



**SOUTH
KESTEVEN
DISTRICT
COUNCIL**



**Finance, Economic Development
and Corporate Services Overview
and Scrutiny Committee**

22 November 2022

Report of
Councillor Adam Stokes
The Deputy Leader of the Council

Finance Update Report: April – October 2022

Report Author

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Purpose of Report

To inform Finance, Economic Development and Corporate Services Overview and Scrutiny Committee of the Council's forecast 2022/23 financial position as at the end of October 2022. The report covers the following areas:

- General Fund Revenue Budget
- Housing Revenue Account Budget
- Capital Programmes – General Fund and Housing Revenue Account

Recommendations

That the Finance Economic Development and Corporate Services Overview and Scrutiny Committee:

- 1. Reviews and notes the forecast 2022/23 outturn position for the General Fund and HRA Revenue and Capital budgets as at the end of October 2022 and identify any variances that require action or investigation.**
- 2. Recommends any specific actions or interventions that should be considered in order to reduce the General Fund forecast deficit.**

Decision Information

Does the report contain any exempt or confidential information not for publication?	No
What are the relevant corporate priorities?	Growth and our economy Housing that meets the needs of all residents Healthy and strong communities Clean and sustainable environment High performing Council
Which wards are impacted?	All

1. Implications

Taking into consideration implications relating to finance and procurement, legal and governance, risk and mitigation, health and safety, diversity and inclusion, staffing, community safety, mental health and wellbeing and the impact on the Council's declaration of a climate change emergency, the following implications have been identified:

Finance and Procurement

1.1 The financial implications are included within the report.

Completed by: Richard Wyles, Chief Finance Officer

Legal and Governance

1.2 As part of good governance, it is important members are kept updated in respect of the financial position of Council expenditure during the year.

Completed by: Graham Watts, Assistant Director of Governance

Risk and Mitigation

1.3 A risk register is at Appendix E and shows that all known current risks are recognised and associated mitigating actions are in place.

Completed by: Tracey Elliott, Governance and Risk Officer

2 Background to the Report

2.1 During the current financial year, the Finance, Economic Development and Corporate Services Overview and Scrutiny Committee is being provided with regular finance reports that monitor and forecast the budget against the current economic conditions that are facing the Council.

3 Revenue Budget 2022/23 – General Fund

- 3.1 The budget set by Council on 3 March 2022 was £18.247m. Table 1 shows the summary of movements.

Table 1 – General Fund Revenue Budget Amendments

Date of Approval	Revenue Budget amendment	£'000
		18,247
April 2022	Regeneration Reserve	30
April 2022	ICT Reserve	68
May 2022	Invest to Save Reserve	500
July 2022	2021/22 Budget Carry Forwards	1,632
August 2022	Waste Reserve	81
Total		20,558

- 3.2 The deficit forecast is primarily due to the inflationary increases on electricity (£200k) fuel (£200k), projected workshop cost pressures due to outsourcing of specific repairs (£82k), material costs (£200k) required for the maintenance of Councils fleet and removal of the salary vacancy factor forecasts (£446k) which is proving challenging to achieve due to the use of temporary staff where there are key vacancies. The vacancy factor will continue to be monitored throughout the remainder of the financial year, with an additional £168k of in year vacancies being forecast as at the end of October.
- 3.3 A projected net increase from the commercial waste service and an increase in interest rates receivable on investments will be used to partially offset the forecasted inflationary increases (£400k).
- 3.4 Members are reminded that the net cost of budget includes an efficiency saving of £500k for the corporate restructure. This will be achieved in 2022/23.

Table 2 – General Fund Forecast Outturn Position

Description	2022/23 Original Budget	2022/23 Current Budget	2022/23 Forecast spend	Forecast Variance	Forecast Variance
	£'000	£'000	£'000	£'000	%
Corporate	8,641	8,853	9,437	584	6.6%
Finance	4,344	4,878	4,856	(22)	(0.4%)
Growth & Culture	6,726	6,721	6,837	116	1.7%
Housing & Property	1,323	2,893	3,032	139	4.8%
HRA Recharge	(2,787)	(2,787)	(2,787)	0	0.0%
Net Cost of Service	18,247	20,558	21,375	817	4.0%
Investment Income	(101)	(101)	(501)	(400)	
Minimum Revenue Provision	291	291	291	0	
Revenue Contribution to Capital	55	55	55	0	
Drainage Rates	792	792	792	0	
Depreciation	(4,722)	(4,722)	(4,722)	0	
Net Budget Requirement	14,562	16,873	17,290	417	
Total Funding	(14,564)	(14,564)	(14,564)	0	
Transfers to/(from) earmarked reserves	2	(2,309)	(2,468)	(159)	
Net Budget Deficit	0	0	258	258	

3.5 Table 3 shows the significant forecast variances which impact across all directorates for the General Fund revenue for 2022/23 as at 31 October 2022.

Table 3 – General Fund Revenue – Significant Variances

Explanation of Significant Variances	£'000
Utilities - Electricity Inflationary price increases in line with predicted levels has resulted in a forecast over spend. This is being monitored on actual costs during the year	200
Fuel Inflationary price increases has resulted in a forecast over spend based on modelling price at £1.45 per litre for the remainder of 22/23. This is being monitored on a weekly basis. The budgeted price per litre was £1.10	200
Salary vacancy factor A reduction in vacant posts across the Council and increases in agency provision will have a direct impact on the achievement of the salary vacancy factor. This will continue to be monitored during the year and the forecast amended accordingly	446
Investment Income Base rate increases have resulted in an increase on the interest rates available for investments. The Council is now able to secure interest rates above 3% compared with the budgeted rate of 0.5%	(400)

3.6 Appendix A provides further details of the outturn revenue position for each Directorate along with service specific variance comments other than those detailed in table 3.

4 General Fund Capital Programme 2022/23

The budget set by Council on 3 March 2022 for the 2022/23 General Fund Capital programme is £19.608m. Table 4 shows the summary of movements:

Table 4 – General Fund Capital Programme Budget Adjustments

Date of Approval	GF Budget amendment	£'000
		19,608
March 2022	Changing Places Facilities – Grant award	160
April 2022	Street Scene Vehicle Procurement – delivery of vehicles in March 22 (funding utilised from 22/23)	(525)
May 2022	Disabled Facilities Grant- additional award	115
July 2022	2021/22 Budget Carry Forwards	990
Total		20,348

- 4.1 Table 5 summarises the General Fund Capital forecast outturn position as at 31 October 2022.

Table 5 – General Fund Capital Forecast Outturn Position

Capital Scheme	2022/23 Original Budget	2022/23 Current Budget	2022/23 Forecast spend	Forecast Variance	Forecast Variance
	£'000	£'000	£'000	£'000	%
Corporate	2,517	2,349	2,339	(10)	(0.4%)
Finance	0	27	27	0	0.0%
Growth & Culture	13,992	14,059	13,934	(125)	(0.9%)
Housing & Property	3,099	3,913	3,274	(639)	(16.3%)
Total Expenditure	19,608	20,348	19,574	(774)	(3.8%)

- 4.2 Table 6 shows the significant forecast variances for the General Fund capital schemes for 2022/23 as at 31 October 2022.

Table 6 – General Fund Capital – Significant Variances

Explanation of Significant Variances	£'000
Shop Front Scheme It is anticipated that this year's programme will be funded from the Heritage Action Zone budget.	(125)
Welham Street- Resurfacing, Lift & Car Park barriers Savings made on lift works due to refined specifications during procurement.	(100)
Empingham Road S106 Grants Until terms and conditions of the S106 monies have been fully met, funds cannot be transferred. This is unlikely to occur in 2022/23.	(298)
Guildhall Arts Centre – Renovations Scheme is now complete and is under budget.	(35)
Stamford Arts Centre – Renovations The project is no longer proceeding and has been withdrawn as part of the budget review.	(69)
Decarbonisation Scheme The next Salix funding round will take place in March 2023. A budget carry forward into the next financial year will be required to finance match funding.	(183)

Changing Places Initial feasibility works have been completed at the Meres Leisure Centre & South Street Toilets sites. Designs have been reviewed with some amendments proposed, procurement is currently underway.	46
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5 General Fund Reserves

- 5.1 Appendix B details the General Fund forecast reserve movements for 2022/23. The appendix shows the balances at 31 March 2022 and their projected use for the current and future financial years. These reserve projections do not include any of the proposed amendments that will be presented to Council on 24 November 2022.

6 Revenue Budget 2022/23 – Housing Revenue Account

The budget set by Council on 3 March 2022 for the 2022/23 HRA Revenue Budget was £6,116m. The budgeted surplus is fully utilised to fund future investment in stock growth and property maintenance. Table 7 shows the summary of movements:

Table 7 – HRA Revenue Budget Adjustments

Date of Approval	HRA Budget amendment	£'000
		(6,116)
March 2021	Electrical Testing	150
July 2022	2021/22 Budget carry forwards	200
July 2022	Earlesfield Project	1,364
Total		(4,402)

- 6.1 Table 8 shows a reduced surplus for the HRA of £4.305m compared to a budgeted surplus of £4.402m. The increased surplus is due to an increase in interest rates receivable on investments will be used to partially offset the forecasted inflationary increases (£600k). This is offset by increased repairs and maintenance costs (£170k) and removal of the salary vacancy factor forecasts (£136k) which will be monitored throughout the remainder of the financial year. Further details of these variances are provided in table 9.

Table 8 – HRA Revenue Forecast Outturn Position

Description	2022/23 Original Budget £'000	2022/23 Current Budget £'000	2022/23 Forecast spend £'000	Forecast Variance £'000	Forecast Variance %
Income	(26,512)	(26,512)	(26,296)	216	0.1%
Expenditure	18,261	19,975	20,456	481	2.4%
Net Cost of HRA Services	(8,251)	(6,537)	(5,840)	697	10.7%
Interest Payable	2,335	2,335	2,335	0	
Investment Income	(200)	(200)	(800)	(600)	
Surplus for the year	(6,116)	(4,402)	(4,305)	97	

6.2 Table 9 shows the significant forecast variances for the HRA Revenue fund schemes for 2022/23 as at 31 October 2022.

Table 9 – HRA Revenue – Significant Variances

Explanation of Significant Variances	£'000
<p>Repairs & Maintenance</p> <p>Compliance works have required an additional £100k of electrical testing, £70k of additional costs for compensation payments being made due to disrepair claims received by the Council.</p>	170
<p>Supervision & Management – General</p> <p>There are additional costs of completing a second Tenant Satisfaction survey £18k during 2022/23.</p>	24
<p>Salary vacancy factor</p> <p>A reduction in vacant posts across the Council, an increase in notice periods and increases in agency provision will have a direct impact on the achievement of the salary vacancy factor. This will continue to be monitored during the year and the forecast amended accordingly.</p>	136
<p>Utilities- Electricity & Gas</p> <p>Inflationary price increases in line with predicted levels has resulted in a forecast over spend. This is being monitored on actual costs during the year.</p>	239
<p>Investment Income</p> <p>Base rate increases have resulted in an increase on the interest rates available for investments. The Council is now able to secure interest rates over 3% compared with the budgeted rate of 0.5%.</p>	(600)

6.3 Appendix C provides further details of the HRA revenue forecast outturn position.

7 HRA Capital Programme 2022/23

The budget set by Council on 3 March 2022 for the 2022/23 HRA Capital programme is £16.353m. Table 10 shows the summary of movements:

Table 10 – HRA Capital Programme Budget Adjustments

Date of Approval	GF Budget amendment	£'000
		16,353
July 2022	2021/22 Budget Carry Forwards	2,881
Total		19,234

Table 11 summarises the HRA Capital forecast outturn position as at 31 October 2022.

Table 11 – HRA Capital Forecast Outturn Position

Capital Scheme	2022/23 Original Budget £'000	2022/23 Current Budget £'000	2022/23 Forecast spend £'000	Forecast Variance £'000	Forecast Variance %
Energy Efficiency Initiatives	3,885	4,230	2,000	(2,230)	(52.7%)
ICT	1,170	1,220	735	(485)	(39.8%)
Repairs Vehicles	178	178	178	0	0.0%
New Build Programme	3,820	4,120	1,400	(2,720)	(66.0%)
Refurbishment and Improvement	7,300	9,761	5,292	(4,469)	(45.8%)
Total Expenditure	16,353	19,234	9,605	(9,629)	(50.0%)

7.1 Table 12 shows the significant forecast variances for the HRA capital schemes for 2022/23 as at 31 October 2022.

Table 12 – HRA Capital – Significant Variances

Explanation of Significant Variances	£'000
Central Heating, Ventilation and Boilers Slippage on this year's programme will lead to a reduced programme which will result in the inflation increases being absorbed in the existing budget.	(2,230)
Housing System Enhancements The system is forecast to go live in April 2023. Further modules will be	(485)

delivered over the next 4 years and the in year underspend will be used to fund these modules in future years.	
Communal Rooms Reduced programme and emphasis on works related to landlord health and safety. Strategic review of the communal rooms offer is planned so the immediate focus is on compliance work.	(50)
Replacement Doors & Windows Programme Difficulties with current supplier capacity has led to the need to identify an alternative supplier in order to recommence the programme	(1,087)
Housing Growth Swinegate, Grantham and Elizabeth Road, Stamford expected to start on site March 2023. Two further projects at Uplands Drive, Grantham and Larch Close, Grantham are currently in the planning stage. This year's programme will also include the acquisition of properties on the open market.	(2,720)
Kitchens & Bathrooms Programme There is an impact on the contractor delivering the programme due to other SK works being prioritised, coupled with contractor staff shortages causing capacity issues. This is causing a delay in the programme delivery.	(1,675)
Door Entry System Review of procurement arrangements to be undertaken therefore a smaller improvement scheme is planned for this year.	(280)
Exterior Refurbishment Significant inflation risk, materials and inflation uplift in contract. Mitigations - Programme to be adjusted. Delay in programmes will affect the energy efficiency targets.	(435)
Re-wiring Due to delays in starting the Earlesfield programme which commenced in October, it is not likely that the initial programme will be completed in this financial year. It is proposed to carry forward budget for completion in line with the project timeline.	(303)
Passenger Lifts, Supported Housing Scheme Pending contract award, inflation risk but budget provision likely to allow containment as tenders lower than anticipated. Lack of in-house expertise in this specialist field has led the Council to engage consultancy to procure and manage works.	(365)

8 HRA Reserves

- 8.1 Appendix D details the HRA forecast reserve movements for 2022/23. The appendix shows the balances at 31 March 2022 and their projected use for the current and future financial years. These reserve projections do not include any of the proposed amendments that will be presented to Council on 24 November 2022.

9 Inflation

9.1 Since the budgets were prepared last autumn and approved by Council in March 2022, there has been an unprecedented and completely unforeseen increase in inflation and energy costs. This context along with potential pressures on the salary budgets is causing concern that the budget framework for 2022/23 will come under pressure as the year progresses.

9.2 As part of the outturn report, an inflation reserve of £500k was created for the General Fund to absorb any potential cost pressures during the current financial year. Whilst this will provide some short-term funding support, there will be a funding pressure going into 2023/24 which will need to be considered as part of the budget setting process.

9.3 Fuel

The combined fuel budget is £690k for 2022/23 (90% General Fund and 10% HRA). Fuel usage is approximately 625,000 litres per annum and the budgeted price per litre was set at £1.10. The latest bulk purchase unit price paid was £148.75 and continues to be monitored on a weekly basis. If the price of fuel increases at the same rate for the remainder of the year then there will be a pressure of circa £230k for the current financial year and an increased pressure in next financial year. This budgetary pressure is being monitored on a weekly basis and any additional budgetary pressures will be reported to this committee at future meetings.

9.4 Utilities

The General Fund budget for electricity for 2022/23 is £517k which includes a budget increase of 17% compared to 2021/22. The HRA budget for 2022/23 is £155k which is an increase of 36% when compared to 2021/22. The General Fund budget for gas for 2022/23 is £70k, an increase of 24% compared to 2021/22. The HRA budget is £149k which is an increase of 18% compared to 2021/22.

The most recent information (as at October 2022) received from the ESPO framework has confirmed the following:

Electricity Consumption Rates:

- 100% increase from October 2022 compared to October 2021
- 10% increase from October 2023 compared to October 2022

Gas Consumption Rates

- No increase from April 2022 compared to 2021/22
- 300% compared for 2023/24 compared to 2022/23

9.5 There is currently no protection from price increases in 2023/24 which will result in significant cost increases when compared to current consumption:

	2021/22 Outturn £	2022/23 Budget £	2023/24 Indicative Budget £	2023/24 Updated Projection £
General Fund				
Electricity	403,000	516,700	554,800	1,653,000
Gas	50,600	70,000	78,600	227,900
HRA				
Electricity	176,300	154,800	170,200	629,500
Gas	104,100	148,600	163,400	499,400

Summary of 2023/24 budget increases (amount above currently budgeted):

	2023/24 (£)
General Fund	1,247,500
HRA	795,300

9.6 These projected increases relate to the Council only and therefore do not include any potential increases that may adversely impact on the Council owned companies, specifically EnvironmentSK Ltd and LeisureSK Ltd. In the event the companies are unable to accommodate the additional costs, then the necessary representation will be made to the Companies Committee.

10. Collection Rates

10.1 Table 13 details the current collection rates against target for 2022/23.

Table 13 – Collection Rates

Target Information	Council Tax	Business Rates	Rents
Annual collection rate	Target 98.60%	Target 98.32%	Target 97.35%
Target collection rate to end of October 2022	65.55%	61.53%	58.54%

Actual collection rate to end of October 2022	64.70%	64.13%	58.08%
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- 10.2 Council Tax – during the national mourning period in September, there was a cessation of recovery activity where reminders or summonses were not issued. The current cost of living pressures are resulting in an increased number of DDR cancellations causing delays to receipt of payments.
- 10.3 Business Rates – the target shown above is a comparison to the October 2021 position. There is difficulty in measuring this target due to variances in business rates over the last 3 years.

11. Reasons for the Recommendations

- 11.1 Committee Members should be kept updated on the financial position of the Authority, as effective budget management is critical to ensuring financial resources are spent in line with the budget and are targeted towards the Council’s priorities. Monitoring enables the early identification of variations against the plan and facilitates timely corrective action.
- 11.2 This report provides an overview of the forecast 2022/23 financial position for the Council and focuses on the position as at the end of October 2022.

12. Consultation

- 12.1 The Committee requested that regular reports be presented at each Overview and Scrutiny Committee (OSC) meeting to ensure members were kept fully updated on the financial situation.

13. Background Papers

- 13.1 Determination of Budget 2022/23 and indicative budgets for 24/25 – General Fund, Housing Revenue Account and associated Capital Programmes Report.
<http://moderngovsvr/documents/s32627/Council%20Budget%20Report.pdf>
- 13.2 Provisional Outturn Position 2021/22 report
<http://moderngovsvr/documents/s35223/Draft%20Financial%20Outturn%20202122.pdf>
- 13.3 Finance Update – April – August
[Finance Update Report April-August 2022 Report.pdf \(southkesteven.gov.uk\)](http://southkesteven.gov.uk/Finance%20Update%20Report%20April-August%202022%20Report.pdf)

14. Appendices

- 14.1 Appendix A – 2022/23 General Fund Significant Variance Analysis
- 14.2 Appendix B – 2022/23 General Fund Reserves
- 14.3 Appendix C – 2022/23 HRA Revenue Summary - Forecast Outturn
- 14.4 Appendix D – 2022/23 HRA Reserves
- 14.5 Appendix E - Finance Risk Register