

<b>CABINET</b>	<b>AGENDA ITEM No. 12</b>
<b>14 November 2022</b>	<b>PUBLIC REPORT</b>

Cabinet Member(s) responsible:		Clr Andy Coles, Cabinet Member for Finance and Corporate Governance
Contact Officer(s):	Cecilie Booth, Executive Director of Corporate Services and S151 Officer Patricia Phillipson, Interim Director of Finance and Deputy S151 Officer	Tel. 01733 452520

### **BUDGET CONTROL REPORT SEPTEMBER 2022 - QUARTER 2**

RECOMMENDATIONS	
<b>FROM:</b> Executive Director of Corporate Services and S151 Officer	<b>Deadline date:</b> N/A
<p>It is recommended that Cabinet notes:</p> <ol style="list-style-type: none"> <li>1. The budgetary control position for 2022/23 at 30th September is a forecast overspend of £1m position.</li> <li>2. The key variance analysis and explanations are contained in section 5 and Appendix A.</li> <li>3. The Council's performance with respect to Business Rates (NNDR) and Council Tax Collection, as outlined within Appendix B</li> <li>4. The Council's capital financial performance as outlined in Appendix C.</li> </ol>	

#### **1. ORIGIN OF THE REPORT**

- 1.1. This report is submitted to Cabinet following discussion by the Corporate Leadership Team (CLT).

#### **2. PURPOSE AND REASON FOR REPORT**

- 2.1. This report is for Cabinet to consider under its Terms of Reference No. 3.2.7 'To be responsible for the Council's overall budget and determine action required to ensure that the overall budget remains within the total cash limit'.
- 2.2. This report provides Cabinet with the forecast outturn for 2022/23 as at September 2022 budgetary control position.

#### **3. TIMESCALE**

Is this a Major Policy Item/ Statutory Plan	<b>NO</b>	If yes, date for Cabinet meeting	<b>N/A</b>
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#### 4. REVENUE SUMMARY

This Budgetary Control Report (BCR) outlines the financial position at the end of Quarter 2, 2022/23 and outlines a forecast overspend of £1.0m (overspend of £0.6m reported in August). Although this is a relatively small overspend, standing at just 0.57% of the Councils Net Revenue Expenditure budget, there are some known financial challenges which include:

- The Council's savings programme, set as part of a tactical budget in March 2022, £0.9m of savings are reported as high risk, due to delayed delivery against the original plans. Mitigating plans are actively being put in place to reduce any budgetary impact (outlined further in section 6)
- Additional risks for the Council include inflationary pressures totalling £6.5m for pay, fuel, energy and social care costs. It is assumed the inflation reserve will be used to mitigate the immediate budgetary impact. (Outlined further in section 7)

These challenges are not unique to Peterborough and reflect the wider economic environment in which the Council operates. However, the Corporate Leadership Team (CLT) and members alike need to be aware of these pressures and risks and seek to implement appropriate management action to ensure that budgets are delivered to plan.

##### a. The following table below sets out the Council's Forecasted Position by expenditure type:

**Table 1: 2022/23 Forecast Position- Subjective Analysis**

	Budget YTD 2022/23 £k	Actual 2022/23 £k	Variance YTD £k	Revised Budget 2022/23 £k	Forecast 2022/23 £k	Projected Variance 2022/23 £k
Employees	34,834	29,595	(5,239)	69,669	66,550	(3,118)
Premises	8,785	10,548	1,763	17,571	16,954	(617)
Transport	2,911	2,349	(562)	5,821	5,903	82
Supplies and Services	65,741	60,705	(5,037)	131,477	137,393	5,917
Third Party Payments	18,747	20,591	1,843	37,495	38,316	822
Transfer Payments	37,328	39,631	2,303	74,655	78,867	4,212
Support Service	0	18	18	0	39	39
Income	(94,316)	(138,763)	(44,447)	(188,632)	(193,699)	(5,067)
Financing Capital Expenditure	16,941	5,927	(11,014)	33,881	33,309	(572)
<b>Total Expenditure</b>	<b>90,971</b>	<b>30,600</b>	<b>(60,371)</b>	<b>181,937</b>	<b>183,634</b>	<b>1,697</b>
<b>Financing</b>	<b>(90,971)</b>	<b>(188,555)</b>	<b>(97,584)</b>	<b>(181,937)</b>	<b>(182,605)</b>	<b>(669)</b>
<b>Net</b>	<b>(0)</b>	<b>(157,955)</b>	<b>(157,955)</b>	<b>(0)</b>	<b>1,028</b>	<b>1,028</b>

- This presentation of the forecast has been introduced as part of the financial improvement programme
- Work is being done to improve the year-to-date budget profiles to take into account some of the timing issues such as pay award within year to date budget but not yet paid.

- Further work will be undertaken to review the subjective code budget allocation to enhance the quality of future reports, for example where additional expenditure is supported by additional grant income and budget allocations not yet aligned.
- In the projected variance for the year, employee costs are forecast to be lower than budgeted for, due to in the region of 200 vacant FTEs. Some of these are covered by agency workers, where roles are essential such as social workers or additional expertise is required.

## 5. DIRECTORATE SUMMARY

- a. The following table summarises the forecast outturn position by directorate:

**Table 2: 2022/23 Forecast Position- Directorate Analysis**

Directorate	Budget £k	Actual YTD £k	Forecast £k	Variance £k	Overall Status
Chief Executives	336	239	316	(20)	Underspend
Legal & Governance	4,135	2,319	4,259	124	Overspend
Place & Economy	26,036	6,216	27,092	1,056	Overspend
People Services	95,789	10,523	97,125	1,336	Overspend
Public Health	(378)	(6,996)	(378)	0	On Budget
Corporate Services	27,539	16,806	27,432	(107)	Underspend
Capital Financing (net)	28,479	1,493	27,787	(692)	Underspend
<b>Total Expenditure</b>	<b>181,937</b>	<b>30,600</b>	<b>183,634</b>	<b>1,697</b>	<b>Overspend</b>
Financing (inc. Reserves)	(181,937)	(188,555)	(182,605)	(669)	Underspend
<b>Net</b>	<b>(0)</b>	<b>(157,955)</b>	<b>1,028</b>	<b>1,028</b>	<b>Overspend</b>

- b. The following section summarises the key variances (see Appendix A for a further breakdown):

### Legal & Governance

#### Pressure:

- Legal Services: A reduction in income from Land Charges Searches, which are now conducted by the Land Registry, coupled with reduced income from Legal work performed for Rutland County Council has been mitigated by other income, and savings in salaries and supplies and services, but a net pressure of £0.1m remains. This also includes additional costs associated with running the Council elections.

### Place & Economy

#### Pressures:

- Housing: £0.6m Pressure due to leaving St Michaels Gate earlier than anticipated has saved on contract costs however due to leaving this site the cost of B&B has increased. The Council had not budgeted for the relaunch of the Leased properties scheme and taking on Walton Rd.
- Community Safety: £1.7m pressures because of:
  - £0.9m Delays in Implementing the Culture and Leisure savings plan.
  - £0.3m underachievement of income on Environmental Enforcement income. This is being mitigated by vacant posts and service savings along with plans to redeploy staff to other enforcement activities.

- £0.3m because of delayed savings relating to the restructure within Place and Economy
- £0.2m Pressure on Street traders and Electric Vehicle points introduced without Charging policy
- Peterborough Highway Services: £0.4m pressure anticipated within Street Lighting Energy budgets, due to rising energy costs. The Council will be looking to mitigate, with the use of the inflation reserve.

#### **Favourable:**

- Communities: Saving of £1.3m due to additional Grant income to fund service expenditure (£0.8m Ukrainian Refugee grant being moved to Reserves).
- Energy: £0.6m saving within this area due to reduced MRP and Interest Payable due to four schemes completing in 2021/22 on the Energy Performance Contract (EPC) and on the domestic PV estate recently returned to the Council ownership from Empower.
- Waste Cleansing and Open Spaces: £0.4m favourable due to additional income as a result of a favourable change in the price obtained by the sale of materials over the past 12 months.

### **People Services**

#### **Pressures:**

- Adults: A £0.3m pressure resulting from ASC care package spend due to recent high costs packages being made available to support people with complex needs
- Children's: £1.8m pressure as a result of:
  - £1.2m pressure due to significant high-cost placements that have become solely funded by Social Care whilst placement searches are ongoing.
  - £0.4m Pressure from non-achievement of Fostering MTFS saving, this has been mitigated by other savings in the service. Work is underway to improve this and ensure delivery of savings in 23/24.
  - £0.5m pressure from non-achievement of Health Income MTFS saving
  - £0.2m pressure in relation to Domiciliary Care packages for Children with Disabilities. Demand and complexity have increased.
- Commissioning: £0.5m pressure due to a reduction in the Clare Lodge income. Further work is ongoing to ascertain the estimated outturn position.

#### **Favourable:**

- Adults: £0.5m mainly due to a favourable forecast on staffing costs due to difficulties in recruiting.
- Children's - £0.9m Favourable:
  - £0.6m favourable due to releasing one off grant funding to offset the non-achieving of savings
  - £0.3m saving on staffing cost relating to Family Safeguarding to off-set non-achievement of savings

### **Corporate Services**

#### **Pressures**

- Corporate Property £0.5m
  - £0.2m pressure anticipated within the Council's corporate property budgets due to rising energy costs. The Council will be looking to mitigate with the use of the inflation reserve.
  - £0.3m pressure for Sand Martin House office accommodation costs.

#### **Favourable**

- VAT Shelter £0.2m additional income as a result of the Value Added Tax (VAT) shelter income received from Cross Keys Homes (CKH). This favourable position has been driven by maintenance work CKH has carried out on its properties to end of July 2022.
- Digital Data & Technology Services - £0.2m favourable within staffing budget due to Vacant posts and impending restructure

- Internal Audit & Insurance- £0.1m as a result of lower insurance premiums and vacant position within Internal Audit.
- Corporate Property - £0.1m Favourable variance against Business Rate budget due to 62-68 Bridge Street being purchased to develop into New Library and Cultural Hub and while under development the property has no Business Rates liability rating dating back to June 2021.

**Financing**

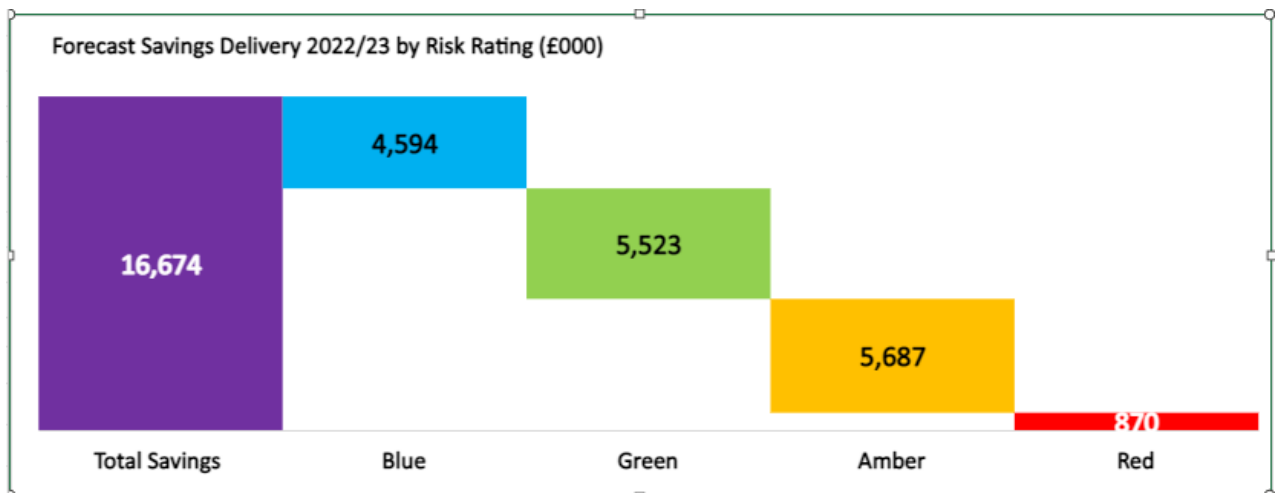
**Favourable:**

The Council is expected to receive an additional £0.8m of the benefit gained via the Cambridgeshire and Peterborough Business Pool Rates in 2022/23, this is due to favourable growth forecasts within the County, in comparison to those used when budgets were set in March.

**6. SAVINGS PLAN POSITION**

The Council’s savings board meets on a monthly basis, to review, challenge, and provide support to each directorate to ensure the Council’s £17m savings plan is being delivered. The following chart summarises the current RAG status of the 2022/23 Savings Plans, outlining:

- 28% are categorised as blue (realised)
- 33% as green (low risk to achievability in year),
- 34% as amber (moderate risk to achievability in year)
- 5% as red (high risk to achievability in year)



A staff suggestion scheme has been introduced enabling staff to highlight any great ideas that can help the Council improve in many ways, primarily around saving money, but whether it is a process or service improvement, a new activity or service, policy change or financial improvement/cost saving initiative we are encouraging all staff to let us know their thoughts.

Table 3: High (Red) Risk Savings Summary

Budget Proposal	Savings Target	Delivered or strong degree of confidence in delivery	Remaining Balance	RAG	Progress Update	Risks	Plan to Deliver
Contracts and Procurement Saving	(1,700)	(900)	(800)	Red	<p><b>Contracts and Procurement Saving:</b> Green: £0.5m Amber £0.4m Red £0.8m <b>Total £1.7m</b></p> <p><b>Overview</b> In August the Council had £0.9m of opportunities against the £1.7m target. £0.5m have been banked, and £0.4m are work in progress. Savings opportunities will continue to be identified via the procurement specialist, procurement team and the new working group set up to look across all contracts (Inc. those that have not involved procurement and all off-contract spend outside of standard governance), and through challenge at procurement board.</p>	<p>Current savings have been based on procurement requests, rather than a planned assessment of opportunities. This has resulted in double counting (e.g. ICT savings), capital related savings and delivering mainly cost avoidance benefits.</p> <p>Recent inflation forecasts have also added to this challenge, with inflation now forecast to be in excess of 13% by the end of the year.</p>	<p>A Procurement specialist started with the Council at the beginning of August. She is developing a plan and will drive this forward including looking at off contract spend, specifications and material areas of spend.</p> <p>There are a number of work streams/groups now looking at this saving, so co-ordination of the approach is going to be critical to avoid duplication of effort.</p> <p>Mitigating options such as housekeeping of aged Sundry Debt and Council Tax credit balances which have allowed the Council to release credit balances to general fund, will also be used to mitigate the financial impact of the delay in delivering this saving.</p>
Serco- Customer Services	(200)	(130)	(70)	Red	<p>Customer Service Centre (CSC) has closed. Saving of £130k included in Notice of Change prepared and can be considered delivered. The remainder of saving was assumed from the relet of the two units previously occupied by CSC, however these have been used to re-house the Market, and therefore this leaves the £70k unachievable.</p>	N/A	Further sundry debt and council tax credit balances are being looked into.

## 7. KEY RISKS

The following table outlines the Council’s current known budgetary risks. These have not been incorporated within the forecast outturn position as the anticipated pressure has not yet materialised, the strategic direction and approach to mitigating these risks are considered and implemented.

**Table 4: Budgetary Risks**

Risk	£000	Description	Management Response
Care Provider Uplift Request	Up to £3m	Requests are being received for significantly higher values than budgeted for. Commissioning and Contract teams will evaluate each request but risk of needing to go above budget levels could exceed all locations. Care Providers may hand back packages if they are unable or unwilling to deliver care at rates we pay.	Reviewing and challenging each request and seek support from the inflation reserve in year.
Integrated Care System (ICS)	Under review	The Council’s Health Partner (ICS) has a significant in year saving to achieve. The risk is that there could be an attempt to cost shunt to the Council around Continuing Healthcare due to the increase in number of service users coming into Adult Social Care support.	The Council will challenge and appeal each case where necessary and monitor the resulting impact.
Children’s Social Care- Agency costs	Under review	There are agency workers covering vacant roles which exposes the Council to possible increases in rates and reduced availability of suitable workers. The Clare Lodge facility is particularly exposed to this risk.	A review at Clare Lodge is underway to see if reconfiguration of the facility would aid the reduction for some shifts to be covered. A Medium-term children's workforce strategy is in development that will aim to mitigate the volatility of staffing in the longer term. This will not take effect until at least next financial year.
Highways and Transport	450	Highways inflation and also effect on revenue budgets due to capital budget reductions	Possibly delay some work to 23/24 and/or stop spend on other areas in the service
Planning Services	Under review	Financial implications of the Planning Services review are to be confirmed. This risk primarily relates to the baseline staffing capacity needed to deliver a fit for purpose planning service matched to the City’s growth trajectory.	<p>The mitigations are:</p> <ul style="list-style-type: none"> <li>• Cash Limit budgeting will be used to try to subsume as much additional pressure (if there is any) within the directorate.</li> <li>• We will be making more use of paid-for Planning Performance Agreements which will see developers paying for dedicated planning resource.</li> <li>• We will include in those PPA's the true costs of other inputs too - highways, environmental staff, housing staff etc.</li> </ul> <p>We will consider this risk and any financial pressure as part of the overall development of our new growth, regeneration and economic development function, which is likely to include a request for investment from the innovation reserve.</p>

Delivery of Savings Plans	870	<p>The Council set a tactical budget for 2022/23 with the MTFS outlining the Robustness Statement considering the estimates used in the proposed savings programme.</p> <p>CLT and members are committed to the delivery of the savings. Where there are delays in delivery against the plans, mitigating savings are being put in place. There is currently £0.9m of the £16.7m plan identified as High (red) risk.</p>	Please see the detailed breakdown of the risks and mitigations outlined in section 3 savings.
Inflationary Pressures	6,518	<p>Current inflationary rates have risen over the last 12 months with forecasts indicating rates in excess of 13% by the end of the financial year. This is impacting on the cost of living and there will be additional costs to the Council for providing services. The Council is experiencing pressures on the following budgets:</p> <ul style="list-style-type: none"> <li>• Adult and Children’s Social Care</li> <li>• Electricity and Gas</li> <li>• PFI scheme</li> <li>• Home to school transport</li> <li>• Payaward</li> </ul>	<p>The Council is monitoring the economic position and where possible putting mitigations in place to reduce the risk exposure to these external factors.</p> <p>When the Council finalised the 2021/22 outturn position, this risk was anticipated and a £4.7m inflation reserve was established to mitigate the timing risk to the impact of the costs of inflation in 2022/23. The Council intend to use that reserve in 2022/23 to smooth the impact of increases in cost. However, for future years inflationary assumptions will be considered as part of the MTFS.</p> <p>Please see the inflationary breakdown outlined in section 5.</p>



## 8. RESERVES

The following section and table summarise the current reserves position:

- At present there are no new reserves requests to report to Cabinet, other than those already outlined within the MTFS, approved by Council on 2 March 2022.
- An inflation reserve totalling £4.7m was established at the end of 2021/22. During Quarter one of 2022/23 the Council started to see some emerging inflationary risks as a result of rising fuel and electricity costs, index linked contracts, supplies and services and care costs. The Local Government pay award also presents an added risk as the current budget assumes a 2% pay award, but if this is agreed in line with other areas of the public sector (4.5% NHS and 5% Teachers) the Council will look to use this reserve to mitigate the budgetary impact. These risks are being closely monitored.
- The Innovation Fund is used to fund the cost of the transformation and the Council's improvement plan. Investment is still forecast to be within the requirement as set out in the MTFS, with further investment requests anticipated as the Council develops its Corporate Strategy and MTFS.

**Table 5: Reserves Position**

	Bal at 31 <sup>st</sup> March 22	Forecast Contribution from Reserve	Forecast Contribution to Reserve	Estimated balance at 31 March 23	Estimated balance at 31 March 24	Estimated balance at 31 March 25
	£000	£000	£000	£000	£000	£000
General Fund	7,300	-	-	7,300	7,300	7,300
Usable Reserves (Innovation and Departmental)	33,183	(10,587)	750**	23,346	22,615	22,365
Budget and Inflation Risk Reserves	6,693	(6,518)***	7,208*	7,383	7,383	7,383
Local Tax Income Risk Reserve	12,307	(4,672)	-	7,636	7,636	7,636
Ring-Fenced Reserves	4,183	(285)	-	3,898	3,387	3,150
<b>Total Earmarked and General Fund Balance</b>	<b>63,666</b>	<b>(22,061)</b>	<b>7,958</b>	<b>49,563</b>	<b>48,321</b>	<b>47,834</b>

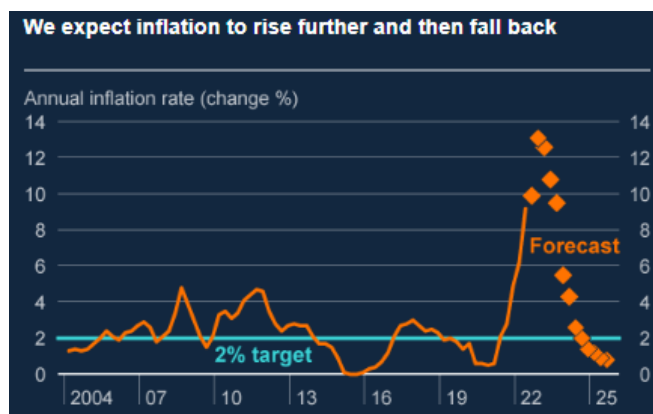
\* Contribution of £7.2m from the Energy Recovery Facility

\* Contribution £0.8m from Ukrainian Refugee Grant

\*\*Breakdown in table 6 below.

An inflation reserve totalling £4.7m was established at the end of 2021/22, in recognition of the rising interest rates and associated economic climate. This reserve was established to smooth the immediate impact and pressures of any cost increases in 2022/23 such as from inflation and pay awards, whilst longer term plans are developed as part of future years MTFS.

In June, prices had risen by 9.4% compared to a year ago. Russia's invasion of Ukraine has led to large increases in the price of gas and the Bank of England is now forecasting that inflation rates will reach 13% by the end of the year as outlined in the following graph:



Source: Bank of England August Monetary report

The Council operates an Energy Recovery Facility (ERF) which generates income as a result of selling the electricity it generates. As a result of the current energy market this income is forecast to be £7.2m in excess of budget, which is being contributed to the inflation reserve to mitigate the Council's rising energy costs and other inflationary pressures. We know from previous years trends that this market can be volatile, therefore any remaining balance will be used as a smoothing mechanism to mitigate any future financial fluctuations.

The Council is currently estimating £6.5m of emerging inflationary pressures and risks as a result of rising fuel and electricity costs, and index linked contracts care costs. The following table outlines in more detail the specific inflationary risks:

**Table 6: Inflation Risks**

Area	Description	£000
Pay Award	Employers made an offer in July of £1,925 increase to all NJC salary SCP's. The Council, like many others built the budget on the assumption the pay award would be c2%. If this offer is agreed, it will create a £2m in year pressure.	2,000
Schools PFI	PFI inflationary pressure is in relation to the Unitary Charge contribution which is linked to the RPI inflation index. This has not been an issue in recent years due to the lower rates of inflation.	200
Electricity (from 1 Oct)	Electricity Inflation of 80% is expected from October 2022. The full year effect of this is around £1.7m. The Council's procurement team are looking at options to obtain the best pricing but it's highly likely this will be in excess of the current budget. Work is being undertaken to determine the full extent of the financial impact for the current and model the future years impact.	850
Gas	New prices were implemented from 1 April 2022 which will lead to a £0.3m pressure across the gas budgets. Likewise, the pricing for 1 April 2023 is currently being agreed. Even with this representing a good deal, the pressure from 2023/24 will be a further £0.5m. A CMDN is being progressed through the Council's decision-making/governance process.	250
Adult Social Care	Like other Councils, and the private sector, the Council is exposed to the changes in the rate of inflation and the potential pressure of this on the care market. The Council is actively working alongside suppliers to manage these additional cost pressures. The Council recognised the potential impact of inflation at the end of the last financial year and created an Inflation Reserve to bridge the timing impact of such cost increases whilst mitigating plans are developed in accordance with the MTFs and development of balanced budget.	3,113
Children's Social Care- including Short breaks and	Care inflationary pressures include: The gap between commissioning Local Authorities for Children's placements is currently widening. This can result in for example non-availability of a Fostering Placement leading to expensive residential provision.	105

In House Fostering	Respite provision for Children with Disabilities is rising following the pandemic budget pressures. This is an early intervention service to prevent children coming  may hand back packages if they are unable or unwilling to deliver care at rates we	
Home to School Transport	Home to School Transport is also exposed to rising inflation, in particular rising fuel cost. The Council has been setting up the transport arrangements and contracts for this academic year, and as part of this it is actively working alongside suppliers to manage these additional cost pressures. In the coming weeks as these negotiations conclude the financial impact will be clearer.	TBC in October BCR
<b>Total</b>		<b>6,518</b>

## 9. APPENDICIES

Further information is provided in the following appendices:

- Appendix A – BCR Departmental Variance Analysis
- Appendix B – Council Tax and Business Rates
- Appendix C - Capital Programme

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