

EXECUTIVE

THURSDAY, 22ND SEPTEMBER, 2022

SUPPLEMENTARY AGENDA (2)

Agenda No Item

13. **Agenda Item 9: Budget Pressures 2022-23 and Medium-Term Financial Plan
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Executive/Corporate Governance and Standards Committee

Ward(s) affected: All

Report of S151 Officer

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Budget Pressures 2022-23 and Medium-Term Financial Plan

Executive Summary

The report summarises the emerging financial position against the approved 2022/23 budget and highlights pressures on the already stretched Medium Term Financial Plan (MTFP). Several factors have affected the Council's budget since it was approved in February 2022, most of which have had an adverse impact. The financial outturn in 2021/22 on the general fund and HRA was positive overall, however, there were some concerning cost pressures and income shortfalls that are likely to continue into future years. This, coupled with the significant inflationary pressure experienced since April, present a very challenging position for the Council.

This report presents a high-level summary of the position and proposes a series of actions for addressing the budget shortfall in this and future years. A more detailed financial monitoring report will be considered by the Corporate Governance and Standards Committee on 29 September and their comments will help inform the mid-year review of the MTFP which is now necessary. A similar exercise was required in 2021/22 and, as can be seen in the General Fund outturn report, this was successful as the overall position at year end was £138k under budget.

Officers are currently projecting a net overspend on the general fund revenue account of £3.1 million. A significant proportion relates to current inflationary pressures, most of which relates to utilities costs. The position is likely to worsen as forecasts are refined in the coming weeks. Part of the projected budget shortfall arises from growth bids which managers consider are necessary to meet service demands and address resource gaps. These bids will be subject to approval of a business case and funding.

The report also alerts members to the fact that officers are investigating a potential discrepancy in the staff cost budget which came to light in July and appears to have originated during the transition period of phase 2 of the Future Guildford programme.

This could materially impact both the general fund and the HRA in 2022/23 and future years.

In summary, the Council has spotted early an emerging budget shortfall and is taking steps to address this in the current and future years.

Recommendation to Executive

The Executive:

- notes the emerging position against the 22/23 budget and the impact on the Council's finances in future years
- considers the high-level action plan and identifies any further measures that should be taken
- instructs officers to undertake a comprehensive mid-year review of the 2022/23 budget and to present this, and a revised Medium Term Financial Plan, to Council in the Autumn

1. Purpose of Report

- 1.1 This report highlights the emerging pressures on the 2022/23 budget based on the latest actual position and assumptions.

2. Strategic Priorities

- 2.1 Councillors have reviewed and adopted a corporate plan for the period 2021-2025. The plan includes significant projects and aspirations that will continue to challenge the council moving forward. Monitoring of our financial position during the financial year is a crucial part of managing the resources that will ultimately support the delivery of the corporate plan.

3 Background

- 3.1 The Council undertakes regular financial monitoring in the following ways:
- a. Reporting to the Corporate Management Board monthly, the General Fund and Housing Revenue Account position projected for the full year based on actual expenditure in the reporting periods.
 - b. Reporting to the Corporate Governance and Scrutiny Committee, the General Fund and Housing Revenue Account position projected for the full year based on actual expenditure in the reporting periods on a bimonthly basis
 - c. Monthly monitoring of the capital programme
 - d. monthly and quarterly monitoring of its treasury management activity
- 3.2 The Council's Corporate Management Board (CMB), Chief Finance Officer and deputy, and officer capital programme monitoring group review monitoring reports. Financial monitoring for all services is reported to the Council's Corporate Governance and Standards Committee on a regular basis.

- 3.3 This report presents a high-level position and proposes a range of actions to address the forecast in-year budget shortfall the most significant action being a full mid-year revision of the MTFP, to be reported to Council in the Autumn. The routine monitoring, as described above, will continue.

4 General Fund Revenue Account

- 4.1 The total net overspend on the general fund is currently projected to be in excess of £3.1million in 2022/23. More detail is provided in the monitoring report which sets out service managers' latest estimates. No action is not an option so the Council must take steps to re-balance the 22/23 budget and to recast the medium term forecast to reflect latest estimates and assumptions. With much of the Council's income being fixed for the year eg. council tax and rents, or where there is no scope to adjust charges eg. planning and land charges, the rising costs are widening the structural deficit in 22/23 and beyond, leaving a significant budget shortfall.
- 4.2 As across much of the country, the council is facing significant increases in its gas and electricity charges. Inflationary pressures of £1.7 million (currently known) have been included in the projections. Of this, £1.6 million is across Leisure Management Services. The current projections do not include any further increases from October 2022 when costs could increase further. The Government has recently announced that it will support businesses and some council activities, with their rising energy costs for the period Oct 2022 to March 2023. There are further risks of above-budget inflation on pay and contract costs including IT.
- 4.3 The projected overall net overspend on directorate budgets includes a potential discrepancy in the pay budget which has come to light recently following the completion of the 21/22 outturn. This is currently being investigated to establish the value across the general fund and HRA and the reasons for it occurring. At this stage, it appears that it has resulted partly by the post-Future Guildford establishment being incorrectly carried forward into subsequent budget years. The total variation could be more than £1.5million, on a total staff budget of £32million. Any budget shortfall will need to be addressed in this year, potentially from reserves, and also included in the MTFP projections A detailed analysis will be reported in future monitoring reports.
- 4.4 Another emerging pressure on the 22/23 budget is due to the current recruitment challenges with agency staff costs rising and vacancies in salary budgets being unable to cover the increases, although some of this cost will fall on the HRA, projects and capital schemes. An exercise is currently underway to understand these variances in more detail and will be concluded for the next monitoring period.
- 4.5 Net external interest receivable is currently estimated to be £0.8 million more than budgeted. The interest amount transferred to the HRA on its investment balances is in line with 2020-21 interest rates and has increased by £146,070. It is expected that with rising interest rates, this budget can be increased further during the year, benefiting the overall budget position.
- 4.6 Finally, the inflation and cost of living crisis is hitting business and households hard and, whilst the Government are taking steps to support with utilities costs,

there could be an indirect impact on the Council such as commercial property tenants defaulting, income collection rates deteriorating and general income being hit by households cutting back on discretionary spend such as property improvements and gym memberships etc.

5 Housing Revenue Account

- 5.1 The latest forecast is for the Housing Revenue Account (HRA) to be £150k overspent at the year end, whilst this is a relatively small adverse variance against a £30m annual budget, officers are currently assessing the potential increase in utility costs for the aspects of the service where the Council meets the cost such as voids, communal areas and sheltered housing. Income will need to be monitored closely throughout the year given the pressure on tenants' costs of living. Capital programmes will also need to be assessed at the mid-year point in the light of significant slippage last year but also rising capital costs and shortage of materials. Overall, at this stage, the Housing Revenue Account's finances appear to be relatively resilient.

6 Capital Programmes

- 6.1 Cost inflation and the ongoing disruption in supply chains will affect Guildford's extensive capital programme across the General Fund and the HRA. Guildford and Waverley are experiencing tender prices that are significantly higher than anticipated and much longer delivery/construction times for contractors. The 21/22 capital outturn report shows significant underspending across the capital programmes. In the light of this, it is proposed that the capital projects group undertakes a review of schemes and their budgets in October to inform the MTFP mid-year update.

7 Action Plan

- 7.1 The Corporate Management Board are currently considering options to close the budget gap in 22/23. Protecting front-line services and adequately resourcing the Council's core functions remains paramount. The following summarises the initial actions being proposed. Some of the measures will be one-off in-year adjustments to rebalance 22/23 budget which will not help 23/24 and subsequent years so the mid-year review of the Medium-Term Financial Plan will be essential. If these measures are not sufficient, further actions such as recruitment freeze and stopping discretionary spend may need to be considered, subject to an assessment of risk and service impact.

To support 2022/23 Budget:

- Capital projects group review each general fund capital scheme in the programme, underway or not started, its cost base, deliverability and priority in the overall programme
- Review all forecast adverse variations in 22/23 to identify those which are growth bids, for which a business case and funding will need to be considered, and those which are unavoidable budget adjustments, which will require one-off

funding in 22/23 and consideration of their longer-term impact in the MTFP review

- Identify any surplus budgets and headroom in expenditure budgets, informed by previous years spend and actual to date – summarise and report to Management Board for decision
- Reconcile the pay budget to the approved establishment, identify the reasons for and the value of the discrepancy – report to Management Board
- Test all inflation estimates and assumptions and run sensitivity analysis to assess the risk over the remainder of 22/23. Include pay scenarios.
- Review the Minimum Revenue Provision policy and 22/23 estimate, taking account of outturn capital spend and any opportunities to reduce the Capital Financing Requirement (which drives MRP)
- Review all reserves, justification for holding and whether balances held and contributions to and from revenue budget are appropriate and necessary in the light of the overall financial position. Produce risk-based options and present to Management Board
- Review salary cost apportionments and recharges to non-general fund accounts including HRA, capital projects and other areas. Report findings to Management Board.
- Test all current savings programmes that are included within the approved 22/23 budget to assess whether they are on-target or over/under achieving. Report findings to Management Board.
- Review treasury activity, cash deposits and short-term borrowing, to ensure optimal performance under the approved strategy and stretched but achievable net interest income target is included in the 22/23 forecast.
- Review all income budgets with service managers to ensure that the basis of calculation is accurate, and the estimate is stretched but achievable
- Check on further disposal opportunities, property and financial investments, to secure a one-off income in 22/23 and/or to reduce MRP in the medium to longer term
- Review the adequacy of service and support cost allocations to the company and to SANG-funded activities.
- Review business rate costs across property estate and identify any opportunities for reducing the rateable value, either through appeals or taking action on long-term empty properties
- Joint Management Team ensure tight controls over spending approvals including purchase orders, staff costs and other unbudgeted costs.

To support the mid-year MTFP review:

- Test all assumptions in the MTFP and recast each year's income and expenditure pressures and opportunities, calculating an estimated in-year and cumulative budget gap
- Undertake a long-term reserves strategy to ensure robust financial resilience balanced with flexibility and future planning

7.2 The actions to address the 22/23 budget shortfall will need to be completed during October, led by the S151 Officer and overseen by Corporate Management Board in consultation with the Leader, finance portfolio holder and Executive. A detailed timetable will be prepared, and additional resources may be required to support this process on a project basis. Further actions with longer term benefits are also being considered to strengthen the financial governance and budget accountability including revising Financial Regulations and Contract Procedure Rules and improving the financial reporting capability of Business World.

8 Consultations

8.1 The finance specialists prepare the budget monitoring in consultation with the relevant service managers.

9 Equality and Diversity Implications

9.1 There are no direct equality and diversity implications as a result of this report. Each service manager will consider these issues when providing their services and monitoring their budgets.

10 Financial Implications

10.1 The financial implications are contained throughout the report.

11 Legal Implications

11.1 The Local Government Act 1972, Section 151 states that each local authority has a statutory duty to make arrangements for the proper administration of their financial affairs. In addition, the Accounts and Audit Regulations 2015 impose an explicit duty on the Council to ensure that financial management is adequate and effective and that they have a sound system of internal control, including arrangements for the management of risk.

11.2 Proper administration is not statutorily defined; however, there is guidance, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) on the responsibilities of the Chief Financial Officer (CFO). This states that local authorities have a corporate responsibility to operate within available resources and the CFO should support the effective governance of the authority through development of corporate governance arrangements, risk management and reporting framework. Regular monitoring of the Council's actual expenditure to

budget and forecasting of the expenditure for the full year is part of the proper administration and governance of the Council.

11.3 There are no further direct legal implications because of this report.

12 Human Resource Implications

12.1 There are no human resource implications arising from this report.

13 Summary of Options

13.1 This report outlines the anticipated outturn position for the 2022-23 financial year based on latest assumptions and actual data. There are a number of options open to the Council for addressing this, some of which are set out in this report, and some will come to light following further officer and member scrutiny in the coming months. This work will culminate in a report to Council in the Autumn seeking approval for the necessary measures to mitigate the budget impact in 2022/23.

14 Background Papers

14.1 None

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