

COUNCIL

Budget & Policy Framework Update 2022/23

14 December 2022

Report of Cabinet

PURPOSE OF REPORT This report provides an update on the Council's financial position to help inform the development of corporate planning and budget proposals.				
Key Decision	N	Non-Key Decision	Y	Referral from Cabinet Member
Date of notice of forthcoming key decision				
This report is Public				

RECOMMENDATION OF CABINET

That Council notes:

- (1) The revised budgetary position 2022/23 which is fixed for future monitoring purposes.
- (2) The draft future years estimates as set out in the report as the latest information available, accepting that this is an interim position.

1.0 INTRODUCTION

- 1.1 At its meeting 06 December 2022 Cabinet considered a report of the Chief Executive and Chief Finance Officer entitled Delivering our Priorities Q2. The aim of the report was to provide Members with an update on performance, projects, and resources during the first two quarters of 2022/23 (April – September 2022).
- 1.2 The report recommended that Cabinet “*Approves the use of the latest projected outturn figures to provide a mid-year reviewed budget position which will form the basis for future monitoring and outturn within 2022/23 and refers to full Council for noting.*”
- 1.3 The report provides Full Council with an update on the Council's General Fund budgetary position for 2022/23. The update takes account of the latest funding outlook and other information on expenditure and income pressures. Council is asked to note these values which will form the basis of future monitoring.
- 1.4 The report itself is an abridged version of that presented to Cabinet and excludes the information on performance and projects. Due to the timing of meetings and the considerable

amount of work undertaken in relation to the Councils Medium Term Financial Strategy (MTFS) and supporting the Outcomes Based Resourcing project this information has yet to be considered by Budget & Performance Panel. However, the amounts in relation to 2022/23 Quarter 2 financial performance and yearend forecasts are consistent with those within the MTFS elsewhere on the agenda. A link to the full report and accompanying appendices considered by Cabinet is attached at the foot of this report for reference.

2.0 COST OF LIVING CRISIS

- 2.1 The start of this financial year has seen extraordinarily high inflation rates coupled with major increases to the cost of energy. Where appropriate, updated projected variances have been included within the relevant service areas using the latest cost information available from suppliers. To put into perspective, the estimated projected overspend on energy budgets is (-£2.052M) (General Fund (-£1.511M), (HRA (-£0.541M) which is an increase of (-£0.377M) on the position reported at Quarter 1. It remains a highly volatile market and is being closely monitored in order to help formulate a base budget for 2023/24 onwards which will be considered by Council in February 2023.
- 2.2 As part of the 2022/23 budget setting process, in line with the majority of Councils an inflationary uplift of 2% was included to salaries across all service areas. The National Employers latest offer of an increase of £1,925 on all NJC pay points has just been accepted by the Unions. With regard to the financial impact on the Council, it is estimated additional strain is (-£1.134M) (General Fund (-£0.939M), (HRA (-£0.195M). Members should note that, as the pay award has now been finalised, the marginal impact has been included in the projected outturns within service and been included in the summary positions and tables below.

3.0 GENERAL FUND SUMMARY POSITION

- 3.1 Quarter 2 (Q2) monitoring covers the period for April – September 2022. At the end of Q2 (September 2022) we are currently projecting a year end overspend against budget of **£2.965M**. This amount equates to approximately **13.95%** of the Council's approved Net Revenue Budget of **£21.254M**. Members will recall that, as part of the 2022/23 budget cycle, Council approved a small contribution to reserves of **£0.034M** in order to produce a balanced budget. This will no longer be possible and there will instead be a call on reserves of **£2.965M**.
- 3.2 In addition, this position is at the second-quarter point of the financial year and officers work will continue over the coming months to monitor and forecast the costs and savings associated with other emerging budget pressures. In the meantime, arrangements are in place to scrutinise all existing expenditure plans in conjunction with the Outcomes Based Reporting (OBR) project. It should also be noted that many items that contribute to the in-year position and recurring (pay award, inflation etc) and as such will result in a significantly increased budget gap. This will be considered as part of the MTFS refresh report which is elsewhere on this agenda.

3.3 A summary of the Q2 revenue position for the main service accounts of the Council is set out in table 1 below with accompanying subjective analysis provided at table 2 with additional details provided at Appendices A and B.

	Original Budget 2022/23 £'000	Working Budget 2022/23 £'000	Q2 Actual 2022/23 £'000	Projected Outturn 2022/23 £'000	Projected Variance 2022/23 £'000
Communities and Environment	5,193	5,193	263	8,000	(2,807)
Economic Growth and Regeneration	4,605	4,605	2,677	5,749	(1,144)
Corporate Services	6,760	6,760	7,368	7,740	(980)
Central Services	1,162	1,162	547	1,172	(10)
Other Items	4,717	4,717	140	2,047	+2,670
Sub Total	22,437	22,437	10,995	24,708	(2,271)
Net Recharges to Housing Revenue Account	(1,044)	(1,044)	(519)	(1,044)	0
RMS Capital Charges (now Housing Revenue Account)	(139)	(139)	882	(139)	0
Revenue Reserve funded items included in above analysis	1,641	1,641	158	1,529	+112
Revenue Reserve funded items included in above analysis	(1,641)	(1,641)	0	(1,529)	(112)
Sub Total	(1,183)	(1,183)	521	(1,183)	0
General Fund Revenue Budget	21,254	21,254	11,516	23,525	(2,271)
Financing Income	(11,078)	(11,078)	(2,367)	(10,384)	(694)
Council Tax Requirement	10,176	10,176	9,149	13,141	(2,965)

Table 2 Quarter 2 Financial Monitoring – Subjective Analysis

	Original Budget 2022/23 £'000	Working Budget 2022/23 £'000	Q2 Actual 2022/23 £'000	Projected Outturn 2022/23 £'000	Projected Variance 2022/23 £'000
Employees	27,031	27,031	14,242	28,628	(1,597)
Premises Related Exp	4,655	4,645	3,194	6,632	(1,987)
Transport Related Exp	1,266	1,266	979	1,916	(650)
Supplies and Services	11,250	11,336	14,336	13,357	(2,021)
Transfer Payments	20,277	20,277	8,700	23,277	(3,000)
Support Services	147	147	3	111	+36
Capital Charges	17	17	0	17	0
Capital Financing Costs	1,464	1,464	836	1,173	+291
Appropriations	3,771	3,771	0	2,680	+1,091
Income	(47,141)	(47,217)	(32,040)	(52,783)	+5,566
Capital Financing Inc	(300)	(300)	745	(300)	0
Sub Total	22,437	22,437	10,995	24,708	(2,271)
Net Recharges to Housing Revenue Account	(1,044)	(1,044)	(519)	(1,044)	0
RMS Capital Charges (now Housing Revenue Account)	(139)	(139)	803	(139)	0
Revenue Reserve funded items included in above analysis	1,641	1,641	158	1,529	+112
Revenue Reserve funded items included in above analysis	(1,641)	(1,641)	0	(1,529)	(112)
Sub Total	(1,183)	(1,183)	442	(1,183)	0
General Fund Revenue Budget	21,254	21,254	11,437	23,525	(2,271)
Financing Income	(11,078)	(11,078)	(2,367)	(10,384)	(694)
Council Tax Requirement	10,176	10,176	9,070	13,141	(2,965)

4.0 HOUSING REVENUE ACCOUNT SUMMARY POSITION

4.1 As at the end of Q2 a year end overspends against budget of **(-£0.163M)** is projected. A summary of the Q2 revenue position for the HRA is set out in table 3 below.

Table 3 Quarter 1 Financial Monitoring – HRA Service Analysis

	Original Budget 2022/23 £'000	Working Budget 2022/23 £'000	Q2 Actual 2022/23 £'000	Projected Outturn 2022/23 £'000	Projected Variance 2022/23 £'000
Policy & Management	1,901	1,983	1,226	2,314	(331)
Repairs & Maintenance	6,555	6,627	2,471	7,613	(986)
Welfare Services	58	58	(175)	359	(301)
Special Services	273	273	162	267	+6
Miscellaneous Expenses	740	740	560	942	(202)
Income Account	(15,295)	(15,295)	(7,572)	(15,289)	(6)
Capital Charges	5,493	5,493	0	5,493	0
Appropriations	(255)	(409)	0	(2,066)	+1,657
Sub Total	(530)	(530)	(3,328)	(367)	(163)
Net Recharges to General Fund	530	530	265	530	0
Housing Revenue Account Budget	0	0	(3,063)	163	(163)

4.2 Appendix C: Housing Revenue Account Service Analysis covers this information in more detail

5.0 CAPITAL PROJECTS (General Fund & HRA)

5.1 At Q2 a year end variance against budget of **£7.870M** (General Fund + £5.090M, HRA +£2.780M) is projected. Summary details for both the General Fund and HRA are set out in table 4 below.

Table 4 Quarter 2 Financial Monitoring – Capital Projects

	Original Budget 2022/23 £'000	Working Budget 2022/23 £'000	Q2 Actual 2022/23 £'000	Projected Outturn 2022/23 £'000	Projected Variance 2022/23 £'000
Communities and Environment					
Business Support	2,700	5,438	1,206	4,449	+989
Customer Involvement & Leisure	549	1,875	46	1,571	+304
Public Protection	0	0	0	0	0
Housing Services	600	1,350	(1,891)	750	+600
Public Realm	97	408	(1,147)	410	(2)
Total	3,946	9,071	(1,786)	7,180	+1,891
Economic Growth and Regeneration					
Planning & Place	64	244	0	150	+94
Economic Development	0	0	0	0	0
Property, Investment and Regeneration	3,563	4,088	(626)	983	+3,105
Total	3,627	4,332	(626)	1,133	+3,199
Corporate Services					
HR	0	0	(40)	0	0
ICT	490	538	79	538	0
Total	490	538	39	538	0
Central Services					
Chief Executive	0	0	0	0	0
Total	0	0	0	0	0
GENERAL FUND - TOTAL	8,063	13,941	(2,373)	8,851	+5,090
Housing Revenue Account					
Adaptations	300	300	148	300	0
Energy Efficiency / Boiler Replacement	989	1,029	202	1,029	0
Kitchen / Bathroom Refurbishment	888	888	217	725	+163
External Refurbishment	210	315	39	315	0
Environmental Improvements	200	234	217	395	(161)
Re-roofing / Window Renewals	738	988	183	988	0
Rewiring	56	56	5	56	0
Lift Replacement	0	0	0	0	0
Fire Precaution Works	240	280	28	280	0
Housing Renewal & Renovation	1,753	1,753	440	1,720	+33
Mainway Pilot Scheme	4,000	4,000	0	1,255	+2,745
HOUSING REVENUE ACCOUNT - TOTAL	9,374	9,843	1,479	7,063	+2,780
GRAND TOTAL	17,437	23,784	(894)	15,914	+7,870

- 5.2 The Capital Programme working budget has been adjusted for slippage from 2021/22 and to reflect the inclusion of growth in respect of the Heat De-Carbonisation Programme in the General Fund Capital Programme approved by Council on 26 June.
- 5.3 The underspending against budget relates principally to General Fund and reflects further anticipated slippage on capital projects into 2023/24.
- 5.4 The overall projected favourable variance on the HRA Capital Programme of +£2.780M relates mainly to the slipping of the construction works on the Mainway Pilot Scheme to 2023/24, to allow for the planning approval process for the full application that is expected to be submitted in the coming weeks.
- 5.5 Appendix D General Fund Capital Projects and Appendix F HRA Capital Projects provide further information

6.0 RESERVES

- 6.1 The Council's unallocated balances are projected to be **£8.014M**. This takes account of the updated reserves strategy approved by Council 25th October 2022. **£2.965M** will be used to fund the forecast general fund net revenue overspend with a further **£1.1M** utilised to fund the roof and cladding repair work to the Gateway asset. Overall, the combined level of usable reserves is forecast to decrease to **£23.587M**. However, many of these earmarked reserves are held by the Council either for specific purposes such as s106 monies, or on behalf of others await distributes such as revenue grants unapplied. These amounts are therefore not available for general use. Table 5 Quarter 2 Financial Monitoring – Reserves provides summary details for both Unallocated and Earmarked Reserves, with additional information provided with Appendix E Reserves

Table 5 Quarter 2 Financial Monitoring – Reserves

	<----- ORIGINAL BUDGET ----->				<----- PROJECTED OUTTURN ----->					
	31 March 2022	From Revenue	To / (From) Capital	To Revenue	31 March 2023	31 March 2022	From Revenue	To / (From) Capital	To Revenue	31 March 2023
	£	£	£	£	£	£	£	£	£	£
Unallocated Balances	(5,614,400)	(34,000)			(5,648,400)	(6,032,200)	(5,946,900)		3,965,100	(8,014,000)
Total Earmarked Reserves	(14,214,400)	(1,878,900)	947,000	1,894,400	(13,251,900)	(22,852,900)	(1,243,300)	490,000	8,032,800	(15,573,400)
Total Combined Reserves	(19,828,800)	(1,912,900)	947,000	1,894,400	(18,900,300)	(28,885,100)	(7,190,200)	490,000	11,997,900	(23,587,400)

7.0 OPTIONS AND OPTIONS ANALYSIS

- 7.1 As the report is for noting no alternative options are put forward

8.0 CONCLUSION

- 8.1 Council is asked to note the projected outturn values, which will form the basis for future years monitoring with 2022/23. However, it must be recognised that the Council has operated with a known structural deficit for many years. This issue has been exacerbated by the current Cost of Living Crisis and as a result the Council is predicting a £2.965M deficit position for 2022/23, with further deficit positions forecast in future years. As noted in paragraph 1.4, these values are included within the MTFS presented elsewhere on the agenda, which outlines the baseline forecast position and the means to which the Council proposed the situation going forward.

RELATIONSHIP TO POLICY FRAMEWORK

Performance, project, and resource monitoring provides a link between the Council Plan and operational achievement, by providing regular updates on the impact of operational initiatives against strategic aims.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability etc)

None identified.

FINANCIAL IMPLICATIONS

No financial implications directly arising from this report.

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer authored the financial monitoring aspects of this report in accordance with his statutory duties.

LEGAL IMPLICATIONS

No specific legal implications.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no comments

BACKGROUND PAPERS

Cabinet: 6th December 2022

[Agenda for Cabinet on Tuesday, 6th December 2022, 6.00 p.m. - Lancaster City Council](#)

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