

TRAFFORD COUNCIL

Report to: Executive

Date: 25th July 2022

Report for: Information

**Report of: The Executive Member for Finance and Governance and the
Director of Finance and Systems**

Report Title:

Budget Monitoring 2022/23 – Period 2 (April to May 2022).

Summary:

The purpose of this report is to inform Members of the 2022/23 summary forecast outturn figures relating to both Revenue and Capital budgets. It also summarises the latest forecast position for Council Tax and Business Rates within the Collection Fund.

Recommendation(s)

It is recommended that the Executive:

- a) note the updated summary positions on the revenue budget, collection fund and capital programme.

Contact person for access to background papers and further information:

David Muggerridge, Head of Financial Management Extension: 4534

Background Papers: None

Relationship to Policy Framework/Corporate Priorities	Value for Money
Relationship to GM Policy or Strategy Framework	Not Applicable
Financial	Revenue and capital expenditure to be contained within available resources in 2022/23. It is the responsibility of the Executive to operate within the budgetary framework set by the Council when it agreed the budget for 2022/23 at the Council Meeting on 16 February 2022. At this stage in the year it is necessary to alert

	Members that a further report may need to be presented to the Council to revise the 2022/23 budget envelope. This would be in the event that mitigations in the form of additional government funding and in-year savings are insufficient to cover any remaining in-year pressures, predominantly caused by the impact of inflation.
Legal Implications:	None arising out of this report
Equality/Diversity Implications	None arising out of this report
Sustainability Implications	None arising out of this report
Resource Implications e.g. Staffing / ICT / Assets	Not applicable
Risk Management Implications	Not applicable
Carbon Reduction	Not applicable
Health & Wellbeing Implications	Not applicable
Health and Safety Implications	Not applicable

EXECUTIVE SUMMARY

1. The approved budget for 2022/23 agreed at the 16 February 2022 Council meeting was £192.57m. In determining the budget an overall gap of £20.14m was addressed by a combination of additional resources of £3.39m from Council Tax, use of reserves, £7.10m to address COVID-19 pressures and £4.33m for business as usual pressures, and £5.32m of service savings and additional income.
2. **Summary of outturn**

The first monitor of any new financial year is usually based on broad assumptions on future demand and there is a tendency to be cautious in the release of any contingency budgets, due to levels of uncertainty given the limited activity on which forecasts are based. As the year progresses and patterns of demand firm up the estimates can be used with more certainty.

This period 2 monitor gives a broad indication of the outturn at this stage, and rather than present a lengthy monitoring report, a decision has been taken to present a themed summary in this first monitor, with a focus on the impact of evolving issues identified at the period 12 outturn report for 2021/22.

There is an estimated outturn pressure of £2.043m at Period 2.

Although the estimated outturn is adverse, and follows a similarly cautious pattern as in previous years early monitoring reports, it should be noted that there are a number of assumptions and factors which have the potential to positively affect the figure. For instance there are significant contingency items within demand led services with £1.04m and £1.10m in Children's and Adults Services and in addition assumptions that staffing vacancies will be filled in a timely manner, which may not always be the case.

Detailed below in Table 1 is a summary breakdown of the service and funding variances against budget.

Table 1: Budget Monitoring results by Service	2022/23 Budget (£000's)	Forecast Outturn (£000's)	Forecast Variance (£000's)	Percentage
Children's Services	44,100	45,483	1,383	3.14%
Adult Services	56,927	56,898	(29)	(0.05)%
Public Health	12,887	12,855	(32)	(0.25)%
Place	30,998	32,640	1,642	5.30%
Strategy & Resources	5,094	5,108	14	0.27%
Finance & Systems	8,169	8,333	164	2.01%
Governance & Community Strategy	6,306	6,607	301	4.77%
Total Directorate Budgets (*)	164,481	167,924	3,443	2.09%
Council-wide budgets	28,092	26,692	(1,400)	4.98%

Net Service Expenditure variance	192,573	194,616	2,043	1.06%
Funding				
Business Rates	(68,540)	(68,540)	0	
Council Tax	(112,602)	(112,602)	0	
Reserves Budget Support	(4,334)	(4,334)	0	
Reserves to Support COVID-19	(7,097)	(7,097)	0	
Funding variance	(192,573)	(192,573)	0	0.00%
Net Revenue Outturn variance	0	2,043	2,043	1.06%
Dedicated Schools Grant	155,432	158,001	1,569	1.01%

* A change to the revenue budget by Directorate is shown in the details of virements in Appendix 1.

The following issues are worthy of being highlighted at Period 2 :-

- **Children's placements** £613k overspend largely due to two high cost cases with a gross annual cost of over £1.3m. At this stage all attempts will be made to de-escalate these in to lower cost placements and savings in these cases have been assumed, which if not achieved could increase the placement overspend by a further £570k. A contingency of £1.04m is in place for future demand.
- **Home to School Transport** pressures are £453k due to the continued increase in demand in passenger numbers, additional costs for fuel and complexity of cases. These pressures continue from those experienced in the later part of 2021/22. The Trafford Travel Co-ordination Unit (TTCU) is currently undertaking a task and finish project to look at opportunities for changes to mitigate the overspend.
- **Adults placements** are break-even, however assumptions on demand remain uncertain, a cautious contingency balance of £1.1m has been included for future demand.
- **Adults Hospital Discharge** – COVID related national funding for this budget has been removed and local budgets, under the sharing agreement between the Council and Trafford CCG, are required to sustain the current operating model. Recurring budgets are not thought sufficient to support the national discharge policy. A one off support fund was established from the 2021/22 outturn whilst the model is reviewed. Current projections are that there are sufficient funds to cover projected excess costs in the current year.
- **Strategic Investment Programme** – These investments are budgeted to generate a net revenue benefit in 2022/23 of £7.23m, although revised forecasts show a potential reduction in income generated of £1.432m. The shortfall is due to the challenging environment in identifying new opportunities to replace schemes that have matured and been repaid. Pressures also include, delays in debt drawdown on existing schemes and lower trading income at retail investment sites. The reliance on the income generated from the programme has been adjusted in our future medium term financial budget plans.

- **Impact of COVID-19** – There is nothing to suggest that the impact of the pandemic is having any adverse pressure on income from Sales, Fees and Charges in this early monitor. The balance of the centrally held COVID-19 contingency budget of £1.5m has therefore been released in full.
- Staffing budgets across all service areas are forecast to underspend by £229k. This was an area of significant underspend in 2021/22 largely due to difficulties in recruitment and the management controls introduced in the year. At this stage in the year, assumptions have been made that vacant posts will be filled, however this remains an area for review in managing the overall future budget gap.
- Other pressures £1.17m across all service areas. This includes £245k slippage from the 2021/22 savings programme, relating to estates savings of £195k, and an additional £50k from business rate reviews, which are not expected to be achieved in the current year.
- **Schools DSG**
 - The schools DSG budget is estimated to overspend by £1.57m, broadly in line with projections when the budget was agreed, caused by pressures in the High Needs Block as in previous years.
 - Work continues to take place on this with a HNB sub-group of the funding forum which is working on a report to summarise options for longer term savings.
 - In addition to this, a meeting has also been held with the Education and Skills Funding Agency (ESFA) to progress work on a DSG Deficit Recovery Plan which will also assist in future planning

3. **Inflation, Energy and Cost of Living Impact**

The Consumer Price Index (CPI) rose by 9.1% in the 12 months to May 2022, which represents a 40 year high. Although forecasts of future levels of inflation remain fluid, the Bank of England stated in their June 2022 update they believe inflation to peak at 11% later this year before falling to their target level of 2%. There is particular concern relating to energy prices, which represents nearly double the current level of budget, contractual inflation from companies in our supply chain and the impact of the 2022/23 local government pay award.

Not only does the escalating level of inflation pose a risk to the in-year position, where solutions need to be found to contain any pressures within existing resources, but also the impact on the Medium Term Financial Plan and increase in the budget gap in future years.

The assumptions on inflation remain fluid and the Council will need to remain flexible in its approach to managing these pressures. Increases in energy contracts are expected to cost £1.6m over budget. The 2022/23 Local Government pay negotiations have recently commenced, with a formal request recently being tabled by employee representatives.

The three NJC unions (UNISON, GMB and Unite) have tabled their pay claim for local government services employees and are seeking “A substantial increase

with a minimum of £2,000 or the current rate of RPI - whichever is greater - on all spinal column points”.

It is too early in the pay negotiation cycle to forecast the outcome, however each +1% increase in pay above the 2% assumed in the budget, would require approximately £800k of additional resource. If a minimum £2,000 is agreed as part of the deal, this would see an award of approximately 6% to many mid range salary bands.

The proposed size of the pay award will also have an impact on the traded services arm of the Council and will require costs to be passed on to front line services, namely school budgets. Prices have been fixed for the next academic year commencing in September 2022, thus limiting the ability to pass these costs on in the current year. However, it is essential that early discussions start for price adjustments in the following year and also explore the flexibility of in-year amendments should inflation remain volatile.

At this stage our working assumption on the impact of the various inflation pressures in 2022/23 would be that a prudent figure of £6.0m would be needed. This has been revised up from £4.0m as stated in the 2021/22 outturn due to the extent of the local government pay request.

4. **Summary of Outturn and Management Action**

The adverse service related outturn of £2.04m is a cause for concern, however it is comparable with the early period estimates of previous years. There are still significant contingencies within Children’s and Adults Services and cautious estimates that staffing vacancies will be filled promptly and it is likely that the outturn pressure will reduce. Furthermore, there are a number of earmarked risk reserves, such as the Strategic Investment Risk Reserve which could be drawn upon, if income levels in this budget deteriorate.

In respect of inflation and the potential pressure of £6m, albeit fluid at this stage, representations have been made to Government with regards the impact in 2022/23 and anticipated ongoing implications, which will add to the budget gap in later years.

Pending the outcome of discussions with the Government, as a precaution during the 2021/22 year end close down, the opportunity was taken to create a specific Inflation Risk Reserve to help mitigate against some of the 2022/23 pressures and a balance of £3.0m was transferred from the Budget Resilience Reserve. To alleviate the in-year inflation pressures further, a figure of £1.0m could be released from the central contingency budget of £1.8m, to arrive at a resource of £4.0m, although this would leave no flexibility for other unknown pressures during the year.

Such an application of reserves though would have significant adverse impacts on the resilience within the Council’s reserves and contingencies to support the Finance and Change programme in delivering a sustainable budget in future years.

It is essential until the Council is clear on any further Government support, that a cautious approach is maintained in managing the budget. The following management actions and mitigating items will be available during the year.

- A detailed examination of areas of consistent budget underspend will be undertaken. Significant staffing underspends were evident in the 2021/22 final outturn and attention will be focused on whether vacancy factors can be reviewed. The management controls introduced in 2021/22 to approve all vacancies, along with a review of all non essential spend, will continue for the foreseeable future.
- A number of contingency items are included in the outturn which have yet to be released. These include £1.04m and £1.10m in Children's and Adults services for potential client demand.
- A review of all earmarked reserves will be undertaken to challenge and identify potential uncommitted resource. This will be completed in parallel to the budget monitoring and draft budget report for 2023/24.
- As in the previous financial year, in order to maintain robust challenge and focus attention on the delivery of the savings programme, the regular budget monitoring reports will be supplemented by monthly updates on all demand led budgets and the savings programme to be considered by the Corporate Leadership Team.
- As part of the work being undertaken by the Finance and Change Board, investigate whether opportunities exist to accelerate potential future savings proposals.

5. Council Tax

The Council Tax budget was increased in 2022/23 to reflect the return to pre-pandemic levels of activity following a temporary reduction in the budget in the previous two years. It had been expected that improvements would be made in the likes of new properties coming on line, a reduction in claims for Council Tax Support and hardship cases and improvements in cash collection.

Whilst a healthy surplus was achieved in the previous financial year, largely as a result of better than expected collection of historic debt, it is difficult to estimate the impact the issues in the wider economy will have on this budget. Delays in the supply of building material for new properties, increases in inflation, the cost of living pressures and removal of the temporary budget for hardship awards will invariably have some impact. A Council Tax Risk Reserve of £500k was established in 2022/23 to smooth out any unforeseen pressures. At this stage in the year it has been assumed that the outturn will be in line with budget.

6. Business Rates

As with Council Tax, there was an assumption of an increase in rates income as the economy started to return to pre-pandemic levels. Government support has also been extended in 2022/23 by offering 50% relief for certain retail and hospitality and leisure businesses. Projecting business rates is by its nature complex and prone to variation, and the continuing economic pressures will add further uncertainty to the accuracy of projections. At this stage in the year a broad assumption has been made that the outturn will be in line with the core budget.

In addition, in 2021/22, the rates pilot sharing agreement with the GM Combined Authority was renegotiated allowing the 10 GM councils to retain a larger share of the growth in rates income. The change to the agreement has also been extended to 2022/23 and the Council anticipates that approximately £2.3m will be retained above the budget assumptions. This one off benefit has been built in to medium term financial plans and will be used to support the future budget.

7. Impact of COVID-19

The 2022/23 budget included an assumption that budgets would return to pre-pandemic levels, however as a precaution a contingency of £1.5m was held in Council Wide to be used against any unforeseen pressures. Any COVID-19 related pressures are now being considered as “business as usual” as our society adapts to the post COVID-19 world and reported within the service area outturn.

At this stage in the year, there is nothing to suggest there are any long term COVID pressures, with income levels from Sales, fees and charges being in line with budget, therefore the central COVID contingency has been released in full.

8. MTFP Savings and Increased Income

The 2022/23 budget is based on the achievement of permanent base budget savings and increased income of £5.52m. As in previous years, it is critical that the current savings programme is achieved in full in order to avoid recurrent shortfalls cascading into future years and increasing the budget gap.

A detailed review of the status of each saving has been undertaken and a classification has been made using a “traffic light” system to highlight schemes at risk of not being achieved. Whilst some savings will be achieved through one-off alternative means/mitigating actions in the current year, a status has also been included on the risk of non-delivery falling into 2023/24.

Details of the each savings programme will be included in the next monitor, however a summary is as follows:

Category	Number of Schemes	% of Schemes	Savings Budget (£000's)	Projected Outturn (£000's)	Net Variance (£000's)
Red	2	9%	(1,140)	0	1,140
Amber	10	43%	(2,892)	(2,872)	20
Green	11	48%	(1,290)	(1,290)	0
Total	23	100%	(5,322)	(4,162)	1,160

The latest forecast shows that the programme is currently expected to deliver savings of £4.16m, which is £1.16m below target. 10 schemes are classified as either Red or Amber status, of which the largest shortfall of £1.04m is from the Investment Strategy programme.

9. Reserves

The balance (unaudited) brought forward as at 1 April 2022 of usable reserves was £69.1m, excluding COVID, schools and capital reserves. Details of the reserve balances and movements in year were last reported in the recent Period 12 outturn report for 2021/22 and there is no further update to report at this stage.

A full analysis of all reserve movements will be reported on a quarterly basis to the Executive starting with the Period 4 monitoring report.

10. Capital Programme

The three year programme approved in February 2022 for 2022/25 has increased by £30.36m to £217.59m. This increase is mainly represented by £13.15m re-profiling of the 2021/22 programme as reported in the Capital Outturn report, an increase in grant funding from DFE for schools (SEND, Basic Need) of £17.62m, an increase in Integrated Transport Block funding of £1.82m, and a reduction of £2.35m in funding from Highways England relating to the Urmston to Sale Water Park cycle scheme following an unsuccessful design application.

A full review of the Programme and update on Prudential Indicators will be presented to Executive as part of the period 4 budget monitoring report; this report will review the level of the Programme for 2022/23 and also detail the impact inflation and material supply is having on construction costs and scheme delivery.

Recommendations

11. It is recommended that that the Executive:

- note the updated positions on the revenue budget, collection fund and capital programme.

Other Options

Not Applicable.

Consultation

There are no public consultation requirements in respect of this report.

Reasons for Recommendation

To report to Executive in exercising their monitoring role regarding performance against budget, as set out in the Council's constitution and Financial Procedure Rules.

Key Decision (as defined in the Constitution): No

If Key Decision, has 28-day notice been given? N/A

Finance Officer ClearanceGB.....

Legal Officer ClearanceDS.....



DIRECTOR'S SIGNATURE

To confirm that the Financial and Legal Implications have been considered and the Executive Member has cleared the report.

Appendix 1

Service Review/Virements	Children's (£000's)	Adults (£000's)	Place (£000's)	Strategy & Resources (£000's)	Finance & Systems (£000's)	Governance & Community Strategy (£000's)	Council -wide (£000's)	Total (£000's)
Budget Report Feb 22	44,100	69,807	31,003	5,189	7,962	6,210	28,302	192,573
Virements:								
Business Unit Manager post, share of costs to be met from Finance & Systems		7			(7)			0
Thrive Contract increase			(5)	5				0
Central Services Efficiency Savings re-alignment				(100)		100		0
Digital Strategy MTFP saving re-aligned to Councilwide					100		(100)	0
Liquid Logic migration revenue costs re-aligned to Finance & Systems					114		(114)	0
Minor budget re-alignments						(4)	4	0
Total movements	0	7	(5)	(95)	207	96	(210)	0
Period 2 Outturn Report	44,100	69,814	30,998	5,094	8,169	6,306	28,092	192,573

