

CABINET

Delivering Our Priorities: Q2 2022/23 6 December 2022

Report of Chief Executive & s151 Officer

PURPOSE OF REPORT			
To provide members with an update on performance, projects, and resources during the first two quarters of 2022/23 (April – September 2022).			
Key Decision	N	Non-Key Decision	Referral from Cabinet Member
Date of notice of forthcoming key decision		N/A	
This report is public			

RECOMMENDATIONS OF COUNCILLOR WHITEHEAD

That Cabinet

- (1) Consider the update on performance, projects, and resources for Quarter 2 2022/23.
- (2) 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.

1.0 INTRODUCTION

- 1.1 The primary purpose of this report is to present information relating to the council's projects, performance and resources for the period July-September 2022, which can be found within the appendices.

2.0 PERFORMANCE REPORTING

- 2.1 The highlight report at Appendix A provides a broadly consistent set of information across the last five quarters, with services having returned to relative stability over the last year.
- 2.2 The SALC decarbonisation works have led to a significant decrease in the amount of gas used across our council buildings, compared to the same quarter in 2021.
- 2.3 Staff sickness has remained very low over the last three quarters, enabling productive and consistent delivery of high-quality local services.

3.0 PROJECT REPORTING

- 3.1 The highlight report shows that all the Council's Strategic Projects are running to plan at the end of Quarter 2 2022/23. No projects are reporting either an amber or a red status.
- 3.2 Since Quarter 1, three further projects have closed:
 - a. Palatine Recreation Ground and Pavilion

- b. Lancaster City Museum Boiler
 - c. Customer Contact System
- 3.3 The Projects and Performance Team are in the process of collecting and analysing the following information for all strategic projects. The analysis will provide a greater understanding of the benefits which can be expected, the project timescales and project risks across the Council to enable informed decision-making at both strategic and operational level.
- a. Links to Plan 2030 Outcomes
 - b. Details of consultancy or contractors appointed directly by each project – available for colleagues and elected members to view on the intranet
 - c. Project Plans
 - d. Risk Logs
- 3.4 A review of the projects we report on quarterly is due to be undertaken during Q3 and Q4. The objective of this review being to ensure that the best information is supplied for decision making purposes.

4.0 FINANCIAL MONITORING

- 4.1 The 2022/23 Budget and Medium Term Financial Strategy (MTFS) 2022-2026 approved by Council in February 2022 set a balanced budget for the year based on the assumptions made at that time. The current Cost of Living Crisis, as well as legacy impacts from the COVID - 19 pandemic has created a significant shock to the economy and has resulted in significant unplanned expenditure and income losses for the Council.
- 4.2 All portfolios holders and Directors are required to examine their revenue budgets and meet regularly to discuss the key issues and associated risks. To enable both parties to meet this requirement, Financial Services continually reviews and refreshes how it presents the Council's Corporate Monitoring information, with the Quarter 2 information distributed to Cabinet mid November 2022. Corporate Monitoring reports are submitted to Cabinet and Budget & Performance Panel for review.
- 4.3 In an attempt to aid understanding Members should note that where **projected variances** values are presented with brackets () this reflects a negative, or adverse movement from the budgeted position. Conversely, projected variances accompanied with a + sign represents a positive, or favourable movement from the budgeted position.

The following financial appendices accompany the financial monitoring section of this report

- Appendix B: General Fund Service Analysis
- Appendix C: General Fund Subjective Analysis
- Appendix D: HRA Service Analysis
- Appendix E: General Fund Capital Projects
- Appendix F: HRA Capital Projects
- Appendix G: Reserves Projected Outturn
- Appendix H: Approved Savings Monitoring
- Appendix I: Service Analysis

5.0 COST OF LIVING CRISIS

- 5.1 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.

- 5.2 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.

6.0 GENERAL FUND SUMMARY POSITION

- 6.1 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**.

- 6.2 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 addressed as part of the MTFS refresh report which is elsewhere on this agenda.

- 6.3 A summary of the Q2 revenue position for the main service accounts of the Council is set out in table 1 below with commentary on significant variances provided in the following paragraphs.

Table 1 Quarter 2 Financial Monitoring – 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
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)

Communities and Environment (£2.807M Adverse)

6.4 Significant budget variances including: -

- Energy costs (-£0.823M); petrol and diesel (-£0.260M); pay award (-£0.606M);
- Salary savings +£0.377M across directorate offset by use of overtime (-£0.217M) and agency staffing (-£0.320M) to address shortfalls. This is largely due to secondment of service heads to other local authorities built into future projections.
- Forecast income has returned to pre-pandemic levels. As part of the budget setting process a savings item of +£0.495M was included to reflect the impact of a car parking tariff review. Subsequent changes to the tariffs and a social media campaign have resulted in an adverse variance of circa (-£0.250M) when considered against the profile at the end of quarter 2. It is difficult to accurately estimate a projected outturn at this point due to the tariffs still bedding in but an indicative figure of (-£0.500M) has been included.
- Transport costs have increased due to vehicle repairs and maintenance (-£0.105M) and associated hire costs (-£0.275M) arising from delayed delivery of new fleet. Lead-in times have increased dramatically as a result of the pandemic due to supply chain issues and this is expected to continue in the short term.
- Reduced income at Charter Market (-£0.027M) and Festival Market (-£0.025M) in line with 2021/22 outturn due to pitch take-up not returning to pre-pandemic levels.
- Similarly, trade waste income (-£0.140M) in line with 2021/22 outturn. This is, however, offset by a corresponding reduction to disposal costs +£0.068M.
- Garden waste subscriptions (-£0.029M) are 3% down on last year with approximately 23,750 subscribers (compared to 24,510 in 2021/22).
- Williamson Park café stock items have increased in cost (-£0.037M) however café prices have remained constant in line with fees and charges.

Economic Growth and Regeneration (£1.144M Adverse)

6.5 Significant predicted year end variances including: -

- Energy costs (-£0.688M) ; pay award (-£0.224M)
- Salary savings +£0.679M across directorate largely due to a vacant service head position, ten vacancies within development control and a further four vacancies within the projects team. This is offset by the use of agency staffing (-£0.097M), consultancy (-£0.095M) and advertising for vacant positions (-£0.026M).
- Property Services projected outturn includes (-£0.240M) for new investment income not achievable. Changes to borrowing requirements have prevented the acquisition of properties purely for commercial gain.
- Rental shortfalls (-£0.066M) at 7 Cheapside, Hilmore Way and Assembly Rooms. These were existing untenanted lets and new tenants have now been sourced on initial rent-free periods.
- Business rates is payable by the Council when a commercial property is not let. Current properties include units at Hilmore Way amongst others, the estimated cost for the financial year being (-£0.028M).
- Budgeted savings for mothballing council premises have not been achieved (-£0.108M) due to no strategic plan being put in place and implemented.
- The annual insurance has increased by (-£0.127M) which is likely to be due to recent claims at Gateway and Mallowdale Avenue. The service element is (-£0.100M).
- Legal costs including judicial review (Conservation) and planning appeals (-£0.105M).

Corporate Services (£0.980M Adverse)

6.6 Significant predicted year end variances including: -

- Pay award (-£0.098M)
- Salary savings +£0.407M across directorate mainly relating to senior officer positions within Accountancy, Internal Audit and Human Resources, offset by the use of agency staffing (-£0.025M) and consultancy required to deliver the ICT Manager and Internal Audit functions (-£0.116M).
- The provision for staff turnover target (-£0.574M) is held within Corporate Service whilst the additional costs/savings generated are attributed to the individual

services and this is removed as part of this exercise. When taking this into account the whole council salary related position (including agency and consultancy costs as appropriate) plus the impact of the pay award, the expected overspend is estimated at +£0.617M.

- An additional top-up payment required to the pension fund (-£0.205M) relating to 2021/22 and an estimated further top-up of (-£0.600M) relating to 2022/23 which will be paid within the remainder of the financial year; however the HRA will be charged a proportion of this +£0.100M for their share.

Other Items (£2.670M Favourable)

6.7 Significant predicted year end variances including: -

- In recent years the Council received un-ringfenced government grants to help with additional costs that related to the pandemic. The amount remaining at the end of 2021/22 of +£0.495M was transferred to reserves at the year end. Given the large in-year deficit the Council is currently now facing, it is prudent to utilise this funding to mitigate the position.
- The impact of slippage on capital expenditure at the end of 2021/22 has lowered the minimum revenue provision (MRP) charge for the year +£0.590M.
- Long term borrowing not taken +£0.290M out as anticipated due to both slippage on capital and on forecast expenditure from reserves.
- Increases in investment interest receivable due to the recent increases in bank rate +£0.592M.
- Council tax rebate scheme new burdens allocation received after budget agreed +£0.695M.

6.8 Appendix B: General Fund Service Analysis (Q2) covers this information in more detail and provides summary percentage variations for variances +/- £30K. Appendix I provides additional analysis across individual service areas

6.9 The revenue position provided within table 1 above is analysed across the Council's subjective headings is set out in table 2 below.

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)	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)

6.11 Appendix C: General Fund Subjective Analysis covers this information in more detail

7.0 HOUSING REVENUE ACCOUNT SUMMARY POSITION

7.1 As at the end of Q2 a year end overspend 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)

7.2 Significant predicted year end variances including: -

- Impact of pay award (-£0.195M)
- Share of additional top-up payment to the pension fund (-£0.100M)
- Increased electricity (-£0.126M) and gas (-£0.412M) costs due to the energy crisis. However, these costs are largely rechargeable to tenants via service charging a year in arrears. Note that elements are housing benefit applicable to residents. Net additional energy costs on independent living schemes funded from welfare reserves +£0.332M
- An anticipated reduction in income (-£0.131M) and additional council tax payable (-£0.064M), largely due to an increase in major voids being returned plus increased voids relating to capital projects
- An increase on property insurance premiums (-£0.112M)
- Additional fire safety works (-£0.785M), to be partly funded from planned maintenance reserves +£0.676M
- Utilisation of balance in Major Repairs Reserve to fund in-year capital expenditure +£0.708M

7.3 Appendix D: Housing Revenue Account Service Analysis covers this information in more detail and provides summary percentage variations for variances +/- £30K.

8.0 CAPITAL PROJECTS (General Fund & HRA)

8.1 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

8.2 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.

8.3 The underspending against budget relates principally to General Fund and reflects further anticipated slippage on capital projects into 2023/24.

8.4 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.

8.5 Appendix E General Fund Capital Projects and Appendix F HRA Capital Projects provide further information and summary commentary.

9.0 RESERVES

9.1 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**. Table 6 Quarter 1 Financial Monitoring – Reserves provides summary details for both Unallocated and Earmarked Reserves.

Table 6 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)

9.2 Appendix G: Reserves Projected Outturn provides further detailed analysis.

9.3 The Council's reserves will be used to manage the impact of the cost of living crisis and also support the work to address the underlying structural deficit through the OBR process. As a result, they are fundamental to ensuring the financial sustainability of the Council as it deals with these pressures and will be kept under review by Officers and Members. Projections of the required further calls to balance future budgets are given in the MTFs refresh report elsewhere on this agenda.

10.0 COLLECTION FUND

Business Rates

10.1 Central Government made announcements launching new rate relief schemes in 2022/23 at the Autumn Budget and Spending Review 2021 these include a scheme to support local high street businesses as they recover from the pandemic. The 2022/23 Retail, Hospitality and Leisure Business Rates Relief scheme provides eligible properties with a 50% relief up to a cash cap limit of £110K per business. Funds to fully reimburse local authorities for the local share of these enhanced reliefs are being paid on account during the year using a grant under section 31 of the Local Government Act 2003, with a full reconciliation to be carried out at year-end.

10.2 The collection rate for Business Rates is currently 62.8%, which is ahead of the profiled target of 60.2%. The annual target is 98.0%.

Council Tax

10.3 The current collection rate for Council Tax is 64.3% which is slightly behind the profiled target of 65.6%. The annual target is 95.%. The number of Local Council Tax Support claimants at Q2 is 9,934.

11.0 WRITE OFFS

11.1 Table 7 below provides details of the debts have been written off by the Council's Revenues and Benefits service in relation to Council Tax, Business Rates and Housing Benefits Overpayments

Table 7: Write Off's

	Q1	Q2	Q3	Q4	Total
Council Tax	44,074	113,573			157,647
Business Rates	69,965	39,449			109,414
Housing Benefit Overpayments	4,222	39,389			43,611
Total	118,261	192,411	0	0	310,672

11.2 Debts are deemed non recoverable after all reasonable recovery steps have been taken and can be written off in accordance with the Council's Debt Management Policy in a number of circumstances such as unable to trace, uneconomical to pursue, insolvency as well as imprisonment and death.

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

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