

WAVERLEY BOROUGH COUNCIL

RESOURCES OVERVIEW & SCRUTINY – 7 NOVEMBER 2022

EXECUTIVE – 29 NOVEMBER 2022

COUNCIL – 13 DECEMBER 2022

Title:

MEDIUM TERM FINANCIAL PLAN (MTFP) MID-YEAR REVIEW 2022/23

Portfolio Holder: Cllr Mark Merryweather, Portfolio Holder for Finance, Assets & Commercial Services

Head of Service: Peter Vickers, Executive Head of Finance

Key decision: Yes

Access: Public

1. Purpose and summary

1.1 This report outlines the latest projections for the MTFP. It highlights the emerging pressures on the General Fund Revenue budget which have been identified at the time of writing and estimates their financial impact on the Council's services and finances.

1.2 This report is authored in the context of extraordinary economic uncertainty, volatility. The risks facing the General Fund finances (to the extent that they've been identified) are presented to alert members to further threats to achieving the MTFP. For completeness, it should also be noted that, while the scope of this report doesn't extend to either the HRA or the Council's corporate "capital" projects these are subject to the same economic factors and are being monitored separately.

1.3 This report contains the following Annexes:

- Annexe 1 – Q2 Performance Summary
- Annexe 2 – Inflation Position Statement
- Annexe 3 – Updated General Fund MTFP

2. Recommendation

2.1 That the Executive:

- i. note the 2022/23 forecast position General Fund
- ii. note the emerging pressures and risks set out in the report
- iii. note the position regarding the General Fund capital programme and individual capital projects

3 Reason for the recommendations

3.1 The annual General Fund budget is a major decision for the Council and setting a balanced budget is a statutory requirement. The worsening economic climate necessitates a review of the MTFP in the light of its financial impacts on the

council: the Council must act quickly to ensure the risk of a net budget shortfall is addressed so that the Council can continue to function.

3.2 This report follows up on actions identified in the outturn report agreed by Executive in July. Scrutiny of this MTFP through a Mid-Year Review demonstrates transparency and good governance.

4 Waverley's General Fund Medium Term Financial Plan 2022/23 – 2025/26 (MTFP)

4.1 The Medium-Term Financial Plan (MTFP) is Waverley's key financial planning document which takes account of all the various currently known factors and influences that may impact on the Council's General Fund for the forthcoming financial years up to and including 2025/26. These factors are both within and beyond the Council's control and include; general macro-economic conditions, Government funding plans and restrictions, current expenditure patterns, inflation, planned changes to service delivery, changing demand for services, and changes affecting our sources of independent income etc. The MTFP also includes the identification of the risks that the Council has identified that it faces.

4.2 The MTFP looks forward over the next four years to anticipate the spending pressures faced by Waverley. In light of the changing economic picture, planning now to meet expected and known changes in the future provides greater opportunity to mitigate the impact.

5 Outturn Position 2021/22

5.1 A summary of the General Fund revenue outturn was reported to members in July 2022. In total, there was a net underspend of £452k after allowing for agreed budget carry forwards. That underspend equates to a 3% movement from the net General Fund service budget of £15million or less than 2% of the gross General Fund revenue budget excluding the Housing Benefit that we merely administer on behalf of the Government.

5.2 The service-by-service outturn analysis was also included in the Q4 performance report to O&S in June accompanied by commentaries from the S151 Officer and the Heads of Service. In preparing this 2022/23 mid-year review the key matters arising in the 2021/22 have been reviewed further and matters particularly impacting on the MTFP are noted below.

5.3 While income performed as expected overall with only a few areas of concern, a number of the budgets set in 2021/22 were adjusted for assumptions on how Covid-19 would impact, and many of these assumptions held well throughout the year. Key items to note are as follows:

- Commercial
 - Building Control income fell short of budget by £110k. This appears to be a temporary issue, possibly due to Covid-19 impacts, as forecasts for the 2022/23 year are broadly in line with budgets.
- Environment
 - Car Park income performed much better than the approved budget in 2021/22. This was due to the combined effect of rate increases mid-year (as per the Council approval in September 2021) while the reduction in volumes due to that uplift not materialising to the degree forecast.

- Finance
 - Investment property income targets were not met within the 2021/22 outturn, with difficulty in letting void property assets in year due to Covid-19 impacts. The Council is proactively adapting to the market where it is recovering and the £190k property income target remains in the budget for 2022/23.
- Planning
 - Planning income outturn in 2021/22 fell £270k short of budget and recognising that recovery was likely also unachievable the 2022/23 the budget was reduced by £250k and therefore this should not remain a material issue going forward.
- Other
 - Establishment spend was carefully managed and monitored throughout the financial year and delivering a final saving for General Fund of £345k.
 - The majority of contracts were delivered as usual throughout the financial year with only the Leisure Centre management contract heavily impacted. Due to closure periods and falls in customer numbers the contractor was financially impacted. The contractual position required the Council to support the contractor through this period, and instead of receiving management fees of £0.5m, payments were made to the contractor. This arrangement came to an end at the end of the financial year, and Waverley has returned to the original position of receiving contractual management fees from April 2022.

6 2022/23 Budget and emerging pressures on the MTFP

6.1 Waverley is now six months into the new financial year, and eight months have passed since the Council set its 2022/23 budget. Officers have reviewed the latest position and, even though inflationary pressures are materially higher than expected, there are sufficient compensating measures identified to currently forecasting that General Fund should remain in an overall balanced budget position in 2022/23.

6.2 Despite this position, there remain pressures on the current and longer term outlook for Waverley's financial plans. The latest updates on these are summarised below:

- **Impact of inflation on Waverley's budgets – pay, contracts, IT, utilities**
At present, £463k adverse variance is projected in 2022/23 for General Fund inflation. Consumer Price Inflation (CPI) is currently 9.9% (September 2022). Many of the Council's contracts are linked to February and March CPI (6-7%) whilst budgeted inflation was between 3-4%, which has led to costs incurred beyond the original budget.

Thus far, this has been offset by greatly improved treasury yield, with Bank of England base rate increases, buoyant income in car parks and plus robust management of staff costs.

Unfortunately, despite being under control in the current year, the impact of inflation will have further negative impact in future years as inflation compounds, and current forecasts for inflation remain higher than usually anticipated. Bank of England forecasts suggest inflation could rise further in Q4 of the current financial

year, fall slightly for the following year, then fall sharply back to the 2% target rate in two years time. Officers have built increased inflation forecasts into the updated Inflation Schedule (Annexe 2) and Updated MTFP (Annexe 3), however these rates remain unknown with more uncertainty than is usual.

- **Cost of living and its economic impact on Waverley's community, businesses and residents**

Officers are beginning to see the impacts of the cost of living. Some services are beginning to see an uptake in support needs, with officers supporting through funds such as Household Support Fund where possible.

There is a foreseen need to provide more support, active debt management and potentially more utilisation of the hardship funds set up through the 2022/23 process to support vulnerable tenants than has been experienced to date.

Presently, financial impacts to the Council are relatively small and within overall current budgets, however this will need to be monitored closely through the coming months.

- **Key Income**

Key Income overall is performing well, mainly due to treasury investment income and car park income. However, some areas are struggling to achieve budgeted income and budgets relating to these areas going forward will need to be carefully considered in budget setting.

- Green Waste – numbers of subscribers are reducing, assumed reason being cost of living concerns. Alongside this, the budget assumed growth in numbers, which has meant an underachievement of budgeted income by £147k
- Careline – numbers of customers are down on usual levels, unsure for the reasons behind this at this stage. Income increase targets were included in the budget, therefore the service is now short on budget by £69k.

- **External funding**

Waverley approved a new post to support the generation of new funding for revenue and capital across all services. This post is now recruited to and working on key projects such as the UK Shared Prosperity Fund and Wilmer House.

Within the revenue budgets, some external funding is at risk, with government consultation having taken place regarding homelessness grants which will likely see reductions in Waverley's grant allocation in future years.

- **Leisure Centres**

The 2022/23 management fee has now returned to a receipt to the Council, however some activities are still not at pre-Covid-19 levels.

Early indications for the new contract starting in July 2023 following the major tender exercise are mixed. This is before the planned capital improvements which will help to improve the revenue position.

In addition to these concerns, energy costs are having a large impact on leisure providers with leisure centres being a heavy user to maintain service provision. The contractor is seeing much higher costs impacting their ability to deliver the contract and open conversations to attempt to mitigate these impacts both parties will be undertaken in the coming months.

- **Recruitment and retention**

The employment market is currently competitive and both retaining and recruiting staff has been a challenge this financial year. Interim support where needed for hard to fill vacancies is at a particularly high cost due to the active market, therefore careful management by managers is helping to minimise these costs and keep them within approved staffing budgets to date. At this stage this is not of concern as officers are managing the impact on service budgets and in depth regular monitoring is taking place to ensure variances are kept to a minimum.

- **Updates on measures to balance the General Fund budget**

The MTFP includes various saving/efficiency programmes in place to address the forecast budget shortfall. These are particularly important to identify given the uncertainty in the estimates and local economy caused by the pandemic and rising costs. Some updates included in this MTFP review include:

- Commercial Strategy
 - Expected savings from The Edge being handed back to SCC when the lease ends in June 2023.
 - Inclusion of forecast inflation impact on fees and charges if applied as per cost inflation forecasts
- Business Transformation
 - The additional income target for rental of The Burys top floor is not expected to be achieved following the ongoing impacts of Covid-19 and low demand for office space.
- Asset Management
 - Ref profiling of Wey Court East incomes due to expected rent free periods as per industry standards

- **Other new items identified since February Council;**

- Surrey County Council have communicated a likely return of verges grass cutting and off-street parking permit administration back into their management
- External Audit Fees will be uplifted by the Public Sector Audit Appointment body, early indications suggest average uplift could be 150%
- Triennial Pension Review – unknown impact at this stage

7 MTFP Forward Look

7.1 Looking forward to 2023/24 and beyond, a budget gap remains in our MTFP totalling £11.9m. After identified measures to mitigate this gap, the overall budget shortfall is £3.4m.

7.2 Inflation rates applied on the costs range between 8.6% and 11% which are applied dependant on the contractual agreements in place or expectations on general market inflation. The breakdown of the current forecast inflationary position can be see at Annexe 2, table 2.

7.3 During the budget setting period officers will work with services and members to cover the 2023/24 £806k projected shortfall. And, in addition, look to improve the future years financial position. Options to be considered could include;

- Reductions in Revenue Contributions to Capital
- Additional savings targets
- Income targets

8 Capital Programme Review

8.1 Capital projects are also experiencing significant contractor driven adverse cost and timing pressures.

- Where projects are funded from elastic sources, measures can be taken to mitigate these pressures. For example, projects that will be funded from future income streams may be recalibrated so that the future income streams are increased to compensate for increased costs.
- However, projects – including those that had previously been “secure” - that are to be funded from inelastic sources are more threatened as additional or alternative funding will need to be identified to reassure their delivery.

8.2 Officers have undertaken a review of the current years capital programme to identify savings. A number of projects which are funded by revenue contributions have been identified, which can therefore give flexibility of £174k if required in the General Fund revenue budget if required. These savings include:

- Central Offices – a saving of £30k has been released where works to the Burys offices are being minimised in light of forthcoming redevelopment plans
- Bus Shelters – a saving of £24k has been identified while options and a strategy are considered
- Weydon Road Car Park – patching of this car park has been undertaken rather than a resurface due to an upcoming development project, therefore releasing £120k of savings.

8.3 Other projects are experiencing an inflationary impact on tender returns. Officers are updating feasibility assessments on these projects and where possible seeking additional funding to try and ensure they can go ahead.

8.4 In the upcoming budget setting process, projects will continue to be assessed against corporate priorities and have full feasibility assessments undertaken. Officers will be bringing a 5 year indicative capital programme to provide additional future capital planning information to members.

9 Risk

9.1 In addition to the issues identified above, there are a range of risks associated with the delivery of the 2022/23 budget and forward financial plan aims. A summary of the key risks to Waverley’s finances is included below:

9.2 We do not have significant non-earmarked reserves:

- Limited ability to fund change in the Corporate plan, zero carbon, structural deficit
- One off adverse impacts such as planning appeals, judicial reviews are not provided for

9.3 Adequacy of reserves:

- Business rates – under the current retention system we carry some of the cost of appeals, including backdated refunds, plus reducing total rateable value in the Borough, for example the impact of permitted development on commercial premises, therefore it is appropriate to hold a reserve to mitigate the costs if they come through
- Housing benefit overpayment recovery – will be limited in future due to Universal Credit however a reserve is still held to mitigate this risk
- Investment property voids – investment property income is an important revenue stream to the Council and where properties are empty, the loss of income is covered by the void provision to minimise immediate impacts on the revenue budget

9.4 Negative Government grant:

- Still on the agenda – decision deferred to upcoming Fair Funding Review which further delays have been confirmed until next government spending review.

9.5 Further constraints on income:

- The unknown economic impact of inflation and interest rates

10 Relationship to the Corporate Strategy and Service Plan(s)

10.1 Having a robust, sustainable budget is essential to deliver all aspects of the Corporate Plan. The Corporate Strategy is reliant on financial sustainability and the MTFP is at the heart of its delivery.

11 Implications of decision(s)

Resource (Finance, procurement, staffing, IT)

All decisions made with regard to the budget will impact on Waverley's resources.

Risk management

Detailed in Section 9 above.

Legal

The report meets the duty to report on the robustness of the estimates provided, the adequacy of the financial reserves in place and the monitoring arrangements in line with Section 25 of the Local Government Act 2003. It is critical that the overall financial plans to deliver the Council's aims and objectives, and the proposals included in this report support this aim.

Equality, diversity and inclusion

There are no direct equality, diversity or inclusion implications in this report. Equality impact assessments of the detailed budget proposals will be carried out to ensure service delivery meets the requirements of the Public Sector Equality Duty under the Equality Act 2010.

Climate emergency declaration

There are no direct implications arising from this report. The annual budget includes £100k recurring budget for ongoing staffing costs and other resources and projects to support the climate change action plan delivery plus a one-off £100k contribution in 2022/23 to the Climate Change fund to support further pump priming of Climate Change projects.

Consultation and engagement

The Resources Overview and Scrutiny Committee will scrutinise these proposals at its meeting on 18 October.

Other options considered

Set out within the papers.

Governance journey

The detailed budget proposals and revised MTFP to Resources Overview and Scrutiny in January ahead of consideration by Executive and Council in February. The 2021/22 outturn was reported in July included in the Q4 performance report considered by O&S in June. The 2022/23 General Fund budget and MTFP mid-year review will be reported to O&S in November.

Background Papers

There are no background papers, as defined by Section 100D(5) of the Local Government Act 1972).

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