



## Chelmsford City Council Cabinet

15 November 2022

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### Revenue Monitoring 2022/23

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#### Report by:

Cabinet Member for a Fairer Chelmsford

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#### Officer Contact:

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#### Purpose

To compare the latest budget forecast by Directors as of October with the Original budget for 2022/23 and inform members of any actions resulting from the projected variations.

#### Options

1. Note the latest forecast position and approve actions in Appendix 1
2. Recommend changes to the service budgets or to the actions identified

#### Preferred option and reasons

Option 1 as recommended by Service Managers

#### Recommendations

That Cabinet note the contents of this report and that Cabinet Members monitor the identified actions.

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## 1. Background

1.1. The Council has a long-established process of preparing formal monitoring reports comparing its forecast expenditure and income with the approved estimate and reporting these to Management Team on a regular basis. These reports are also supplied to all Cabinet Members. The reports enable each Cabinet Member to view their areas of responsibility and to gain explanations of any variances from their Directors. More detailed information is produced for Service Managers.

1.2. This report provides

- Cabinet with a high-level view that identifies an expected level of expenditure and income by the Council for the year ending the 31<sup>st</sup> March 2022.
- actions relating to each of the material variations. Cabinet is not being asked to approve budget changes but consider the actions relating to the budget variance which, for instance, could include changes to service provision.

1.3. The projections of the year's income and expenditure are compiled from Service Managers' submissions into the Council's T1 finance system. Accountancy Services support the process with advice and challenge. The projections are based on judgement of future trends.

1.4. Financial uncertainty and high inflation are the key issues affecting the Council's finances.

1.5. To provide context for the report, the Council's revenue budget for expenditure is some £59.5m, excluding Housing Benefits (which are mostly funded by Government grant), so a 5% variation in expenditure is £2.98m. The Council's Net Service Expenditure Budget is £20.748m. A £5 increase (the maximum allowed before a referendum) in Council tax generates some £0.35m per year.

## 2. Executive Summary

2.1 The overall projection is that the Council will be required to use an additional £1.127m of unearmarked reserves in 2022/23 as a result of the variations identified below.

2.2 The key variations are:

- £1.5m overspent due to £1,925 flat pay award (ongoing discussions with union so may change).
- £1.3m reduced income from car parks due to changing customer trends from the cost-of-living crisis and the knock-on impact of the pandemic on working from home.
- £0.5m of inflation, caused mostly by fuel price increases.
- Offset by £2m of additional business rates retention. This income has recently been revised significantly upwards. However, there is a significant risk of

forecasting error given the economic situation and volatility of this income stream.

2.3 The Section 151 officer's current recommendation is that Unearmarked Reserves should be around £9m. The Medium-Term Financial Strategy produced in June for July Cabinet assumed that the £9m level could be maintained across the forecast period to 2028. However, the projection was based on the premise that at end of the 2022/23 there would be a £1m surplus for 2022/23. This would be due to service expenditure not exceeding the budget and business rate retention being in surplus of £1m over the budget.

As the current projection is an overspend (additional use of reserves) of £1.127m, this results in an additional use of reserves compared to the MTFS of £2.127m. So, without actions being taken in the budget, the level of unearmarked reserves would fall below the £9m recommendation.

2.4 The variances identified in the report will be used to influence the 2023/24 budget.

### 3. Revenue Monitoring

3.1. **Appendix 1** contains

- Pages 5-6 are a high level and action-based Revenue Monitoring report on the main service overspends, totalling £3.6m.
- Page 7 contains details of Council budgets that are not managed by services but are central corporate costs or income. This shows additional net income of £2.473m.
- Page 8 contains an explanation of the use of the projected use of reserves and an overall summary of the projection of revenue net expenditure outturn. Any overspend at year end will have to be funded from Unearmarked Reserves, referred to as the General Balance. The current projection is for an overall £1.127m net additional use of unearmarked reserves for 2022/23.

3.2. The original budget has been increased under delegations. As part of the budget for 2022/23, £0.3m was earmarked to fund requests for general additional expenditure, while some £0.1m is left uncommitted. The delegations approved to date are below:

<b>Supplementary Estimates</b>	<b>£s</b>
Communications Officer (cover for maternity leave)	21,400
Legal Agency Staff Cover	81,100
CGR Final Round	20,000
Museum Parasols	14,000
Legal and Democratic Restructure (trainee solicitor)	28,800
Civica Pay Upgrade	19,200
Environmental Permit for the Depot	16,000
<b>Total</b>	<b>200,500</b>
<b>Total Available (set aside in Budget)</b>	<b>300,000</b>
Remaining reserve	99,500

#### 4. Conclusion

4.1 The Forecast financial projections have a high risk of error due to the uncertain impact of inflation and the after-effects of COVID-19 lockdowns. However, an overspend for 2022/23 is almost certain.

4.2 The implications of the adverse position this year on next year's 2023/24 budget is higher costs (inflation), lower income (car parking), and reduced levels of Reserves.

#### List of appendices:

Appendix 1 – Chelmsford City Council Forecast Revenue Position for 2022/23

#### Background papers:

Nil

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#### Corporate Implications

Legal/Constitutional: As identified

Personnel: N/A

Risk Management:

The report is part of the Council's financial risk management

Equality and Diversity:

N/A

Health and Safety:

N/A

Digital:

N/A

Other:

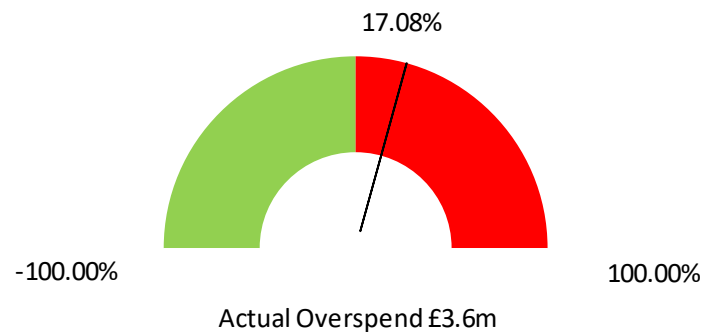
#### Consultees:

#### Relevant Policies and Strategies:

Medium term financial Strategy 2022-27

## Chelmsford City Council Variances - Revenue Monitoring 2022/23

Actual Year End Variation - Council Service Net Expenditure

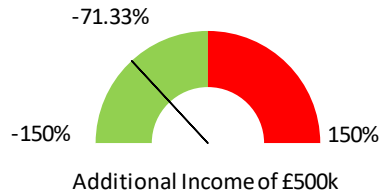


The service overspend above is subject to significant risk of fluctuation throughout the year due to the national and global economic position. Any ongoing changes to the forecast will be put forward as part of the proposed 2023/24 Original Budget.

Note	Key Variations	Actions	Risks
1)	<b>A £1,500k overspend</b> due to an assumption that a further pay award will be given to staff in 22/23. The assumption is that any staff who have received an increase of less than £1,925 from the 2.5% award already made, will be increased up to £1925	The Council will be asked consider approving the additional funding needed.	A lower pay award could result in recruitment and retention issues.
2)	<b>Reduced income of £1,300k</b> from the Council's car parks. This is due to changing customer trends from the cost of living crisis, and the knock on impact of the pandemic on working from home.	Continue to monitor income levels and changes in parking patterns in order to maximise income levels. Any ongoing change will be proposed as part of the 23/24 budget. Budget profiles need to be reviewed, which may change the projection.	The projection of car parking income could be inaccurate due to unknown changes in demand making predictions of future income prone to a large error.
3)	<b>£540k overspends due to inflation.</b> £300k of which is the cost of fuel. Insurance, consumerables and equipment make up the balance	Work on the 2023/24 budget continues, including inflation. Prices of fuel can be volatile. The energy prices the Council pays in 2022/23 are fixed, so only variations in usage will be reported.	There is significant volatility in fuel prices.
4)	<b>£279k additional net income from Hylands,</b> predominantly due to a higher number of weddings. This is largely due to rearranged weddings from the Covid period and so income levels are expected to return to more normal levels in 23/24 onwards	Monitor to see whether any of this gain is ongoing	Income does not return to pre-pandemic levels once the catch-up of delayed weddings is completed
5)	<b>A £202k overspend on Temporary Accommodation HB Subsidy Loss</b> due to rising case numbers in TA projected for the financial year.	Pursuing other forms of TA that the Council owns and looking to prevent homeless as far as possible to reduce the numbers of households going into TA.	There is significant risk of additional budget pressures from additional households in TA
6)	<b>An additional £450k income</b> from Recycling Credits, Sales and IAA Food Waste payment due to inflationary increases and price changes	Income budgets will be assessed as part of the 23/24 budget process	Recycling sales income is subject to prices in the market and therefore can fluctuate significantly
7)	<b>£190k Building Maintenance additional spend</b>	Review budgets and consider increasing provision in 2023/24	Increases in cost due to inflation.
8)	<b>£440k reduced Theatre income.</b>	Open theatre as soon as is possible within constraints of the construction industry.	Delays increase the number of shows cancelled and resulting in lower income
9)	<b>£157k Other costs.</b>	Continue to monitor risks	There is as noted considerable volatility and uncertainty in price of goods.

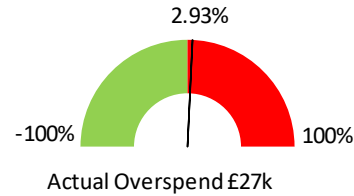
## Other General Fund Budget Items of Income and Expenditure

Projected Year End Variation - Interest Earnings



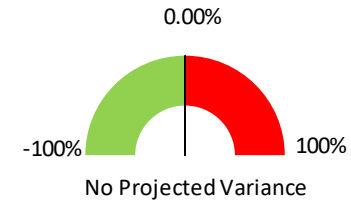
Budget £701k - Projection £1,201k

Projected Year End Variation - Debt Repayment (MRP & Interest)



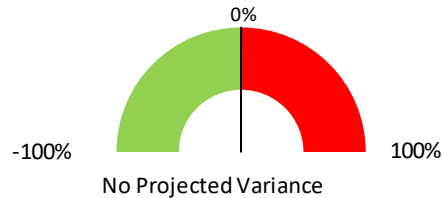
Budget £921k - Projection £948k

Projected Year End Variation - Revenue funding of Capital



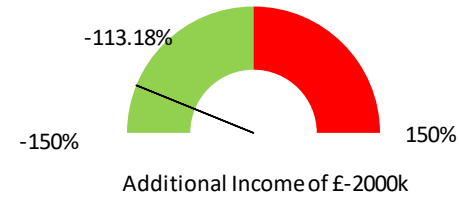
Budget £2,155k - Projection £2,155k

Projected Year End Variation - Other Grants Income



Budget (£3,383k) - Projection (£3,383k)

Projected Year End Variation of Net Business Rates

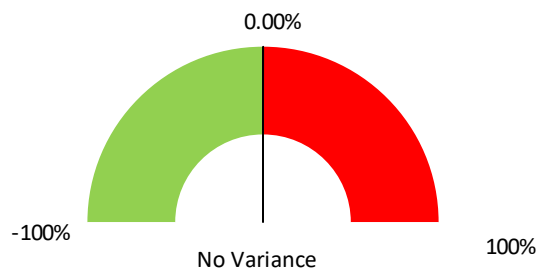


Budget (£500k) - Projection (£2,500k)

Note	Key Variations	Actions	Risks
1)	£500k additional income from interest earnings due to the rising market interest rates.	Continue to actively manage the Council's cash in order to generate returns for the Council, whilst prioritising security and liquidity	Capital values are at risk with some investments
2)	£27k overspend on MRP allowing for the approved capital programme	Review MRP and funding assumptions for future years	Budget is traditionally underspent due to slippage of capital spend
3)	£2,000k additional income from the Business Rates Retention Scheme - appeals continue to be lower allowing us to write back the provision made in the past	Continue to monitor to assess any gains from the scheme in future years	The Essex wide pool figures have yet to be received and this is early in the year so there is considerable uncertainty - income could be materially higher or lower.

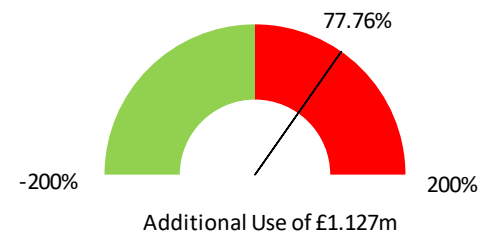
## Use of Reserves

Projected Year End Variation - Contribution/Use of Earmarked reserves



Changes in the use of earmarked reserves are often offset by changes in the expenditure in the service accounts. The latest budget for 22/23 is a contribution to Earmarked Reserves of £183k. There have been £200k worth of supplementary estimates approved during the year from the £300k available reserve and a further £83k of carry forward budgets have been loaded.

Projected Year End Variation - Contribution/Use of General balance (reserve)



The latest budget for 22/23 is a £1.449m use of the General Fund Balance.

The total projected use of the General Fund Balance for 22/23 is £2.576m, so an additional use of £1.127m. Of which a higher pay award is the main cause costing £1.5m.

### SUMMARY

The Council's net service expenditure for 2022/23 is projected to be £3.6m overspent. After taking into account other items of income and expenditure; the variation on use of the General Fund is projected to be an additional use of £2.127m. The MTFS report to July identified that the Council would contribute some £1m extra (above the budget) to the General Balance as a result of additional Business Rates and assumed no overall overspend on other items. So, the above monitoring represents £3.1m additional use beyond that included in the MTFS.

#### Key Variations:

- £1.5m overspent due to £1,925 flat pay award (ongoing discussions with union so may change)
- £1.3m reduced income from car parks due to changing customer trends
- £0.5m of inflation, mostly fuel
- Offset by £2m of additional business rates

Work is now being undertaken to complete the proposed 23/24 Original Budget.

There is a risk that the level of General Balances (unearmarked reserves) would in the next 2 years, based on the above figures, be below the £9m target set by the Section 151 officer. The level of earmarked and non-earmarked will be addressed in the 2023/24 budget proposals.