



Council name	COTSWOLD DISTRICT COUNCIL
Name and date of Committee	OVERVIEW AND SCRUTINY- 21 MARCH 2023
Subject	FINANCIAL PERFORMANCE REPORT – Q3 2022/23
Wards affected	All
Accountable member	Cllr Mike Evemy, Deputy Leader and Cabinet Member for Finance Email: <a href="mailto:mike.evemy@cotswold.gov.uk">mike.evemy@cotswold.gov.uk</a>
Accountable officer	David Stanley, Deputy Chief Executive and Section 151 Officer Email: <a href="mailto:david.stanley@cotswold.gov.uk">david.stanley@cotswold.gov.uk</a>
Report author	David Stanley, Deputy Chief Executive and Section 151 Officer Email: <a href="mailto:david.stanley@cotswold.gov.uk">david.stanley@cotswold.gov.uk</a>
Summary/Purpose	This report sets of the latest budget monitoring position for the 2022/23 financial year.
Annexes	Annex A – Revenue Budget Summary Annex B – Capital Programme Summary
Recommendation(s)	<i>That the committee;</i> <i>1. Reviews and notes the financial position set out in this report</i>
Corporate priorities	<ul style="list-style-type: none"><li>• Delivering our services to the highest standards</li></ul>
Key Decision	NO
Exempt	NO
Consultees/ Consultation	None



## **1. BACKGROUND**

- 1.1 This report provides members with an update on the forecast outturn and monitoring position statement for the financial year 2022/23. The purpose of this report is to notify members of any significant variations to budgets identified in the initial budget monitor exercise, highlight any key financial issues, and to inform members of options and further action to be taken
- 1.2 The Council faces several external budget pressures that are impacting on the 2022/23 budget and the Council's finances over the medium-term. There remains significant uncertainty around inflation and interest rates in the current financial year which exert an influence over the Council's budget both directly and indirectly

## **2. EXECUTIVE SUMMARY**

- 2.1 This report sets out the outturn forecast for the financial year informed by the Q3 budget monitoring.
- 2.2 There has been a reduction in the forecast outturn position since Q2 with an adverse variance of £1.220m likely at the end of March 2023, a reduction of £0.160m.

The material forecast variations and change since Q2 are listed below

- Ubico contract (Waste and Recycling, Street Cleaning). The net variation on the contract is forecast to be £0.437m representing a £0.237m improvement in the outturn forecast since Q2 (Q2 variation was £0.674m). It is worth noting that the gross variation on the contract sum is £0.797m (£1.034m in Q2) with £0.360m of funding held in the Council Priorities Fund in anticipation of inflationary and service delivery pressures.
- Treasury Management Investment income has improved in Q3 with a positive outturn variation of £0.475m forecast (Q2 was £0.250m additional income variation)
- Car Park income has remained below budgetary expectations with the latest forecast of a net income shortfall of £0.408m (Q2 variation was £0.398m income shortfall)
- Planning Income remains weak with the latest forecast indicating a shortfall in income of £0.188m on planning application and pre-application planning fees (Q2 variation on income was £0.090m although mitigated by expenditure underspends)
- Building Control income has weakened since Q2 with £0.084m income shortfall forecast (Q2 variation was £0.066m income shortfall)
- Revenues and Benefits outturn forecast is £0.118m adverse across the service with under-recovery of Council Tax fines and penalties (£28k), Rent Allowance overpayment recovery (£33k), Postage costs (£20k overspend).



2.3 Whilst the reduction in the outturn variation is welcome, the impact from inflation and the wider external economic environment has been significant with limited movement between Q2 and Q3. The material items which have had an adverse impact on the Council's revenue budget are summarised below:

- Pay Award – Publica contract, CDC retained staff (£0.300m adverse variance)
- Ubico contract pay award, service growth (£0.797m gross adverse variance, £0.437m after contribution from earmarked reserve)
- Energy Costs – Gas and Electricity price forecast (£0.248m adverse variance)

**Table ES1 – Revenue Budget Outturn Forecast (Q3)**

	2022/23 Original Net Budget (£'000)	2022/23 Actuals to Q3 (£'000)	2022/23 Outturn Forecast (£'000)	2022/23 Outturn Variance (£'000)
<b>Revenue Budget - Summary Table</b>				
<b>Subtotal Services</b>	<b>14,840</b>	<b>8,707</b>	<b>16,044</b>	<b>1,204</b>
Less: Reversal of accounting adjustments	(1,367)	0	(1,367)	0
<b>Revised Subtotal Services</b>	<b>13,473</b>	<b>8,707</b>	<b>14,677</b>	<b>1,204</b>
Corporate Income & Expenditure (Note 1)	(878)	(577)	(1,937)	(1,060)
Provisions and Risk Items (Note 2)	0	0	1,076	1,076
<b>Net Budget Requirement</b>	<b>12,595</b>	<b>8,130</b>	<b>13,816</b>	<b>1,220</b>
<b>Funded by:</b>				
Council Tax	(6,158)		(6,158)	0
Retained Business Rates	(3,462)		(3,462)	0
Government Funding - Grants	(2,197)		(2,197)	0
Government Funding - NHB	(810)		(810)	0
Collection Fund (surplus) / Deficit	0		0	0
<b>TOTAL Funding</b>	<b>(12,626)</b>	<b>0</b>	<b>(12,626)</b>	<b>0</b>
<b>Budget shortfall/(surplus)</b>	<b>(31)</b>		<b>1,189</b>	<b>1,220</b>

2.4 The outturn forecast on the Council's Capital Programme takes into account decisions made in November 2022 and February 2023 around the rescinding of the Recovery Investment Strategy (RIS) and reprofiling of capital budgets to reflect anticipated slippage on schemes.

**Table ES2 – Capital Programme Outturn Forecast (Q3)**



	2022/23 Original Budget (£'000)	2022/23 Revised Budget (£'000)	2022/23 Actuals to Q3 (£'000)	2022/23 Outturn Forecast (£'000)	2022/23 Outturn Variance (£'000)
<b>Capital Programme</b>					
Leisure & Communities	1,741	428	47	436	8
Housing/Planning and Strategic Housing	900	2,383	831	2,163	(220)
Environment	1,963	961	187	665	(296)
ICT, Change and Customer Services	550	70	47	92	22
Rural Broadband	500	0	0	0	0
UK Rural Prosperity Fund	0	0	0	0	0
UK Shared Prosperity Fund Projects	0	11	0	11	0
Land, Legal and Property	516	516	43	43	(473)
Transformation and Investment	35,000	1,510	1,168	1,232	(278)
<b>TOTAL Capital Programme</b>	<b>41,170</b>	<b>5,879</b>	<b>2,322</b>	<b>4,642</b>	<b>(1,237)</b>

- 2.5 The outturn forecast on the Council's Capital Programme takes into account decisions made in November 2022 and February 2023 around the rescinding of the Recovery Investment Strategy (RIS) and reprofiling of capital budgets to reflect anticipated slippage on schemes.
- 2.6 As set out in the *2023/24 Revenue Budget, Capital Programme and Medium Term Financial Strategy* report, the capital programme for 2022/23 has reduced from £41.005m to £5.879m for the reasons set out in the paragraph above. The outturn forecast indicates an underspend/slippage of £1.237m.
- 2.7 The report outlines a number of risks and uncertainties regarding the outturn forecast, particularly around income performance assumptions given the volatility.
- 2.8 Whilst the Q3 outturn forecast represents a significant improvement on the Q2 position, it should be noted that the outturn variation is funded from reserves. When taken with the 2023/24 Revenue Budget, the Council is utilising £2.080m of reserves to support the revenue budget which is not sustainable over the medium-term.
- 2.9 The final outturn position will be reported to members at the June and July Cabinet meetings and will include recommendations on earmarked reserves, budget carry forwards and capital slippage.

### 3. EXTERNAL ECONOMIC ENVIRONMENT

- 3.1 The *Financial, Council Priority and Service Performance Report – 2022/23 Quarter Two* and *2023/24 Revenue Budget, Capital Programme and Medium Term Financial Strategy* reports set out the external economic pressures on the Council.



3.2 Inflation, Energy Costs and Interests Rates remain high with little prospect of any improvement in the remainder of the financial year.

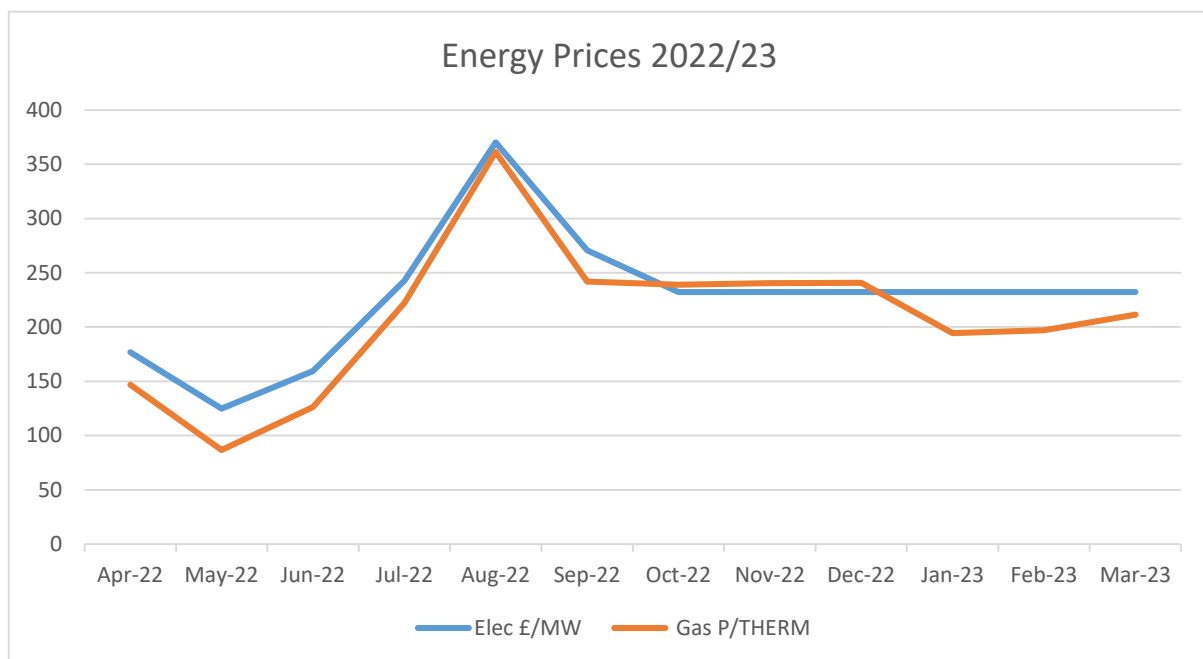
### Inflationary Pressures

3.3 The level of inflation, as measured by the Consumer Prices Index, for January 2023 is 10.1% (down from 10.5% in December). Although it is not the Government's preferred measure of inflation, the Retail Prices Index is 13.4% (no change from December). Although general inflation is currently 10.1%, the Council is subject to specific inflationary pressures on its services (e.g. fuel costs on waste and recycling service) which have tended to track higher than CPI and RPI

### Energy Costs

3.4 The increase in the energy price cap in April and October 2022 is above the budgeted provision included in the MTFs for 2022/23 of £0.169m. Further pressure on prices cannot be ruled out given the volatility of Gas supply due to the conflict in the Ukraine. Whilst the Council is investing in measures to reduce its energy consumption, the significant increase in energy costs has created further budgetary pressures.

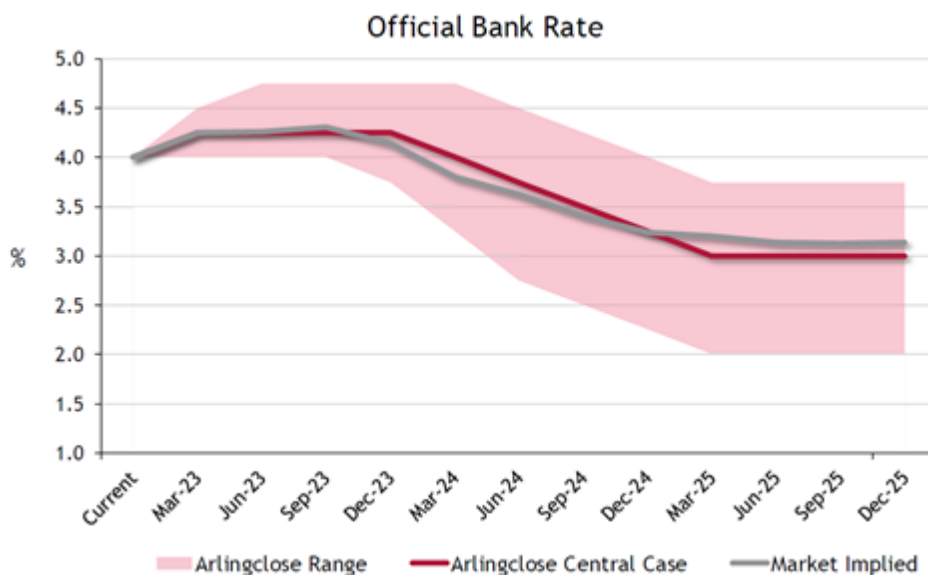
Graph I – Energy Prices 2022/23





### Interest Rates

3.5 The Bank of England has increased interest rates nine times since December 2021 in an effort to mitigate inflationary pressures with the latest increase of 0.5% taking the base rate to 4% on 2 February 2023. The council's treasury management advisors have forecast a further 0.25% increase in March 2023. Should the Council take the decision to undertake borrowing to fund its capital programme, this will impact the expenditure required to service the debt. No further borrowing is expected in the current financial year. The Council has however benefited from increases in investment income as outlined later in this report.



## 4. 2022/23 REVENUE BUDGET

4.1 At 31 December 2022 the Council had spent £8.129m against its net profiled budget of £7.768m resulting in a to-date overspend of £0.361m. This position is expected to remain challenging in the final quarter of the financial year with the Council facing significant budget pressures as a result of the following factors:

- Inflationary impact (paragraph 3.3 sets out the current inflation position)
- The continuing impact higher fuel costs and increased levels of recycling volumes on our waste contract with Ubico.
- Pressure on income including car parking fees, planning fees and other fees and charges due to the cost of living crisis and permanent changes to behaviour post Covid-19.



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- 4.2** The outturn forecast for 2022/23 of £13.816m results in a forecast variance of £1.220m. The table below provides members with an overview of the significant outturn variations that have been forecast by budget holders.



**Table I – Revenue Budget Outturn Forecast summary**

	<b>2022/23 Original Net Budget (£'000)</b>	<b>2022/23 Actuals to Q3 (£'000)</b>	<b>2022/23 Outturn Forecast (£'000)</b>	<b>2022/23 Outturn Variance (£'000)</b>
<b>Revenue Budget</b>				
Environmental & Regulatory Services	473	354	503	30
Business Sup. Svcs - Finance, HR, Procurement	1,014	1,348	1,082	68
ICT, Change & Customer Services	1,986	1,409	2,037	51
Assets, Land, Legal & Property	750	558	958	208
Publica Executives and Modernisation	88	104	100	12
Revenues & Housing Support	342	447	460	118
Environmental Services	3,916	3,001	4,209	293
Leisure & Communities	1,368	419	1,320	(48)
Planning & Strategic Housing	1,743	(258)	1,862	119
Democratic Services	1,058	835	1,068	10
Retained and Corporate	2,102	488	2,445	342
<b>Subtotal Services</b>	<b>14,840</b>	<b>8,707</b>	<b>16,044</b>	<b>1,204</b>
Less: Reversal of accounting adjustments	(1,367)	0	(1,367)	0
<b>Revised Subtotal Services</b>	<b>13,473</b>	<b>8,707</b>	<b>14,677</b>	<b>1,204</b>
Corporate Income & Expenditure (Note 1)	(878)	(577)	(1,937)	(1,060)
Provisions and Risk Items (Note 2)	0	0	1,076	1,076
<b>Net Budget Requirement</b>	<b>12,595</b>	<b>8,130</b>	<b>13,816</b>	<b>1,220</b>
<b>Funded by:</b>				
Council Tax	(6,158)		(6,158)	0
Retained Business Rates	(3,462)		(3,462)	0
Government Funding - Grants	(2,197)		(2,197)	0
Government Funding - NHB	(810)		(810)	0
Collection Fund (surplus) / Deficit	0		0	0
<b>TOTAL Funding</b>	<b>(12,626)</b>	<b>0</b>	<b>(12,626)</b>	<b>0</b>
<b>Budget shortfall/(surplus)</b>	<b>(31)</b>		<b>1,189</b>	<b>1,220</b>





**Table 2 – Corporate Income and Expenditure**

	<b>2022/23 Original Net Budget (£'000)</b>	<b>2022/23 Actuals to Q3 (£'000)</b>	<b>2022/23 Outturn Forecast (£'000)</b>	<b>2022/23 Outturn Variance (£'000)</b>
<b>Note 1 - Corporate Income and Expenditure</b>				
Savings/Corporate Items	(97)	(47)	(47)	50
Interest Payable	7	0	7	0
Interest Receivable	(654)	(530)	(1,129)	(475)
Minimum Revenue Provision	125	0	0	(125)
RCCO	200	0	100	(100)
Transfer to/(from) Earmarked Reserves	(459)	0	(869)	(410)
	<b>(878)</b>	<b>(577)</b>	<b>(1,937)</b>	<b>(1,060)</b>

**Table 3 – Provisions and Risk**

	<b>2022/23 Original Net Budget (£'000)</b>	<b>2022/23 Actuals to Q3 (£'000)</b>	<b>2022/23 Outturn Forecast (£'000)</b>	<b>2022/23 Outturn Variance (£'000)</b>
<b>Note 2 - Provisions and Risk</b>				
Ubico Contract - Inflationary pressures	0	0	538	538
Ubico Contract - Additional rounds	0	0	259	259
Energy Costs	0			0
Impact of 2022/23 Pay Award - Publica Contract	0	0	279	279
	<b>0</b>	<b>0</b>	<b>1,076</b>	<b>1,076</b>

### Key variations

- 4.3** The forecast outturn is £0.160m below the variation forecast in the Q2 Financial Performance report and is broadly in-line with the £1.240m pressure for 2022/23 highlighted in the February 2023 Budget and Medium Term Financial Strategy report. Without any mitigating actions, there would be an increase in the level of the General Fund balance required to support the revenue budget in the current financial year. Members should note that the forecast use of reserve to close the budget gap in 2022/23 and 2023/24 is currently £2.080m.
- 4.4** Annex A provides a detailed analysis and includes commentary against the most significant variances. This report highlights a number of budget variances across a range of service areas; excluding those where the income and expenditure variance are comparable and offset against each other (net nil variance).



- 4.5** Whilst the reduction in the outturn variation is welcome, the impact from inflation and the wider external economic environment has been significant with limited movement between Q2 and Q3. The material items which have had an adverse impact on the Council's revenue budget are summarised below:
- Pay Award – Publica contract, CDC retained staff (£0.300m adverse variance)
  - Ubico contract pay award, service growth (£0.797m gross adverse variance, £0.437m after contribution from earmarked reserve)
  - Energy Costs – Gas and Electricity price forecast (£0.248m adverse variance)
- 4.6** Income from car park fees, fines and permits has continued to be impacted by changes in user behaviour post-pandemic and in part due to the cost of living crisis. Income from car park fees, fines and permits as at 31 December 2022 was £0.300m below budget. The outturn forecast is for an income shortfall of £0.408m at year end based on the forecast trend on income and the impact from the refurbishment of the Rissington Road car park from November 2022 in line with the Council Plan. The introduction of cashless parking in some of the Council's car parks in December 2022 has been positive with no reduction in income or transactions compared to the previous year.
- 4.7** Income from planning fees remains below the budgeted level for 2022/23 with a forecast income shortfall of £0.188m across planning fees and pre-application planning fees. This is in part mitigated by a £73k forecast underspend on agency staff and contractor costs.
- 4.8** As reported in Q2 income from land charges has continued to performed below budget with income received forecast to be £65k below budget at the end of the financial year due in part to the rise in free unofficial Personal Searches (through Personal Search Agents). Current economic uncertainty, the rise in interest rates and inflation along with forecasts of a significant drop in house prices into 2023 will inevitably lead to a reduced demand for this service.
- 4.9** Along with most local authorities, the assumption on pay inflation was for a 2.5% to meet the expected Local Government pay award. Members will be aware of the wider inflationary environment which has resulted in an agreement between Local Government Employers and the Unions of a £1,925 per FTE employee pay award (around 6% across the Publica contract). Service forecasts included in this report do not include the additional cost estimated at £0.279m. This is held as a Provision and Risk item 'below the line' and is shown in Table 3.
- 4.10** The Council's Environmental Services (grounds maintenance, street cleaning, domestic waste collection, recycling collections etc.) are provided by Ubico Ltd. The contract with Ubico for



2022/23 of £7.214m is now estimated to cost £8.011m – a variation of £0.797m. The impact of inflation has increased the base cost of key elements of this contract including fuel and pay inflation resulting in a forecast overspend of £0.517m (largely due to the pay award, agency staff costs, fuel costs).

- 4.11** The Council has had a significant increase in the cost of its energy with the Government providing support through a non-domestic price cap from October 2022. Since April 2022, the Council has purchased energy through the day ahead market (a financial market where market participants purchase and sell electric energy at financially binding day-ahead prices for the following day) on the advice of our broker. This has been less expensive than it would have been to enter into a fixed term contract.
- 4.12** Energy costs for the second half of the financial year stabilised in part as a response to the Government's price cap and a procurement approach to hedge pricing in a volatile energy market. Wholesale gas and electricity prices have softened over the last few weeks but uncertainty remains for 2023/24.

#### **Treasury Management**

- 4.13** Dividends from Pooled funds and REIT of £0.370m were received in the first three quarters of the financial year achieving a return of over 4% (pooled funds) and around 2.5% (REIT). Interest from short term cash deposits with the Debt Management Office (DMO) was £0.159m by the end of the third quarter due to larger surplus balances than estimated being available to invest and interest rates rising at higher rate than budgeted. Interest income of £72,000 budgeted as a result of planned service loans will not be achieved as drawdown is not expected until 2023/24. Investment income is forecast to be £0.475m higher than budgeted at the end of the financial year.
- 4.14** The Council will not be required to make a budgeted minimum revenue provision charge in 2022/23 resulting in a saving of £0.125m due to the Council not undertaking borrowing to support the capital programme.



## 5. CAPITAL PROGRAMME

5.1 Council approved the revised Capital Programme for 2022/23 at their meeting on 15 February 2023 recognising changes made during the year, predominantly the rescinding of the Recovery Investment Strategy. The revised capital programme for 2022/23 is £5.879m. A total of £2.322m has been spent against these schemes at the end of the third quarter.

Table 4 – Capital Programme summary

Capital Programme	2022/23 Original Budget (£'000)	2022/23 Revised Budget (£'000)	2022/23 Actuals to Q3 (£'000)	2022/23 Outturn Forecast (£'000)	2022/23 Outturn Variance (£'000)
Leisure & Communities	1,741	428	47	436	8
Housing/Planning and Strategic Housing	900	2,383	831	2,163	(220)
Environment	1,963	961	187	665	(296)
ICT, Change and Customer Services	550	70	47	92	22
Rural Broadband	500	0	0	0	0
UK Rural Prosperity Fund	0	0	0	0	0
UK Shared Prosperity Fund Projects	0	11	0	11	0
Land, Legal and Property	516	516	43	43	(473)
Transformation and Investment	35,000	1,510	1,168	1,232	(278)
<b>TOTAL Capital Programme</b>	<b>41,170</b>	<b>5,879</b>	<b>2,322</b>	<b>4,642</b>	<b>(1,237)</b>

5.2 The outturn forecast of £4.642m gives rise to an underspend/slippage of £1.237m with a carry forward of the unspent capital budget into 2023/24 on the following schemes

- **Housing/Planning & Strategic Housing:** Disabled Facilities Grants
- **Environment:** Waste and Recycling schemes,
- **Transformation and Investment:** Trinity Road Agile Working
- **Environment:** Changing Places Toilets (in line with the grant conditions)
- **Land, Legal and Property:** Trinity Road Carbon Efficiency works

5.3 A full list of expenditure and explanation for variances against the capital programme is attached to this report at Annex 'B'.

5.4 Cabinet will consider the final outturn position on the Capital Programme at their meetings in June and July 2023 including decisions on capital slippage.

### Capital Receipts and Disposals

5.5 The Council received no capital receipts and did not make any asset disposals during the third quarter of 2022/23.



## **6. RISKS AND UNCERTAINTIES**

- 6.1** The report outlines a number of risks and uncertainties around the wider economic environment. Some further risks are briefly outlined below.
- Assumptions made in the forecast are based on projections for inflation and interest rates. Uncertainty remains around Government policy, volatility of GBP (£) against US Dollar (\$), US interest rates which may lead to higher inflation and interest rates and UK Gilt prices (and hence PVLB rates).
  - This report includes initial forecasts for income from fees and charges and this remains a risk to the Council given the impact of higher prices, energy costs on the cost of living, and the impact of recessionary pressures on the economy. This may lead to reduced demand for council services and hence lower income from fees and charges.
  - The Council is dependent on a number of key partners (e.g. Ubico, Publica, SLM) for the delivery of core Council services and may be more exposed to fluctuations in income and expenditure. Any additional income of expenditure pressures would increase the financial pressure facing the Council and would need to be funded through reserves or savings found elsewhere.

## **7. CONCLUSIONS**

- 7.1** This monitoring report presents an update on the Council's financial position. As the report sets out, an overspend of £1.220m is forecast for the financial year which will need to be financed from the General Fund Balance. Whilst this is an improved position from Q2, it is clear that the inflationary and service pressures identified during the year remaining challenging and are expected to do so throughout 2023/24.
- 7.2** The newly established Cabinet Transform Working Group (CTWG) will need to consider the impact of the forecast outturn and the impact on earmarked reserves as part of their oversight of the savings and transformation programme.

## **8. FINANCIAL IMPLICATIONS**

- 8.1** The financial implications are set out in Section x of this report

## **9. LEGAL IMPLICATIONS**

- 9.1** Under Part 2 Local Government Act 2003, the Council must, from time to time during the year review the calculations it has used to set its budget. The Council's Chief Financial Officer is required to report to the Council on the robustness of estimates made for the purposes of calculating the annual budget, and on the adequacy of proposed financial reserves. Members must have regard to that report when making decisions about the calculations in connection with which it is made.



**10. RISK ASSESSMENT**

10.1 Section 6 of this report sets out the financial risks and uncertainties.

**11. EQUALITIES IMPACT**

11.1 None

**12. CLIMATE AND ECOLOGICAL EMERGENCIES IMPLICATIONS**

12.1 Considered within this report

**13. BACKGROUND PAPERS**

13.1 None

(END)