18)	0	0
Efficiencies identified to date (removed from budget)	(220)	(112)	(112)	(112)
<b>Current Budget Shortfall/(Surplus)</b>	<b>(220)</b>	<b>(112)</b>	<b>(112)</b>	<b>1,100</b>
Efficiencies identified <u>not yet realised</u>	0	(110)	(220)	(330)
Potential new income	(443)	(1,097)	(1,682)	(2,141)
<b>Target Budget Surplus</b>	<b>(663)</b>	<b>(1,319)</b>	<b>(2,014)</b>	<b>(1,371)</b>

- 1.10 Once work on revised budgets has been completed, the revised position will be presented to Members in November and December. The work on the MTFP update and the new year which also began in quarter 2 will be presented to Members in January and February.

### **Government funding update**

- 1.11 During September the Chancellor of the Exchequer announced his mini budget. There were plenty of changes to taxes but it changed very little for local government, at least directly.
- 1.12 The budget said nothing about revisiting last year's Spending Review which was announced in November 2021, even though the figures used at that time were based on 3% annual inflation and public pay rises of 1% - 2%. Inflation and pay are likely to be triple the original forecasts.

- 1.13 The Chancellor has released a statement saying that he will publish a Medium-Term Fiscal Plan on 23<sup>rd</sup> November 2022. The Fiscal Plan “will set out further details on the government’s fiscal rules.” The Government “is sticking to spending settlements for this spending review period”. Getting confirmation of the current spending review spending settlements will provide us with some short-term certainty but it also strongly implies that there will be no additional funding for inflation pressures over the next two years.
- 1.14 The medium term financial plan will be updated as far as possible to include all known implications from the new Spending Review 2022. No mention has been made of the delayed Fair Funding Review so our assumption remains that these have all been pushed back to 2025/26.

### **Housing Revenue Account (HRA)**

- 1.15 The Housing Revenue Account summary for the second quarter of 2022/23 is set out in Appendix 3 to this report. At the end of quarter 2 the HRA is showing a net surplus of £0.510m.

#### **Expenditure**

- 1.16 Expenditure shows an overall favourable variance of £0.558m. The main areas to highlight are listed below:
1. Vacancies for quarter 2 across all areas of the HRA are £0.249m. Attempts have been made to recruit to numerous vacant post but not all have been filled at this time. The savings from vacancies will be removed as part of the revised budget process.
  2. Subcontractor payments within repair and maintenance are under spent by £0.115m due to the timing of invoices being received.
  3. Rent, Rates, Taxes and Other Charges expenditure is £0.124m under spent due to the Council Tax liability on void properties not being paid until later in the year.
  4. Within supervision and management, disturbance allowance payments are over spent at £0.046m due to decanting people out of properties connected to the Bolsover Homes projects, that weren’t included in the original budget.
  5. Expenditure on new build scheme evaluations looks under spent for the quarter by £0.120m because the expenditure can’t be evenly profiled throughout the year.

#### **Income**

- 1.17 The quarter 2 income figures show an adverse variance of £0.048m. The largest variance is due to voids at £0.144m. The budget was based on a 3% voids level assumption but at the end of quarter 2, the voids were averaging 3.52% which is a slight reduction on the quarter 1 average of 3.86%.

- 1.18 Other variances for income are £0.026m adverse variance where the Travis Perkins profit share has not yet been received for 2021/22 and favourable variances for the independent living service and community alarms due to DCC notifying us after we'd produced the budget that they were extending their use of the services mentioned.

#### HRA – Overall Summary

- 1.19 In light of the above and the expenditure patterns to date, the only significant issue to report regarding the overall position for the HRA at the end of the second quarter is the reduction in income caused by voids being at a level higher than budgeted for.
- 1.20 The additional void rent loss is as a result of the on-going ambitions of the Council with the delivery of a wide range of capital schemes, the nature of these schemes often requires the decanting of tenants. Once schemes are completed it is the aim to then let all of the properties within the scheme.

#### Rent rise cap consultation – 2023/24

- 1.21 Members will be aware that The Department for Levelling Up, Housing and Communities (DLUHC) Policy Statement on rents for social housing – published February 2019 states, *'In October 2017, the government announced its intention to set a long-term rent deal for both local authority landlords and housing associations. This would permit annual rent increases on both social rent and affordable rent properties of up to CPI (Consumer Price Index) plus 1 percent from 2020, for a period of at least five years.'*
- 1.22 With inflation at 10% during September this could have meant potential increases to social housing rents for 2023/24 of 11% on top of the soaring cost of living already faced. The Government has launched a consultation on the rent rise cap seeking views on whether 3%, 5%, 7% or any other limit would be more appropriate than 11%. I have responded to the consultation on behalf of the Council.
- 1.23 There is clearly a balancing act needed to protect tenants from huge, potentially unaffordable increases while at the same time making sure the HRA 30-year business plan remains sustainable. For the life of the current medium term financial plan, we have estimated a rent increase of 2%. We have estimated the pay and inflation increases at 2.25% and 2% respectively. However, with current potential pay awards being settled much higher than this and inflation running around 10%, it is easy to see how different scenarios could cause the HRA business plan to be unbalanced.
- 1.24 Although this rent rise cap will not have any effect on the 2022/23 HRA income figures it is hoped the results of the consultation are known about in plenty of time to feed into the update of the medium term financial plan.

### Capital Programme

#### Capital Expenditure

- 1.25 The capital programme summary for the second quarter of 2022/23 is provided in Appendix 4 to this report.

- 1.26 In headline terms, the capital programme profiled budget for quarter 2 is £13.324m and the actual spend and known commitments total £9.895m, which is £3.429m behind the planned spend position. The main areas to highlight are listed below:
1. The Shirebrook Crematorium is over spent for the quarter by £0.306m but is within the years' budget. This is preliminary work being undertaken that can't be profiled evenly.
  2. Dragonfly loan and acquisition of share capital are showing as £1.105m under spent. This scheme is now being reconsidered in light of recent events.
  3. The GF Vehicle Replacements are showing as over spent for the quarter £0.633m but the scheme can't be quarterly profiled.
  4. The new build HRA properties are together £2.401m under spent for the quarter due to the phasing of the individual schemes.
  5. The HRA Vehicle Replacements appear over spent at £0.110m but again the scheme can't be quarterly profiled.
  6. The Safe and Warm scheme is currently £1.156m under spent at the end of the quarter.
- 1.27 Whilst there are no significant financial issues to report regarding capital expenditure at the end of the second quarter, it must be noted that the delivery of the approved capital programme is behind the profiled position as at quarter 2. This is not unusual.

#### Capital Resources

- 1.28 HRA – The Council has sufficient capital resources in place to finance the HRA actual expenditure and commitments at the end of the second quarter.

General Fund – The financing of the General Fund part of the capital programme is in line with the approved financing arrangements.

#### Treasury Management

- 1.29 The treasury management function covers the borrowing and investment of Council money. This includes both the management of the Council's day to day cash balances and the management of its long term debt. All transactions are conducted in accordance with the Council's approved strategy and the CIPFA Code of Practice. Good treasury management plays an important role in the sound financial management of the Council's resources.
- 1.30 The Council approved the 2022/23 Treasury Management Strategy at its meeting in February 2022. Appendix 5 identifies the Treasury Management activity undertaken during the second quarter of 2022/23 and demonstrates that this is in line with the plans agreed as part of the strategy. The income received from investments is currently much higher than budgeted. This is due to the increases in the Bank base rate we have seen since the budget was set in December. This budget will be reviewed as part of the revised budget process.
- 1.31 We have used a number of Money Market Funds (MMF's) during quarter 2 to place the cash that we don't have an immediate need to use. MMF's are currently offering better interest rates than banks although we are still achieving below bank base rate on our investments. Careful monitoring of our cash balances is being

undertaken on a daily basis and we are looking where we could put investments out for a longer period in order to obtain better rates. A full assessment of this is being done to update the revised budgets.

## **2 Reasons for Recommendation**

- 2.1 The report summarises the financial position of the Council following the second quarter's budget monitoring exercise for the General Fund, the Housing Revenue Account, Capital Programme and Treasury Management activity.

## **3 Alternative Options and Reasons for Rejection**

- 3.1 The Budget Monitoring report for 2022/23 is primarily a factual report which details progress against previously approved budgets. Accordingly, there are no alternative options to consider.

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## **RECOMMENDATION(S)**

- 1 That Executive notes the monitoring position of the General Fund at the end of the second quarter as detailed on Appendix 1 (A net favourable variance of £0.907m against the profiled budget) and the key issues highlighted within this report.
- 2 That Executive notes the position on the Housing Revenue Account (HRA), the Capital Programme and Treasury Management at the end of the second quarter (Appendices 3, 4 and 5).

Approved by the Portfolio Holder for Finance, Councillor Clive Moesby

### **IMPLICATIONS:**

**Finance and Risk:**            Yes             No

**Details:**

Financial implications are covered throughout this report.

The issue of Financial Risk is covered throughout the report. In addition, however, it should be noted that the risk of not achieving a balanced budget is outlined as a key risk within the Council's Strategic Risk Register. While officers are of the view that these risks are being appropriately managed it needs to be recognised that there may be pressures on all of the Council's main budgets as these have been or are being reduced to minimum levels. These will need to be managed carefully during the course of this financial year if we are to protect the existing financial balances and reduce the funding deficit in 2025/26 in light of current inflation levels.

On behalf of the Section 151 Officer

**Legal (including Data Protection):**            Yes             No

**Details:**

There are no legal or data protection issues arising directly from this report.

On behalf of the Solicitor to the Council

**Staffing:** Yes  No

**Details:**

There are no human resource issues arising directly out of this report.

On behalf of the Head of Paid Service

## DECISION INFORMATION

<b>Is the decision a Key Decision?</b> A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds:  <b>Revenue - £75,000</b> <input type="checkbox"/> <b>Capital - £150,000</b> <input type="checkbox"/> <input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i>	No
<b>Is the decision subject to Call-In?</b> (Only Key Decisions are subject to Call-In)	No

<b>District Wards Significantly Affected</b>	All
<b>Consultation:</b> <b>Leader / Deputy Leader</b> <input type="checkbox"/> <b>Executive</b> <input type="checkbox"/> <b>SLT</b> <input type="checkbox"/> <b>Relevant Service Manager</b> <input type="checkbox"/> <b>Members</b> <input type="checkbox"/> <b>Public</b> <input type="checkbox"/> <b>Other</b> <input type="checkbox"/>	Details:  Portfolio Holder for Finance

**Links to Council Ambition: Customers, Economy and Environment.**

<b>DOCUMENT INFORMATION</b>	
<b>Appendix No</b>	<b>Title</b>
1	General Fund Summary
2	General Fund Detail
3	HRA Summary
4	Capital Programme
5	Treasury Management Update
<b>Background Papers</b>	
<i>(These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Executive you must provide copies of the background papers).</i>	
None	