

NORTH DEVON COUNCIL

POLICY DEVELOPMENT COMMITTEE: 9TH FEBRUARY 2023

**MINUTE EXTRACT OF THE STRATEGY AND RESOURCES COMMITTEE HELD
ON 6TH FEBRUARY 2023 IN RESPECT OF ITEM 6 ON THE POLICY
DEVELOPMENT COMMITTEE AGENDA**

96 **PERFORMANCE AND FINANCIAL MANAGEMENT QUARTER 3 OF
2022/23**

The Committee considered a report by the Director of Resources and Deputy Chief Executive (circulated previously) regarding Performance and Financial Management Quarter 3 of 2022/23.

The Accountancy Services Manager highlighted the following:

- As at 31st December 2022, the latest forecast net budget was £13,702,640, which produced a forecast budget surplus of £19,000. Details were shown in “Appendix A – Variations in the Revenue Budget”.
- The original budget for 2022/23 included a forecast to achieve £250,000 worth of salary vacancy savings. The current position forecasted that £452,000 savings would be achieved. The additional £202,000 was due to timings of filling the capacity building posts throughout the year which were approved as part of the original 2022/23 budget.
- Temporary Accommodation was under additional cost pressure due to the increase in homelessness cases; the in-year impact of this £250,000 forecast increase in costs had been mitigated by utilising balances from the Homelessness earmarked reserve. Whilst this had alleviated the pressure this year, it did mean this one-off amount from the homelessness reserve could not be utilised for other homelessness initiatives.
- Within the joint Building Control Services partnership with Mid Devon District Council there had been a decline in income and due to challenges in recruiting to vacant posts, an increase in the use of agency staffing costs which had negatively impacted the trading account. Full Council had recently approved an 8% increase in the Building Control fees, this additional income would cover the additional staffing costs moving forwards and improve the Council’s ability to fill vacant posts. It was now being forecasted that there would be a net deficit for the Council of £33,000, this included utilising a £50,000 contribution from the Building Control reserve built up through prior year trading surpluses.
- The largest variance within Appendix A was the £804,000 National pay award additional staffing costs over and above the £280,000 already built into the base budget; this was based on the offered pay award put forward to the Unions by the National Employers pay review body for the 2022-23 year. The pay award was accepted by the Union and its members and was backdated to 1st April 2022 and paid to staff in December 2022. The pay award was based upon £1,925 per full time equivalent employee.

- Other inflationary pressures built into the forecast included additional fuel costs across the Council's fleet of £104,000 and additional energy costs of £63,000. To date the Council had not included any further general supplies and services inflationary increases as we will endeavour to control and manage these in year through the existing budgetary framework.
- The other significant in-year cost pressure that had not been included in the current figures yet was the award of costs claim in relation to the Yelland planning appeal; once this amount was known a report would be brought to Members detailing the award of costs amount and setting out how the Council would be funding this cost.
- As at 31st March 2022 the Collection Fund reserve balance was £5,722,000. This earmarked reserve was created to deal with the timing impacts of the Collection Fund (Business Rates), which ensured the revenue budget was not unduly affected in the year the taxes were collected. Collection Fund deficits/surpluses were reversed out to bring the revenue account back to the budgeted figure for the year; the deficits/surpluses were recovered/distributed in the following financial years.
- This reserve included a £4,523,000 balance that would be utilised in 2022/23 and 2023/24 to mitigate timing differences of business rate reliefs awarded in 2021/22 that from an accounting perspective impacted over the next two financial years; and an in-year £400,000 transfer into the budget management reserve to replenish this reserve balance to help mitigate future budget fluctuations, thus leaving the fund reserve with a residual balance of £800,000 protection against future volatility. This level of reserve protected the Council against a 40% share of a £2million overall Business Rates income volatility.
- At the 31st December 2022 total external borrowing was £3,000,000. The timing of any future borrowing was dependent on how the Council managed its treasury activity and due to previously unprecedented low interest rates and reduced returns on investments it was prudent for the Council to 'internally borrow' and use these monies to fund the Capital Programme. This had resulted in a forecast £275,000 reduction in loan interest payments in 2022/23 and it was proposed to place this amount into a new Treasury Management reserve to mitigate against higher interest rates as we moved into the 2023/24 financial year.
- The recommended level of general fund balance was 5%-10% of the Council's net revenue budget £686,082 to £1,372,164. The forecast general fund reserve at 31 March 2023 was £1,211,000, which was a level of 8.8%.
- "Appendix B – Movement in reserves and Balances" details the movements to and from earmarked reserves in 2022/23.
- Full details of the Strategic Contingency Reserve movements and commitments were attached as "Appendix C – Strategic Contingency Reserve".
- The 2022/23 Capital Programme was attached as "Appendix D – Capital Programme 2022/23".
- The Budget and Financial Framework report to Full Council 23rd February 2022 outlined the Capital Programme for the 2022/23 financial year of £15,833,023. Project underspend of £2,031,062 were brought forward from

2021/22 year and further variations of (£5,051,311) were approved as part of the performance and financial management report to Strategy and Resources Committee, to produce a revised 2022/23 Capital Programme of £12,812,774.

- Overall variations of (£3,307,261) were proposed to the 2022/23 Capital Programme as follows:
 - Ilfracombe Water Sports Centre, £43,600 for Tarmac and Concrete Works. Funded from earmarked water sports centre reserve.
 - UK Shared Prosperity Fund, £55,951 part of a larger, mostly revenue scheme, £1.2 million in total across 3 financial years.
 - Self-Build Housing Project, (£500,000) for slip spend and funding to 2023/24.
 - Landmark Theatre, Fire Alarm, (£150,000) for slip spend and funding to 2023/24.
 - Future High Street Fund, (£1,993,182) for slip spend and funding to 2023/24.
 - Disabled Facility Grants, (£126,390) slip spend and funding to 2023/24.
 - Eco Top-Up Grants, (£312,240) to bring forward spend and funding from 2023/24.
 - Provision of Temporary Accommodation, (£105,000) for slip spend and funding to 2023/24.
 - Green Lanes Shopping Centre, (£200,000) for slip spend and funding to 2023/24.
 - Barnstaple Bus station refurbishment, (£20,000) for slip spend and funding to 2023/24.
- Other variations to the 2023/24 Capital Programme, £161,478, broken down:
 - UK Shared Prosperity Fund, £41,478 part of a larger, mostly revenue scheme, £1.2 million in total across 3 financial years.
 - Planned Maintenance Seven Brethren, (£52,041) virement to land release fund scheme.
 - Land Release Fund, £52,041, virement from Planned Maintenance Seven Brethren.
 - Land Release Fund, £120,000, anticipated Capital receipt and increase in budget, to enable £2 million commitment in 2023/24.
- Other variations to the 2024/25 Capital Programme, £2,826,970, broken down:
 - Material Recovery and works unit re-fit, £2,659,000, went to Full Council in November 2022, (funds not yet released).
 - UK Shared Prosperity Fund, £167,970, part of a larger, mostly revenue scheme, £1.2 million in total across 3 financial years.
- The revised Capital Programme for 2022/23 taking into account the budget variations above was £9,505,513.
- The revised Capital Programme for 2023/24 taking into account the budget variations above was £18,335,773.
- The revised Capital Programme for 2024/25 taking into account the budget variations above was £4,299,344.
- Actual spend on the 2022/23 Capital Programme as at 31st December 2022 was £4,722,984.

- The overall Capital Programme for 2022/23 to 2025/26 is £32,210,630 and was broken down as follows:
 - 2022/23 £9,505,513
 - 2023/24 £18,335,773
 - 2024/25 £4,299,344
 - 2025/26 £70,000
- The Programme of £32,210,630 was funded by Capital Receipts / Borrowing (£13,898,824), External Grants and Contributions (£15,524,560) and Reserves (£2,787,246).
- Release of Funds – Capital Programme:
 - Ilfracombe Water Sports Centre - £43,600
 - UK Shared Prosperity Fund - £265,399
 - Land Release Fund - £172,041
- Treasury Management - Bank Rate increased to 3.00% on 3rd November 2022 and again to 3.50% on 15th December 2022.
- The Council's new benchmark rate 7 day SONIA (Sterling Overnight Index Average) at 31st December 2022, was 1.94%.
- The return earned on the Council's investments was 1.12%. (Previous 0.04%).
- £171,189 investment interest was earned during the three quarter period. (2022/23 interest receivable budget was £35,000).
- As at 31st December 2022, the Council had total external borrowing of £3,000,000.
- £45,469 interest was paid at an average rate of 2.01% on PWLB loans during the three quarter period. (2022/23 interest payable budget was £345,000).
- The major areas of credit income were Council Tax, Business Rates, Housing Benefit overpayment Recoveries and General Debtors.
- As a billing authority, the Council annually raised the bills for Council Tax (£69,000,000) and Business Rates (£32,000,000).
- Collection rates were controlled through monitoring:
 - The level of write offs.
 - Levels of previous years' outstanding debt.
 - The level of income collection in the year against the annual sums due to be collected
- The Council's budget was based on the assumptions that eventually 97% of sums due would be collected. To ensure this level was achieved, year on year levels of write offs approved were controlled against a ceiling of 3% of annual debt.
- The outstanding amounts as at 31st December 2022 are set out below (corrections verbally reported by the Finance Manager):

	Council Tax		Business Rates	
Age in Years	2021/22 £'000	2022/23 £'000	2021/22 £'000	2022/23 £'000
1 – 2	1,421	1,471	223	259

2 – 3	935	931	332	119
3 – 4	567	709	95	198
4 – 5	371	460	52	59
5 – 6	219	301	40	32
Over 6	156	240	43	37
Total	3,669	4,112	785	704

In response to questions, the Accountancy Services Manager provided the following responses:

- The miscellaneous income St Nicholas Chapel listed in Appendix A – “Variations in the Revenue Budget” related to storm damage repairs carried out on the Chapel, which was situated in Ilfracombe.
- In relation to Appendix A, there had been a net movement of £21,000 from quarter 2 into quarter 3, but still showing an overall net surplus of £19,000.

In response to questions, the Director of Resources and Deputy Chief Executive provided the following responses:

- A further staff pay rise had been assumed in the preparation of next year’s budget albeit estimated at a lower level rate than the increase awarded in 2022/23. There was always a risk future pay increases would be above the assumed level. The Unions had recently put forwards a pay claim increase of current RPI inflation plus 2% for this year, which the Council budget could not viably afford and there would be further negotiations between National Employers and the Unions over the coming months.
- North Devon Council was not alone in struggling to recruit technically qualified staff. A review of salaries had gone some way to hopefully address this particularly in the Building Control Services team.
- There were additional vacancy savings due to a number of additional posts originally built into the 2022-23 budget structure to address the capacity balance across service areas, which had taken longer to fill than anticipated.
- Discussions were continuing with Mid-Devon Council around the current Joint Building Control partnership and the most effective model moving forwards.
- In terms of treasury management, borrowing costs were projected for the longer term. Investment rates were currently short term due to prudently utilising cash reserves for internal borrowing.

In response to a question, the Chief Executive advised that the Council encouraged graduate trainees to the Council such as in the Environmental Health and Planning services and there was currently a trainee in the Building Control service. The Council also recruited apprentices.

In response to a question regarding why investment return rates were still only half the cost of borrowing rates in relation to the new leisure centre costs. The

Head of Governance explained that there was a lag in lower Bank interest rates being passed on.

RESOLVED that:

- (a) The actions being taken to ensure that performance was at the desired level be noted;
- (b) The contributions to/from earmarked reserves be approved (as detailed in section 4.2 of the report);
- (c) The movement on the Strategic Contingency Reserve (as detailed in section 4.3 of the report) be noted;
- (d) That funds be released for the capital schemes listed in section 4.4.12 of the report;
- (e) That the paragraphs dealing with Treasury Management (as detailed in section 4.5 of the report), and Debt Management (as detailed in sections 4.6 and 4.7 of the report) be noted; and

RECOMMENDED:

- (f) That Council approve the variations to the Capital programme 2022/23 to 2025/26 as detailed in section 4.4.3.